



Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2017

Directors' Review

In £m 2016/17 prices unless stated otherwise

Introduction

The last two decades has seen a renaissance in the rail industry. Decades of declining passenger numbers have been reversed. What we see today is a vibrant growing network with passenger numbers more than doubling in the last 20 years.

This growth provides challenges, not least in providing the growing infrastructure that Britain needs, in a manner that provides value to both the rail user and the taxpayer.

This year we have continued to deliver the Railway Upgrade Plan. Delivering vital improvements that will assist in providing the additional capacity required by rail users. This year we delivered £6.7bn of investment in enhancing and renewing the railway network.

In order to finance the huge levels of investment in the railway network operating surpluses need to be augmented by further borrowing, and by increasingly looking for other funding streams.

Network Rail is finalising plans to dispose of non-core assets, largely as set out in the Hendy Review 2015. There has been a refinement to the way Network Rail will raise the additional cash flows to fund the Rail Upgrade Plan. It has been agreed that rather than additional funding being raised entirely from asset sales this will now be achieved by a mix of some asset sales, additional government funding and additional efficiencies. In addition, by focussing on efficiency and value for money, Network Rail will continue to deliver more for less. In advance of the beginning of this control period the Office of Rail & Road (ORR) set ambitious efficiency challenges for Network Rail and built them into the determination of charges. This challenge has proved much more difficult to meet than either the rail regulator or Network Rail's executive at the time had envisaged.

The level of efficiency challenge was set in the light of an extremely successful ten year period where this organisation met and exceeded efficiency expectations taking around 40% out of the cost base in real terms. During this five year period (CP5) efficiencies have been made, but these have been offset by cost pressures: driven by the recovery from recession in the supply chain; shorter windows to do carry out maintenance and capital investment as the network is so much busier; and the additional costs and diversion of resources to cope with extreme weather events and to improve network performance. As a result it was more expensive to operate, renew and enhance the railway network this year than assumed by the regulator when setting charges 4 years ago.

Over that period the railway has continued to become busier, increasing wear and tear on the network, and increasing the cost of keeping the railway running to schedule. One way of taking into account the step changes in the outputs of the network is to measure running costs per passenger KM. By this measure running costs have fallen by 8% in the last three years.

The process of devolution continues to support these initiatives by building strong customer-driven route-led businesses. The new business scorecards for 2017/18 will look to align infrastructure provider and train operators even more closely than before and will assist in further driving improved performance.

Directors' Review continued

In £m 2016/17 prices unless stated otherwise

Financial Review of the year

This review will focus on the financial performance achieved by Network Rail in 2016/17. In particular focussing on:

- Operations – an analysis of income, operating costs and financing costs in the year.
- Investment in new assets – the progress in delivering projects that improve the network's capabilities and reliability, and help to meet the growing demands on the railway.
- Efficiency measurement
- Financial framework – demonstrating a robust and stable financial framework, to deliver the performance and investment required to drive the railway forward.

Summary income and expenditure comparison to the PR13 2016/17

		2016-17	
	Actual	PR13	Difference
Income			
Grant Income	4,380	4,359	21
Fixed Income	392	372	20
Variable Income	1,119	1,195	(76)
Other Single Till Income	872	932	(60)
Opex memorandum account	(2)	0	(2)
Total Income	6,761	6,858	(97)
Operating expenditure			
Network operations	554	427	(127)
Support costs	337	451	114
Traction electricity, industry costs and rates	582	651	69
Network maintenance	1,319	1,117	(202)
Schedule 4	217	239	22
Schedule 8	187	4	(183)
Total operating expenditure	3,196	2,889	(307)
Capital expenditure			
Renewals	2,774	2,678	(96)
PR13 enhancement expenditure	3,372	3,724	352
Non PR13 enhancement expenditure	54	0	(54)
Total capital expenditure	6,200	6,402	202
Other expenditure			
Financing costs	1,797	1,953	156
Corporation tax (received)/paid	2	0	(2)
Total other expenditure	1,799	1,953	154
Total expenditure	11,195	11,244	49

Directors' Review continued

In £m 2016/17 prices unless stated otherwise

Income

Income in the year was £97m lower than that set out in the rail regulator's determination of charges with notable contributions from Traction electricity (which is offset by lower Operating costs) and Crossrail financing charge income (which is offset by lower Financing costs). Adjusting for these two items, income was £41m higher than the regulator planned.

The long-term trend, after adjusting for general inflation, is that charges are at their lowest level for over eleven years, despite significant increases in passenger and freight traffic over that period.

This is as a result of passing on the benefits of increased efficiency to rail users and taxpayers. Over the same period Great Britain rail's passenger revenue, 'the fare box', has increased in real terms, by 44% and now stands at over £9bn.

Operating expenditure

Net operating costs for this year were in line with the previous year but were £307m higher than the regulator assumed.

Network Operations costs were higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities

Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group, including lower insurance costs.

Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs.

Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. In addition, extra reactive maintenance costs have been incurred this year in response to asset condition.

Performance regime (Schedule 4 & Schedule 8) - Network Rail is at risk of reductions in receipts from train operators for worse than expected train performance. When performance drops below the benchmarks, determined by the ORR, Network Rail pays compensation to operators. Delays also include those for planned engineering work, required to maintain, renew and deliver record levels of enhancements to the network. The performance benchmark tighten every year. Asset performance was good, but performance in the year was impacted by slower recovery times from incidents, a knock on effect of a more congested network, and severe weather events such as the flooding in the London area last June and Storm Doris in February. As a result compensation paid to train operators was £161m higher than the regulator assumed.

Directors' Review continued

In £m 2016/17 prices unless stated otherwise

Capital expenditure - Investment in the railway network

Last year the Hendy Review set out the Railway Upgrade Plan with regard to how we would continue to transform the railway network. These projects will make a major difference to rail users across Great Britain and assist, through increased connectivity, in delivering economic growth.

In the year we continued to deliver historically high levels of investment at £6,651m in the network. This year we delivered £3,877m on enhancements, including third party funding (compared to the determination baseline of £3,724m) that will increase the capacity of the network. This was another record year beating last year's record level in terms of work delivered. The portfolio includes major projects, such as the Great Western electrification, the Thameslink programme, work on our network for Crossrail, the Northern Hub, the Strategic Freight Network, and the Edinburgh to Glasgow Improvement Programme.

We have also invested £2,774m (compared to the determination assumption of £2,678m) renewing the assets that comprise the railway network, such as track, signalling and civils, and in information management and asset information technologies.

Financing costs

Finance costs of £1,797m were £156m favourable to the determination. A large element of Network Rail's gross debt (43 per cent at 31 March 2017) is directly borrowed from government at rates linked to Bank of England base rates which have been lower than market rates the regulator assumed when setting the determination targets.

Efficiency Measurement

Network Rail's key performance indicator with regard to efficiency is the Financial Performance Measure which measures our performance against the regulatory determination and against our in year targets.

The CP5 determination of charges, frames the funding agreement with Government for CP5, and included very challenging cost reduction assumptions. These were influenced by extrapolations of historic delivery (40% reduction in previous 10 years, given the growth in traffic over the period, this equated to halving the operating costs per train mile) and influenced by the industry wide efficiency potential suggested by the McNulty report.

In addition many potential programmes that could drive efficiency were at an early stage of development and the benefits have not been delivered in the time frames envisaged.

As a result CP5 has been challenging. This year the difference between regulatory assumptions and actual performance was around 20%.

The CP5 cost difference has offset by deferral of renewals volumes to the next control period which has been assessed as acceptable within our asset management plans.

Directors' Review continued

In £m 2016/17 prices unless stated otherwise

Headwinds

Our efficiency drive has been impacted by some significant headwinds such as:

- The recovery from recession in supply chain resulting in real increases of supply chain costs. UK construction price and tender price indices indicate that cost increases tracked below general inflation in the previous control period. However in this control period these indices have tracked significantly above general inflation.
- We have shorter windows to carry out engineering works, partially due to an increasingly busy network and partially because we have sought to reduce the risk of overruns causing disruption to passengers. We have halved the number of significant overruns over the past three years. This has been achieved mainly by setting greater contingency time at the end of a possession. The result of this is a reduction of productive time within a possession for work to be completed.
- We have sought to improve network performance. The busier network has seen an increase in delays caused per incident. To mitigate this we have strengthened teams to respond to incidents and delays better, and to work closely with customers in the devolved route businesses to deliver a more robust train service.
- Reconfiguring work banks, by allowing more local decision making, has led to more targeted interventions. In addition some works have been deferred to CP6. This is beneficial in overall costs terms but the unit cost is greater due to reduced economies of scale.

Improving efficiency

Over the next two years we are targeting an extra £300m of efficiencies. We will improve efficiency further through a number of initiatives. These include:

- Continuing the roll out and implementation of Lean techniques across all parts of the business
- Utilisation of enhanced analytics to understand rates of degradation and asset health;
- Application of techniques from other industries such as aerospace and automotive industries in the use of Design for Reliability;
- Increased use of Intelligent Infrastructure such as eddy current shallow depth rail crack identification which replaces visual inspections to support the existing train-borne ultrasonic testing. Overhead line and track condition monitoring will be delivered using the Pendolino fleet and will be extended with the IEP and Crossrail trains as the fleets are introduced.
- Creating an executive led renewals recovery programme to improve our efficiency delivery over the next two years and create a solid platform to move into CP6. Initiatives include changes to engineering standards & policies, including greater use of decision support tools and value engineering; better worksite access management including collaboration with customers to reduce the level of contingency needed for the timely hand back of the network at the end of a possession; and improving work bank stability.

Directors' Review continued

In £m 2016/17 prices unless stated otherwise

Financial framework

The railway network

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, 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.

The current value of the RAB is significantly higher than the 2013 Periodic Review assumed which is largely due to higher investment undertaken by Network Rail in CP4 which the regulator did not expect when preparing their determination.

Borrowing

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

The regulatory settlement provides strong security for future income and the Department for Transport (DfT) loan agreement provides a robust platform to refinance and borrow to invest in the railway network.

During the year ended 31st March 2017 Network Rail borrowed £6.1bn from DfT. Part of this new debt was used to pay back existing bonds whilst the remainder was used to invest in the railway infrastructure. As a result net debt rose from £40.2bn to £44.8bn.

	2016/17 (£bn)	2015/16 (£bn)
Borrowing to invest	3.7	4.4
Borrowing to refinance	2.4	3.1
DfT Loan drawdown	6.1	7.5

Network Rail plans to borrow significantly over the remainder of the control period to finance the investment programme. We plan to draw down a further £7.0bn from the agreed DfT loan facility to finance this investment, and a further £3.3bn to refinance maturing debt which will lead to increases in net debt.

In addition to the DfT loan facility we have plans to potentially sell non-core assets, increase efficiencies, and find other ways to attract commercial partners in order to deliver more capital investment that will help increase the capacity of the railway network.

Directors' Review continued

In £m 2016/17 prices unless stated otherwise

Summary

This has been a year where Network Rail has delivered another huge part of the Rail Upgrade Plan whilst continuing its transition to route-led devolved businesses driven more by customer's needs. Whilst charges to our customers continue to fall in real terms the group continues to make an operating surplus, every penny of which is reinvested in delivering capital investment programmes.

This, coupled with the loan facility in place with DfT, enabled Network Rail to deliver the highest level of enhancements to the railway network it has ever recorded. These enhancements are designed to improve performance and increase network capacity to assist in meeting the strong and increasing demand for rail travel.

To maintain this momentum in the investment programme Network Rail plans to raise additional funding through the sale of non-core assets and continues to look for additional funding from third parties and internally by delivering further cost efficiencies.

Improving performance and cost efficiency are key areas given the challenges experienced in this Control Period. The business is working on a series of initiatives aimed at reducing delays per incident, improving the delivery of renewals and enhancements and improvements in planning and delivering safe work. Underpinning these initiatives are two cultural changes: Better Every Day through lean practices and the Route Transformation Plan. The use of customer-aligned and agreed scorecards are providing the essential customer focus for the business.

In the next year we will be working with key stakeholders and the ORR to deliver our Strategic Business Plan for CP6. We will be using the lessons learned from the CP5 determination to achieve a settlement that incorporates robust efficiency and performance challenges and provides confidence to stakeholders and funders that we will meet the needs of the travelling public and the railway and provide excellent value for money.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 14th July 2017.

Signed on behalf of the Board of Directors



Mark Carne (Director) Jeremy Westlake (Director)

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2017 which comprise the following statements (separately for GB, England and Wales, and Scotland and the Routes except where stated otherwise below):

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

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

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

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

Respective responsibilities of the Directors and Auditor

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

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

Scope of the audit of the Regulatory Financial Statements

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

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

Opinion on Regulatory Accounts

In my opinion the Regulatory Financial Statements, defined above:

- fairly present in accordance with Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies, the state of the Company's financial position at 31 March 2017 and its financial performance for the year then ended; and
- have been properly prepared in accordance with Condition 11 of the Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies.

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

Emphasis of matter - basis of preparation

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

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

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

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

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

Other matters

My opinion on the Regulatory Financial Statements is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2017, on which we reported on the 14 July 2017, which are prepared for a different purpose. My audit report in relation to the statutory financial statements of the Company (my "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. My Statutory audit work was undertaken so that we might state to the Company's members those matters I am required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Matthew Kay (Senior Statutory Auditor)

19 July 2017

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

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

Introduction

In accordance with the terms of engagement for the Independent Reporter, we have reviewed the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the Company) for the year ended 31 March 2017, which comprise:

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

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 11 of the Network Licence. As stated in Clause 2.26 of the Regulatory Accounting Guidelines (RAGs) dated June 2017, the Regulator may use an independent 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.

Opinion

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

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

Yours faithfully.

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
14th July 2017

Accounting policies

Basis of preparation

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

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP5 Regulatory Accounting Guidelines ("RAGs") issued by the ORR in June 2017. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2017 which were approved by the Directors on 14 July 2017 with the following notable exceptions:

Inflation

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

Regulatory Asset Base

The Regulatory Asset Base (RAB) has been calculated in accordance with the RAGs and the RAB roll forward policy set out therein. As in previous years this requires management to make their best assessment of efficiency savings achieved along with other judgements around performance. The judgements reached on efficiency savings continue to be discussed with the Regulator and the reporter and are therefore subject to amendments in future years of the control period. Management have made adjustments to reflect their best estimate of uncertainties identified. Nevertheless, these uncertainties could result in adjustments to the RAB valuation which, as stated in the RAGs, remains provisional until an ex-post assessment 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 40 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2013. The opening RAB at 1 April 2016 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Debt

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

Capitalised interest

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

Accounting policies continued

Pensions

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

Turnover

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

Basis of disaggregation

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

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

Operational Routes

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

- (a) directly managed - income and expenditure which is managed by the local route leadership team. This is assigned directly to each route. Directly attributable activities are those where there is clear management accountability for activity and costs. This is reflected in the general ledger accounting system with cost centres being directly attributable to individual routes. All of these costs/ revenues are included in the route income and expenditure reported in the regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the route-managed works delivery team
- (b) central costs – directly influenced - income and expenditure which is the responsibility of central functions. However, decisions and actions taken by the individual routes can affect the company wide costs. This covers items where the route is consuming a service from central functions and are charged in proportion to the amount of service they utilise. This would include items such as capital expenditure delivered by Network Rail's project delivery team (Infrastructure Projects). These costs can be attributed to the route directly

Accounting policies continued

- (c) central costs – route identifiable - income and expenditure which is the responsibility of central functions where route leadership teams have little direct influence. However, the geographic location of activity giving rise to the income and expenditure is readily ascertainable. This would include many of the operations of Network Rail's property team such as income from commercial lettings, rental of retail premises at stations managed by Network Rail and sales of parts of the railway estate. In these circumstances it is possible to assign the costs/ income to the applicable operational route
- (d) central costs – allocated by driver – income and expenditure incurred for the whole network or company. Minimal causal link between local management teams' decisions and the level of costs incurred by Network Rail. This would include amounts paid to the ORR for regulatory licences, Board and governance costs and grants income received from governments. In these circumstances costs have to be attributed to routes using an appropriate driver. The driver should represent a proxy for the cause of the cost in each route. Network Rail has supplied a detailed list of to the regulator (as well as the auditors and the reporters) setting out which driver will be used to allocate all central expenses and income in each cost centre/ account code category

Statement 1: Summary regulatory financial performance, Great Britain

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	4,380	4,359	21	13,056	12,940	116	4,376
Fixed Income	392	372	20	1,222	1,163	59	375
Variable Income	1,119	1,195	(76)	3,348	3,418	(70)	1,128
Other Single Till Income	872	932	(60)	2,521	2,637	(116)	847
Opex memorandum account	(2)	-	(2)	17	-	17	18
Total Income	6,761	6,858	(97)	20,164	20,158	6	6,744
Operating expenditure							
Network operations	554	427	(127)	1,608	1,331	(277)	550
Support costs	337	451	114	1,170	1,437	267	403
Traction electricity, industry costs and rates	582	651	69	1,756	1,821	65	593
Network maintenance	1,319	1,117	(202)	3,819	3,458	(361)	1,275
Schedule 4	217	239	22	685	691	6	263
Schedule 8	187	4	(183)	408	13	(395)	108
Total operating expenditure	3,196	2,889	(307)	9,446	8,751	(695)	3,192
Capital expenditure							
Renewals	2,774	2,678	(96)	8,964	8,173	(791)	3,145
PR13 enhancement expenditure	3,372	3,724	352	9,294	10,025	731	3,056
Non PR13 enhancement expenditure	54	-	(54)	430	-	(430)	228
Total capital expenditure	6,200	6,402	202	18,688	18,198	(490)	6,429
Other expenditure							
Financing costs	1,797	1,953	156	4,677	5,366	689	1,431
Corporation tax (received)/paid	2	-	(2)	(2)	4	6	-
Total other expenditure	1,799	1,953	154	4,675	5,370	695	1,431
Total expenditure	11,195	11,244	49	32,809	32,319	(490)	11,052

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £50m higher than the regulatory comparative. This was mostly due to higher running costs, due to lower than expected efficiencies, and higher compensation under train performance mechanisms partly offset by lower enhancements expenditure as programmes were profiled to later years and lower interest costs.
- (3) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (4) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to the aforementioned additional services offered to operators.
- (5) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity income partly offset by incremental revenue from offering more train paths to operators to help meet passenger demand for train travel. Income is broadly in line with the previous year, with a marginal decrease mostly due to lower electricity income. These variances are set out in more detail in Statement 6a.
- (6) Income – Other single till income in the year is lower than the determination mainly due to changes in the way certain capital programmes are funded, which is offset by a corresponding saving in Financing costs. Excluding these items, income is higher than the determination as a result of station and depot facilities provided to operators offsetting lower freight income. Income is higher than the previous year as the extra stations and depots facilities offered to operators have offset lower property sales and continued decline in demand for freight. These variances are set out in more detail in Statement 6a.
- (7) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The negative amount reported in the current year is largely due to costs recognised on the volume incentive due to lower demand for freight and the impact of industrial action in Southern England. The variance to the previous year can also be explained by these factors. The variances are set out in more detail in Statement 10.

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

in £m 2016-17 prices unless stated

- (8) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (10) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The savings made in the control period to date are also due to these two factors. Costs are lower than the previous year as a result of lower market electricity prices (although this is offset by reductions in income earned by network Rail) and higher British Transport Police costs as Network Rail now bears a greater proportion of these industry costs. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (11) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year and additional structures inspections costs have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (12) Operating expenditure - Schedule 4 costs are lower than the determination mostly as a result of reduced delivery of renewals which require network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (13) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.

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

in £m 2016-17 prices unless stated

- (14) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is £0.8bn higher than the determination which included an assumption that £0.4bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (15) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. This is partly driven by prioritisation of investment in core activities this year and as well as reprofiling of expenditure between years. The control period to date position is caused by similar factors. Investment is higher than the previous year reflecting net extra delivery across a wide range of schemes and programmes with Crossrail and Northern Hub as milestones in those areas approach. These variances are set out in more detail in Statement 3.
- (16) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period to date is axiomatic. Expenditure is lower than the previous year reflecting Network Rail's constrained funding arrangements (as discussed in more detail in Statement 4) necessitating prioritisation of core activities. These items are set out in more detail in Statement 3.
- (17) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

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

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	54,052	52,691	1,361
Indexation to 2015-16 prices	3,125	3,046	79
Opening RAB for the year (2015-16 prices)	57,177	55,737	1,440
Indexation for the year	1,254	1,223	31
Opening RAB (2016-17 prices)	58,431	56,960	1,471
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,530	2,678	(148)
PR13 enhancements	3,288	2,951	337
Non-PR13 enhancements	79	-	79
Total enhancements	3,367	2,951	416
Amortisation	(2,575)	(2,575)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2017	61,753	60,014	1,739

RAB Regulatory financial position - cumulative, Great Britain

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	50,218	54,762	58,431	50,218
Adjustments for the actual capital expenditure outturn in CP4	1,226	-	-	1,226
Renewals	2,844	2,908	2,530	8,282
PR13 enhancements	2,833	3,001	3,288	9,122
Non-PR13 enhancements	114	227	79	420
Total enhancements	2,947	3,228	3,367	9,542
Amortisation	(2,467)	(2,467)	(2,575)	(7,509)
Adjustments for under-delivery of regulatory outputs	(6)	-	-	(6)
Closing RAB	54,762	58,431	61,753	61,753

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in the first two years of the control period relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) more than offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b. The control period to date position is broadly in line with the original PR13 assumptions.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There are significant contributions from Thameslink, Northern Hub, Edinburgh Glasgow Improvements Programme (EGIP) and Rolling Programme of Electrification projects.

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

in £m 2016-17 prices unless stated

- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in the current year were lower than in earlier years of the control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM in England & Wales and Scotland and CaSL in England & Wales) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

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

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	2,711	2,784	2,678	8,173
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	233	-	-	233
Capitalised financing on CP4 deferrals	5	10	11	26
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	2,949	2,794	2,689	8,432
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(730)	(633)	(889)	(2,252)
Capitalised financing on acceleration / (deferrals) of expenditure	(15)	(46)	(80)	(141)
Adjustments for efficient overspend	769	952	960	2,681
Capitalised financing on efficient overspend	16	54	98	168
25% retention of efficient overspend	(192)	(238)	(240)	(670)
Capitalised financing on efficient overspend 25% retention	(4)	(13)	(24)	(41)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	62	41	13	116
Capitalised financing on efficient overspend through spend to save framework	1	4	5	10
Retention of efficient overspend through spend to save framework	(12)	(6)	(1)	(19)
Capitalised financing on efficient overspend through spend to save framework retention	-	(1)	(1)	(2)
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	2,844	2,908	2,530	8,282
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(3)	(8)	(9)	(20)
Adjustment for 25% retention of efficient overspend	204	245	241	690
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	12	12
Total actual renewals expenditure (see statement 9)	3,045	3,145	2,774	8,964

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

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	3,024	3,158	2,951	9,133
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	204	(202)	-	2
Capitalised financing on CP4 deferrals	4	5	-	9
Baseline adjustments	-	226	773	999
Capitalised financing on Baseline adjustments	-	5	27	32
Adjustments to DfT funding	(160)	-	-	(160)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(7)	(18)
Other adjustments	26	25	-	51
Capitalised financing on other adjustments	1	2	2	5
Adjusted PR13 determination (enhancements)	3,095	3,212	3,746	10,053
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(374)	(329)	(712)	(1,415)
Capitalised financing on acceleration / (deferrals) of expenditure	(8)	(23)	(47)	(78)
Adjustments for efficient overspend	74	20	190	284
Capitalised financing on efficient overspend	2	4	8	14
25% retention of efficient overspend	(18)	(5)	(48)	(71)
Capitalised financing of 25% efficient overspend	-	(1)	(2)	(3)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements	68	162	170	400
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(40)	(28)	(79)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	11	17
Adjustments for efficient overspend through spend to save framework	5	(5)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,833	3,001	3,288	9,122
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	128	218	63	409
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(16)	-	-	(16)
Capitalised financing on non-PR13 enhancements expenditure	2	9	16	27
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	114	227	79	420
Total enhancements (added to the RAB - see statement 2a)	2,947	3,228	3,367	9,542
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	2	1	(8)	(5)
Adjustment for retention of efficient overspend	46	44	76	166
Other adjustments	20	10	(9)	21
Adjustment for retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	490	321	451	1,262
Other adjustments	-	-	-	-
Total actual enhancement expenditure (see statement 3)	3,505	3,604	3,877	10,986

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period so that there the balance in the control period to date only relates to Scotland programmes (as these were outside of the scope of the Hendy review).
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes relating to the Scotland route (which continues to use the ECAM principles, with differences to the PR13 allowances also included in this baseline adjustments heading) and programmes with their own protocol (such as Thameslink and Crossrail).

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

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- (11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.
- (12) Enhancements – Other adjustments – the amounts in the opening two years of the control period reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme.
- (13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Northern Hub, Edinburgh Glasgow Improvements Programme (EGIP) and Rolling Programme of Electrification projects. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (15) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

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

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- (18) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reversed in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.
- (19) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income. In the current year the amount retained by Network Rail is 10 per cent.
- (20) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (21) Non-PR13 enhancements – Other adjustments (including discretionary investment) – almost all of the expenditure for the control period to date relates to Manchester Victoria station redevelopment. Expenditure on this programme was funded through the regulator's investment framework but the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5). The credit balance this year relates to favourable settlement of commercial claims, reducing the overall expenditure on the programme.

Statement 3: Analysis of enhancement capital expenditure, Great Britain

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	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	27	50	23	54	77	23
Stations - National Station Improvement Programme (NSIP)	9	16	7	40	54	14
Stations - Access for All (AfA)	30	31	1	91	95	4
Development	10	9	(1)	111	137	26
Level crossing safety	18	34	16	50	85	35
Passenger journey improvement	8	54	46	15	62	47
The strategic rail freight network	15	62	47	104	153	49
Scottish stations fund	2	7	5	5	22	17
Scottish strategic rail freight investment fund	2	7	5	4	20	16
Scottish network improvement fund	12	13	1	25	40	15
Future network development fund	2	3	1	5	7	2
Total funds	135	286	151	504	752	248
Committed projects						
Thameslink	417	408	(9)	1,416	1,283	(133)
Crossrail	641	392	(249)	1,570	1,377	(193)
GW electrification (Paddington to Cardiff)	637	695	58	1,545	1,574	29
Adjustment for DfT funding - GW electrification	-	-	-	(76)	(76)	-
Bridgend to Swansea electrification	1	15	14	14	29	15
East West Rail (committed scheme)	76	13	(63)	239	183	(56)
Northern Hub	345	511	166	764	932	168
IEP Programme	74	121	47	204	267	63
North Trans Pennine Electrification East	49	105	56	75	130	55
North Trans Pennine Electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Reading station area redevelopment	(10)	23	33	125	163	38
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(85)	(85)	-
Stafford area improvement scheme	21	22	1	163	154	(9)
West coast power supply upgrade	42	55	13	158	172	14
Edinburgh Glasgow Improvements Programme (EGIP)	1	-	(1)	9	17	8
Electrification of Springburn to Cumbernauld	167	55	(112)	389	192	(197)
Edinburgh Glasgow Improvements Programme (EGIP)	-	-	-	7	40	33
Edinburgh Gateway Station	16	53	37	47	216	169
Edinburgh Glasgow Improvements Programme (EGIP)	(1)	3	4	187	185	(2)
Infrastructure Projects						
Border Railway Project	(1)	3	4	187	185	(2)
Total committed projects	2,476	2,471	(5)	6,748	6,753	5
Named schemes						
The Electric Spine:						
MML electrification	54	84	30	159	183	24
Derby station area remodelling	13	14	1	20	21	1
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	6	6	-	6	6
Electric spine (DfT SoFA amount)	54	124	70	126	204	78
Total Electric Spine	121	228	107	305	414	109
Thames Valley:						
Acton to Willesden electrification (WCML)	-	1	1	1	3	2
Thames Valley branches	1	7	6	2	9	7
Oxford Station area capacity and station enlargement	11	25	14	23	35	12
Total Thames Valley	12	33	21	26	47	21
Midlands						
Walsall to Rugeley electrification	14	24	10	47	65	18
Total Midlands	14	24	10	47	65	18
Yorkshire						
Huddersfield station capacity improvement	(3)	1	4	(1)	1	2
Total Yorkshire	(3)	1	4	(1)	1	2

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

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Airports & ports:						
Western access to London Heathrow Airport	-	-	-	7	8	1
Service Improvements in the Ely Area	1	(1)	(2)	2	2	-
Redhill additional platform	18	18	-	23	23	-
Total airports & ports	19	17	(2)	32	33	1
South East						
Waterloo	126	112	(14)	176	150	(26)
Total South East	126	112	(14)	176	150	(26)
West						
Dr Days to Filton Abbey Wood capacity improvements	13	19	6	29	31	2
Bristol Temple Meads passenger capacity	1	2	1	2	3	1
Total West	14	21	7	31	34	3
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	27	(72)	(99)	45	44	(1)
Rolling programme of electrification (Scotland)	71	47	(24)	127	98	(29)
Carstairs journey time improvements	-	-	-	1	1	-
Highland main line journey time improvements (phase 2)	2	17	15	5	88	83
Motherwell area stabling	-	3	3	-	8	8
Motherwell resignalling enhancements	-	1	1	-	3	3
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland	100	(4)	(104)	178	242	64
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	1	1	-	2	2
South London HV traction power upgrade	-	2	2	2	3	1
West Anglia main line capacity increase	14	24	10	22	30	8
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	-	-	4	4	-
West of England DMU capability works	2	1	(1)	3	2	(1)
East Kent resignalling phase 2	10	-	(10)	53	55	2
Stevenage and Gordon Hill turnbacks	-	2	2	3	5	2
Reading, Ascot to London Waterloo train lengthening	22	30	8	26	33	7
Uckfield line train lengthening	5	7	2	19	20	1
MML long distance high speed services train lengthening	-	9	9	2	12	10
Route gauge Clearance for different EMUs	7	13	6	11	15	4
Bradford Mill Lane capacity	(1)	1	2	-	2	2
Leeds station capacity	-	1	1	-	2	2
Chiltern Main Line Train Lengthening	1	-	(1)	16	12	(4)
North West train lengthening	-	10	10	-	10	10
New Cross Grid	2	12	10	5	15	10
Anglia traction power supply upgrade	6	17	11	13	24	11
Sussex traction power supply upgrade	27	31	4	32	36	4
Wessex traction power supply upgrade	25	22	(3)	39	43	4
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	8	12	4	18	23	5
LNE routes traction power supply upgrade	1	7	6	1	8	7
Total HLOS capacity metric schemes:	129	202	73	270	357	87
Third party funded						
Welsh Valley lines electrification	-	-	-	2	2	-
Total Third Party funded	-	-	-	2	2	-

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

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	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
CP4 Project Rollovers						
Birmingham New St Gateway	18	9	(9)	180	223	43
Bromsgrove Elec - Midlands Improvements Programme	30	41	11	45	56	11
Redditch Branch Enhancement	-	-	-	17	17	-
Kent power supply upgrade (CP4)	7	17	10	62	72	10
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Capacity relief to the ECML	7	3	(4)	81	78	(3)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
DC Regeneration	-	-	-	2	1	(1)
Package 4, Gravesend Train Lengthening	-	(1)	(1)	-	(1)	(1)
Package 7,10 Car Park West Suburban Railway	-	1	1	15	16	1
Wessex Automatic Selective Door Opening	(1)	-	1	1	2	1
Battersea Park Station Planform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	5	1
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	2	6	4	26	22	(4)
Westerleigh Junction - Barnt Green linespeed increase	-	3	3	-	3	3
Station Security	-	-	-	-	-	-
Other CP4 Rollover	(2)	(6)	(4)	4	-	(4)
Total CP4 rollovers	61	73	12	451	509	58
Other projects						
Seven day railway projects	11	6	(5)	56	56	-
ERTMS Cab fitment	9	53	44	28	79	51
R&D allowance	6	1	(5)	14	18	4
Depots and stabling	61	149	88	125	221	96
Income generating property schemes	81	47	(34)	302	280	(22)
Other income generating investment framework schemes	-	4	4	-	12	12
Total other projects	168	260	92	525	666	141
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	3,372	3,724	352	9,294	10,025	731
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	(1)	-	1	24	-	(24)
NHub Huyton & Roby	-	-	-	-	-	-
DNOs clearance work	8	-	(8)	20	-	(20)
OCSLNE SCPF Newcastle Station	-	-	-	19	-	(19)
Tram Train Project	(7)	-	7	(7)	-	7
NW Electrification	15	-	(15)	96	-	(96)
Borders New Railway	(2)	-	2	8	-	(8)
W001cReadingIndFeeder	23	-	(23)	23	-	(23)
Ilkestone New Station	6	-	(6)	6	-	(6)
Other government sponsored schemes	10	-	(10)	33	-	(33)
Total Government sponsored schemes	52	-	(52)	222	-	(222)
Network Rail spend to save schemes						
Mountfield	1	-	(1)	32	-	(32)
Other spend to save schemes	-	-	-	1	-	(1)
Total Network Rail spend to save schemes	1	-	(1)	33	-	(33)
East West Rail (committed scheme)	8	-	(8)	142	-	(142)
Other	2	-	(2)	11	-	(11)
Total Schemes promoted by third parties	10	-	(10)	153	-	(153)
Discretionary Investment	(9)	-	9	22	-	(22)
Total non PR13 enhancement expenditure	54	-	(54)	430	-	(430)
Total Network Rail funded enhancements (see Statement 1)	3,426	3,724	298	9,724	10,025	301
Third Party PAYG	451	-	(451)	1,262	-	(1,262)
Total enhancements (see statement 2b)	3,877	3,724	(153)	10,986	10,025	(961)

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

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Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £3,426m (as shown in Statement 1). This comprises the total enhancement figure in the table above £3,877m less the PAYG schemes funded by third parties (£451m).
- (5) Investment expenditure this year was higher than the previous year. This is a combination of increases and decreases across a wide range of programmes and reflects ramping up of activity to meet milestones contained in the overall enhancement portfolio.

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

- (a) East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure in the current year is lower than the baseline as some of the activity on this fund has now been deferred from the current control period to CP6. Reduced expenditure in the current year is partly due to delays implementing the North Allerton to Newcastle freight loops project. The underspend for the control period to date arises from the variance in the current year.
- (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is less than the baseline in the current year and the control period to date but is expected to match the baseline by the end of CP5. Underspends in the current year were largely driven from work to prioritise delivery of portfolio and concentration by the organisation on other programmes.
- (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. This year included delivery of important projects at Virginia Water, Manningtree, Hamilton Central and Penrith stations. Expenditure in the current year and the control period to date is broadly in line with the baseline.
- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is in line with the baseline but is lower than in the control period to date due to lower than expected investment in 2015/16.
- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was noticeably lower than the determination in this year and is much lower for the control period to date largely as a result of contractor disputes leading to delays. Discussions appear to have reached a mutually agreed conclusion so the level of expenditure is expected to increase over the remainder of the control period. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land.
- (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is significantly lower than the baseline this year although a ramp up on activity is expected in future years, particularly on Market Harborough, Leicester and Derby-Sheffield line speed improvements. The current year variance accounts for the saving in the control period to date.

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

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- (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline this year but a catch up is planned over the remainder of the control period. Underspend this year includes rescheduling of activity to coincide with other projects to gain delivery synergies (such as the Transpennine Route Upgrade programme), insufficient access to instigate change and more challenge on tender price bids. The current year variance accounts for the vast majority of saving in the control period to date.
 - (h) Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. Delivery in the current year has been lower than planned as fewer suitable projects have been identified. Most of the variance in the control period to date relates to reduced expenditure in the first two years of the control period. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.
 - (i) Scottish strategic Rail Freight Investment Fund - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year is lower than the baseline planned which includes deferral of the Edinburgh suburban electrification project into CP6 and changes in the remit of other projects from Transport Scotland. Most of the variance in the control period to date relates to reduced expenditure in the first two years of the control period. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.
 - (j) Scottish network improvement fund - The purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year was broadly in line with the determination but is below target for the control period to date largely due to lower investment in 2014/15. The determination weighted activity on this fund towards the earlier years of the control period but Network Rail's plans assume later delivery.
 - (k) Future network development fund – this fund is to finance or support the development of proposals for strategic interventions to improve the capacity and capability of the Scottish network in CP6 and beyond. Expenditure in the year and the control period to date is broadly in line with the baselines.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is in line with the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline this year (such as Crossrail and Edinburgh Glasgow Improvement Programme) and some which have spent less (such as Northern Hub and GW electrification (Paddington to Cardiff)). The following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is consistent with the baseline but is higher in the control period to date. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

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

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- (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator's determination in the year and control period to date as some of the work has been accelerated from future years into the current year to help meet the programme milestones. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (c) GW electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused an underspend in the control period to date. The savings in the current year are largely driven by continued design delays and materials logistics issues. Despite these delays major regulatory milestones are still expected to be achieved.
- (d) Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (e) Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - This project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. There was minimal activity on this project during the year as the programme looks to develop a joint strategy with the GW electrification project. Delays in implementing the latter project are having a knock-on effect on the Bridgend to Swansea electrification works. The underspend in the control period to date is driven by the variance in the current year.
- (f) East West Rail - The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is noticeably higher than the baseline this year. The project is split into two phases, elements of the second phase planning and design have been accelerated into the current year so the programme can dovetail with construction of HS2. Higher costs are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a). The control period to date variance is largely the result of the overspend in the current year.
- (g) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Despite the ramp up in activity in the current year, investment is significantly lower than the baseline. This is due to a combination of factors including: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries) have necessitated alternative designs, amalgamation of various disparate projects to generate programme overhead reductions and better link projects to minimise passenger disruption and contractor performance issues. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review. The control period to date variance is largely the result of the underspend in the current year

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- (h) IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is significantly lower than the baseline as activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme. In addition, there are some modest reductions in programme cost which have resulted in financial outperformance being recognised this year (refer to Statement 5a). The control period to date variance is largely the result of the underspend in the current year
- (i) North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. Investment in the current year is significantly higher than the previous year but is still less than the baseline as parts of the programme have been re-profiled into future years. Delays have been caused by re-organisation of various projects under a single programme team to improve accountability and planning synergies. The control period to date variance is largely the result of the underspend in the current year
- (j) North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East as the baseline for this programme has been expanded to include the West element.
- (k) Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. The credit balance in the current year relates to some gains made on disposal of some of the plant used to deliver the project. In addition, there has been a slowdown in delivery in the current year to remediate a spoil heap and improve Cow Lane highway as part of the scope of works. The underspend in the current year accounts for most of the control period to date variance. The control period to date also benefits from financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.
- (l) Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (m) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is consistent with the baseline. The programme has spent slightly more than the baseline in the control period to date due to work being brought forward from later in the control period.

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- (n) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the current year are lower than the baseline. Despite this, financial underperformance has been recognised (refer to Statement 5c) as a result of expected increases in the total programme costs. There has been deferral of certain parts of this scheme this year with revised delivery timetables agreed with DfT and also descoping of the final outputs of the programme as certain elements, such as the section of the line between Whitmore and Weaver, are no longer required. The variance in the control period to date is largely caused by the underspend in the current year.
 - (o) Edinburgh Glasgow Improvements Programme - The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. This programme should be considered in totality across the various sub-projects. Network Rail's internal targets assumed a different profile of programme delivery to that in the PR13. Although the control period to date expenditure is broadly consistent with the determination assumption, this is a combination of financial underperformance (refer to Statement 5c) largely offset by project deferrals. In the current year the extra expenditure is due to financial underperformance and an acceleration of activity to meet milestones targets in early 2017/18.
 - (p) Border Railway Project - This project will provide a new rail route between Newcraighall and Tweedbank with 7 new stations to permit operation of a half hourly passenger service. The credit in the current year relates to agreed changes in the funding of the project with an element being paid for directly by the Scottish government (and so appearing in the PAYGO section of this statement).
- (8) PR13 funded schemes – named schemes - expenditure in the year is slightly lower than the baseline but this consists of underspend across most of the England & Wales programmes with significant extra costs in Scottish programmes, especially Aberdeen to Inverness journey time improvements. The following notable variances between expenditure and baselines are set out below:
- (a) Midland Mainline Electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure is lower than the baseline due to some delays encountered by the project. This includes reconstruction of two bridges that has been delayed due to access constraints and further work undertaken to assure project costs and contractor estimates. The control period to date variance largely arises from the current year underspend.
 - (b) Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. Expenditure for the year and control period to date is consistent with the baseline.
 - (c) Oxford-Bletchley-Bedford electrification - This project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year has been minimal compared to the baseline as other parts of the company's electrification programme have received priority. The control period to date variance stems from the current year underspend.

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- (d) Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. The control period to date variance largely arises from the current year underspend.
- (e) Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity in the first three years of the control period.
- (f) Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. Expenditure in the current year is lower than the plan. Whilst the design phased of the programme is largely complete there have been delays in commencing the on-site works following further discussions with stakeholders. The programme is now expected to be largely delivered in CP6, with the funds saved on this project to be reinvested in creating additional benefits to passengers. The control period to date variance largely arises from the current year underspend.
- (g) Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year which reflects acceleration of activity in 2015/16 along with delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. The control period to date variance largely arises from the current year underspend. Investment is expected to ramp up over the remainder of the control period to catch up this underspend.
- (h) Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure is lower than the baseline as work has been deferred into future years due to slower progress by contractors and identification of a number of historic mine works found underneath the line. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. As a result financial underperformance has been recognised in the current year (refer to Statement 5c).
- (i) Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. There is a credit balance against this project this year as the activity previously classified as Huddersfield station capacity improvement has been moved to North Trans Pennine Electrification East to reflect changes in the programme management. By combining different parts of the programme under one management team, project management costs can be saved, works can be planned more effectively to minimise passenger disruption and other synergies can be achieved.
- (j) Western access to London Heathrow Airport – This project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period to date is broadly in line with the agreed baseline.

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- (k) Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Progress on this project is in line with the Hendy review expectations. However, as the project is now expected to cost more than the baseline over its life cycle (arising from extra work to meet timetable commitments) some financial underperformance has been reported this year (refer to Statement 5c).
- (l) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Investment in the year is higher than baseline mostly due to acceleration of activity from future years to meet programme milestones. In addition, design changes and higher contractor delivery costs have increased like-for-like costs on this programme. Consequently, financial underperformance has been acknowledged in the control period to date (refer to Statement 5a), meaning that not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (m) Dr Days to Filton Abbey Wood Capacity Improvements - The project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure is lower in the current year than the baseline. The costs in the control period to date are now broadly consistent with the baseline.
- (n) Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. In line with the Hendy review there was limited activity on this project in the first three years of the control period.
- (o) Aberdeen to Inverness journey time improvements and other enhancements - This project will provide infrastructure to permit trains to call at potential new stations at Kintore and Dalcross without extending average journey times and permit more frequent commuter services to Aberdeen and Inverness. Expenditure in the year was significantly higher than the baseline assumed. The total programme expenditure for the control period to date is now broadly similar to the baseline. Some financial underperformance has been recognised on the project (refer to Statement 5c) due to higher expected programme costs.
- (p) Rolling programme of electrification (Scotland) - This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been higher than the regulator assumed for the year and control period to date mostly due to escalating programme costs. The estimates of contractor costs included in the ECAM target appear over-optimistic. This is consistent with the experiences of a number of other electrification enhancement programmes throughout the network in CP6. Following discussions with ORR, further work is being undertaken with independent reporter to understand the nature of these increases. In the meantime, financial underperformance has been recognised in the year, augmenting the financial underperformance reported last year (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). The variance in the current year is the main driver behind the control period to date overspend.

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

in £m 2016-17 prices unless stated

- (q) Highland main line journey time improvements (phase 2) - This project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. Expenditure in the current year is lower than the baseline as project delivery has been reprofiled into later years. In addition, delays in awarding contracts (to allow additional scope challenge and negotiations) have postponed some works this year. Whilst activity on this programme is expected to ramp up later in the control period (notably 2018/19) total spend in CP5 is envisaged to be lower than the determination assumed.
 - (r) Motherwell area stabling - this project will electrify the remaining 'back of Shops' sidings to permit the stabling of additional EMUs at Motherwell required by the electrification with a longer term target to consolidate all stabling at Motherwell on one site with appropriate cleaning and servicing facilities. In line with Network Rail's own internal plan, there has been limited activity on this project in the early years of the control period compared to the regulatory assumption. Furthermore, the scope of this project has been substantially reduced following agreement between Network Rail, Transport Scotland, train operators and ORR so expenditure is expected to remain minimal throughout the remainder of the control period.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is significantly less than the baseline. This is due to variances across a number of schemes, with relatively few schemes spending more than the baseline. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:
- (a) West Anglia main line capacity increase – This project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. In the current year, expenditure was lower than the baseline. This was partly due to acceleration of activity in 2015/16, and deferral of planned activity from the current year to later years of the control period due in part to delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract award. The control period to date variance largely arises from the current year underspend.
 - (b) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure this year was higher than the baseline. The Hendy review baselines assumed that the programme would have been finished by the end of 2015/16 and hence no allowance was made for expenditure in 2016/17. However, activity was re-profiled into the current year, causing the overspend. For the control period to date, expenditure is broadly in line with the baseline and the project is substantially complete.
 - (c) Reading, Ascot to London Waterloo train lengthening - This project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Expenditure in the year is lower than the baseline. This is partly caused by deferral of the Feltham element of the scheme into future years arising from delays in local council delivering highway mitigation works. The variance in the control period to date is caused by the lower expenditure in the current year.
 - (d) Uckfield line train lengthening - The key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure in the year and the scheme to date is broadly in line the baseline.

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in £m 2016-17 prices unless stated

- (e) MML long distance high speed services train lengthening - The project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Minimal work was completed this year as the project has been reprofiled to later in the control period and beyond. Most of the milestones for this programme are in CP6, as agreed with the regulator. The variance in the control period to date is predominately due to the underspend in the current year.
- (f) Route gauge Clearance for different EMUs – expenditure is lower than the baseline for the year which comprised an acceleration of activity into 2015/16 and delays in delivering the Thames Valley element of the scheme this year. This has been caused by delays in agreeing the scope of works with stakeholders postponing commencement of physical work. The variance in the control period to date is largely the result of the underspend in the current year.
- (g) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs are generally in line with plan but the total programme costs are expected to be slightly higher than the baseline which has resulted in financial underperformance (refer to Statement 5c).
- (h) North West train lengthening - This project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. There has been minimal work so far on this programme which has caused a variance in the current year and the control period to date. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress.
- (i) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure is lower than the baseline in the current year. The most appropriate way to progress this project is still being discussed with stakeholders, with milestones currently being re-assessed. The variance in the control period to date is largely the result of the underspend in the current year.
- (j) Anglia traction power supply upgrade - The aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. In the current year expenditure is lower than the baseline mainly due to slower progress by the specialist electrification contractor delivering the required works. The variance in the control period to date is largely the result of the underspend in the current year.
- (k) Sussex traction power supply upgrade - The principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic of the Thameslink Programme. Expenditure for the year is slightly below target as resource constraints have resulted in reprofiling activity until later in the control period. The variance in the control period to date is largely the result of the underspend in the current year.
- (l) Wessex traction power supply upgrade – The aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure in the current year is higher than the baseline which was mainly due to a catch up of activity deferred in 2015/16. Investment is slightly lower than the baseline for the control period to date as some activity has been deferred to later in the control period.

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

in £m 2016-17 prices unless stated

- (m) London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.
 - (n) Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure is slightly lower than the baseline as the project has been reprofiled into 2017/18. The variance in the control period to date is largely the result of the underspend in the current year.
 - (o) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. There has been minimal activity on this programme this year owing to restrictions in suitable resource and access. The variance in the control period to date is largely the result of the underspend in the current year.
- (10) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the early years of the control period is in line with baseline agreed following the Hendy review.
- (11) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is lower than the baseline which is mostly due to savings on Bromsgrove electrification and Kent power supply upgrade partly offset by additional spend on Birmingham Gateway. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period to date are lower than the agreed Hendy baseline as a result of more of the programme being funded through cash contributions from third party (included in the PAYG category of this statement) but this has been treated as neutral when assessing financial performance. The Hendy baseline assumed that the programme would have progressed further by the end of 2015/16 but there remains certain outstanding elements of the programme.
 - (b) Bromsgrove Elec - Midlands Improvements Programme - This project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. Expenditure in the current year is lower than the baseline. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. The variance in the control period to date is largely the result of the underspend in the current year.

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

in £m 2016-17 prices unless stated

- (c) Redditch branch enhancement – this project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure for the control period to date is in line with the baseline and this programme is substantially complete.
- (d) Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was lower than the baseline assumed which is largely due to savings made by the project resulting in financial outperformance (Statement 5c). The project is largely complete and delivery risks have been successfully managed, resulting in decreased expected final costs. The variance in the control period to date is largely the result of the underspend in the current year.
- (e) Capacity relief to the ECML (East Coast Main Line) – The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was higher than the baseline due to some unexpected costs incurred in finishing the project and finalising claims from contractors. As a result, financial underperformance has been recognised in the current year (refer to Statement 5c).
- (f) Package 7,10 Car Park West Suburban Railway – The project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.
- (g) Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.
- (h) MML Linespeed Improvements – this project aims to increase the linespeed on the Midlands Main Line. The expected costs to complete this programme are higher than the estimates prepared to support the aforementioned Hendy review. Consequently, financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). In the current year expenditure was lower than planned as a result of acceleration of activity into 2015/16 last year and some modest efficiencies made this year, resulting in financial outperformance.
- (i) Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. The credit in the current year is due to some expenditure being reclassified to Wessex traction power supply upgrade to correspond to agreed funding arrangements.
- (12) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in Depots & stabling and ERTMS cab fitment programme offset by additional income generating schemes. Notable variances to the baseline include:

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

in £m 2016-17 prices unless stated

- (a) Seven day railway projects – The key projects in this fund are Balcombe to Copyhold Bi-directional Signalling Upgrade and Mobile Maintenance System. Expenditure is higher than the baseline in the current year which is largely a catch up of underspends in 2015/16. In addition, there has been some financial outperformance (refer to Statement 5c) on the Mobile Maintenance System element of the programme.
- (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure this year is significantly lower than the baseline as lead suppliers on certain projects within the programme have been re-tendered to achieve improved costs and capabilities. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs. The variance in the control period to date is largely the result of the underspend in the current year.
- (c) R&D allowance – In the Hendy Review the majority of this fund was rephased from the current control period to CP6 and hence there is no baseline in the current year. Expenditure in the year largely represents a catch up of underspends in previous years. In addition, there are economically sound areas that Network Rail feels it's important to invest in today in order to generate efficiencies to benefit the industry in the future.
- (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is lower than the baseline. Major reasons include deferral of Exeter depot following re-profiling from the sponsor and delays to Banbury depot project (asbestos on exiting site and badger activity in local area). The variance in the control period to date is largely the result of the underspend in the current year.
- (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Major investment this year was undertaken at London Bridge to coincide with the Thameslink redevelopment works. Expenditure is expected to reduce towards the end of the control period and the total investment over the control period is expected to be lower than the PR13 assumption. The variance in the control period to date is largely the result of the extra investment in the current year.
- (f) Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline. The remaining baseline in the control period to date refers to the Scotland element of the regulatory fund. The Hendy review only extended to England & Wales schemes and so the Scotland enhancements allowance remain in line with the regulatory determination.

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

in £m 2016-17 prices unless stated

- (13) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington. The credit in the Tram Train project is due to an agreed change of funding as part of the project is now being funded through the PAYGO category.
 - (b) Network Rail Spend to save – the main project in the current and previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths.
 - (c) Schemes promoted by third parties – as with last year the main item in this category which accounts for the majority of the expenditure was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification.
 - (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and, earlier in the control period, on CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). Manchester Victoria costs in the previous year included an assessment of contractor claims and disputes. However, further negotiation and challenge has resulted in a reduction in the costs of the project as the claims were largely successfully rebutted. This has meant that some of the financial underperformance recognised in previous years has been reversed out this year (refer to Statement 5c).
 - (e) PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. Significant programmes in this category in the current year include: Gospel Oak to Barking electrification works, Crossrail, Tram Train project and works to support HS2 development. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Great Britain

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	40,178	39,722	(456)	32,300	31,667	(633)
Income						
Grant income	(4,380)	(4,359)	21	(12,826)	(12,712)	114
Fixed charges	(392)	(372)	20	(1,199)	(1,142)	57
Variable charges	(1,119)	(1,195)	(76)	(3,289)	(3,359)	(70)
Other single till income	(872)	(932)	(60)	(2,477)	(2,592)	(115)
Total income	(6,763)	(6,858)	(95)	(19,791)	(19,805)	(14)
Expenditure						
Network operations	554	427	(127)	1,581	1,308	(273)
Support costs	337	451	114	1,148	1,411	263
Traction electricity, industry costs and rates	582	651	69	1,724	1,790	66
Network maintenance	1,319	1,117	(202)	3,753	3,396	(357)
Schedule 4	217	239	22	673	679	6
Schedule 8	187	4	(183)	402	12	(390)
Renewals	2,774	2,678	(96)	8,800	8,027	(773)
PR13 enhancement	3,372	2,951	(421)	9,138	8,969	(169)
Non-PR13 enhancement	54	-	(54)	420	-	(420)
Total expenditure	9,396	8,518	(878)	27,639	25,592	(2,047)
Financing						
Interest expenditure on nominal debt - FIM covered	403	650	247	1,246	1,739	493
Interest expenditure on index linked debt - FIM covered	239	279	40	718	790	72
Expenditure on the FIM	298	450	152	985	1,237	252
Interest expenditure on government borrowing	413	-	(413)	780	-	(780)
Interest on cash balances held by Network Rail	(5)	(23)	(18)	(25)	(49)	(24)
Total interest costs	1,348	1,356	8	3,704	3,717	13
Accretion on index linked debt - FIM covered	449	597	148	896	1,649	753
Total financing costs	1,797	1,953	156	4,600	5,366	766
Corporation tax	2	-	(2)	(2)	4	6
Other	182	-	(182)	46	511	465
Movement in net debt	4,614	3,613	(1,001)	12,492	11,668	(824)
Closing net debt	44,792	43,335	(1,457)	44,792	43,335	(1,457)

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

(£m, nominal prices)	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	4,614	3,673	4,205
Represented by:			
New debt issued			
Market issued debt	-	-	-
Borrowing from government	6,100	7,500	6,450
Accretion on index linked debt	449	224	223
Debt repaid	(2,389)	(3,070)	(2,378)
Decrease in net cash balances	441	(961)	246
Other	13	(20)	(336)
Increase in net debt	4,614	3,673	4,205

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

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	March 2017		March 2016		March 2015	
	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
Market issued debt						
Nominal borrowings (GBP)	5,133	11%	5,642	13%	7,497	20%
Nominal borrowings (Foreign currency)	2,839	6%	4,727	11%	5,942	16%
Total nominal borrowings	7,972	17%	10,369	24%	13,439	36%
Index linked borrowings (GBP)	18,078	39%	17,608	42%	17,405	47%
Borrowing from government	20,050	44%	13,950	34%	6,450	17%
Total regulatory borrowings	46,100	100%	41,927	100%	37,294	100%
Uncleared cash items	-		-		-	
Obligations under finance lease	-		-		-	
Net cash balances	(1,308)		(1,749)		(789)	
Regulatory net debt as at 31 March 2017	44,792		40,178		36,505	

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	0.93	0.89	0.74	1.03
FFO/interest	2.95	2.94	2.65	2.93
Net debt/RAB (gearing)	68.8%	70.3%	72.5%	72.2%
FFO/debt	9.6%	8.6%	8.0%	9.2%
RCF/debt	6.3%	5.7%	5.0%	6.0%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

E) Debt Maturity

(£m, nominal prices)	March 2015	March 2016	March 2017
On demand or within one year	2,280	655	1,775
Due within one to two years	2,393	3,159	4,597
Due within two to five years	8,151	13,893	14,696
Due in more than five years	23,681	22,471	23,724
Total debt	36,505	40,178	44,792

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

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail's debt has increased by £4.6bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2017 is £1.5bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by £0.6bn mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network (£1.4bn), higher performance regime costs (£0.4bn) and higher net operating costs (£0.3bn) have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings (£0.8bn) and favourable working capital movements (£0.4bn).
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

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

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination, There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements. The control period to date movement is significantly different to the regulator’s assumption which anticipated £0.5bn of working capital decreases in the control period, mainly relating to repayments of amounts owing to Crossrail Limited in relation to work completed by Network Rail. Following agreement between the two parties, the first instalments of the loan repayments only commenced towards the end of the current year.
- (13) Analysis of Network Rail’s net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as over 40 per cent of the value of Network Rail’s gross debt at the year end is payable to government. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year have been replaced by drawdowns against the DfT loan facility. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that most of the interest costs associated with such instrument are added to the principle. The proportion of this index-linked debt has decreased this year as the rate of overall gross debt has increased at a quicker rate than RPI.

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

in £m nominal unless otherwise stated

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

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

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

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are about 15 per cent higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

in £m nominal unless otherwise stated

- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is slightly higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator’s expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator’s expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator’s efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

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

in £m nominal unless otherwise stated

(21) Debt maturity – section E) shows that most of Network Rail's debt is repayable in more than five years. As an infrastructure entity it makes sense to have a stable view of cashflows and so such long-dated arrangements significantly reduce exposure to short-term financial markets, which are subject to greater turbulence and liquidity risk. The proportion of debt items with a maturity of more than five years has decreased compared to the previous year. This is because the DfT borrowings (which will come to represent a higher percentage of debt as the control period progresses) are all repayable within the control period, thus increasing the weighting of short-term debt. This accounts for the noticeable increase in the debt due within one year this year. In addition, Network Rail is holding less cash assets at the end of this year compared to the previous year (as shown in section C) of this statement).

Statement 5a: Total financial performance, Great Britain

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	4,380	4,359	21	21	-	-	-	-
Fixed Income	392	372	20	20	-	-	-	-
Variable Income	836	834	2	-	-	-	2	2
Other Single Till Income	872	932	(60)	(67)	-	-	7	7
Opex memorandum account	(2)	-	(2)	3	-	-	(5)	(5)
Total Income	6,478	6,497	(19)	(23)	-	-	4	4
Expenditure								
Network operations	554	427	(127)	(5)	-	-	(122)	(122)
Support costs	337	451	114	14	-	-	100	100
Industry costs and rates	283	260	(23)	(1)	-	-	(22)	(22)
Traction electricity	15	27	12	-	-	-	12	12
Reporter's fees	1	3	2	-	2	-	-	-
Network maintenance	1,319	1,117	(202)	-	(45)	-	(157)	(157)
Schedule 4 costs	217	239	22	-	76	-	(54)	(54)
Schedule 8 costs	187	4	(183)	-	-	-	(183)	(183)
Renewals	2,774	2,678	(96)	12	852	-	(960)	(240)
PR13 Enhancements	3,372	3,724	352	-	712	-	(360)	(76)
Non PR13 Enhancements	54	-	(54)	-	(63)	-	9	9
Financing Costs	1,797	1,953	156	156	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	2	-	(2)	-	(2)	-	-	-
Total Expenditure	10,912	10,883	(29)	176	1,532	-	(1,737)	(733)
Total:			(48)	153	1,532	-	(1,733)	(729)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(729)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(152)
Under-delivery of train performance requirements (CaSL)								(53)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(41)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(246)
Total financial out / (under) performance to be recognised								(975)

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

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	13,056	12,940	116	116	-	-	-	-
Fixed Income	1,222	1,163	59	59	-	-	-	-
Variable Income	2,493	2,469	24	-	-	-	24	24
Other Single Till Income	2,521	2,637	(116)	(155)	-	-	39	39
Opex memorandum account	17	-	17	1	-	-	16	16
Total Income	19,309	19,209	100	21	-	-	79	79
Expenditure								
Network operations	1,608	1,331	(277)	(5)	-	-	(272)	(272)
Support costs	1,170	1,437	267	53	-	-	214	214
Industry costs and rates	838	789	(49)	(8)	-	-	(41)	(41)
Traction electricity	60	73	13	-	-	-	13	13
Reporter's fees	3	10	7	-	7	-	-	-
Network maintenance	3,819	3,458	(361)	-	(17)	-	(344)	(344)
Schedule 4 costs	685	691	6	-	119	-	(113)	(113)
Schedule 8 costs	408	13	(395)	-	-	-	(395)	(395)
Renewals	8,964	8,173	(791)	12	1,877	-	(2,680)	(670)
PR13 Enhancements	9,294	10,025	731	-	1,410	-	(679)	(148)
Non PR13 Enhancements	430	-	(430)	-	(419)	-	(11)	(11)
Financing Costs	4,677	5,366	689	689	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(2)	4	6	-	6	-	-	-
Total Expenditure	31,954	31,370	(584)	741	2,983	-	(4,308)	(1,767)
Total:			(484)	762	2,983	-	(4,229)	(1,688)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(1,688)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(328)
Under-delivery of train performance requirements (CaSL)								(103)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(41)
Missed Enhancement milestones								(6)
Total adjustment for under-delivery outputs								(478)
Total financial out / (under) performance to be recognised								(2,166)

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

in £m 2016-17 prices unless stated

	2016-17			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity income	(283)	(361)	78	(855)	(949)	94
Total variance not included in total financial performance:	(283)	(361)	78	(855)	(949)	94
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	10	70	(60)	10	152	(142)
Adjustment for Welsh Valleys finance charge	-	3	(3)	-	5	(5)
Total variance not included in total financial performance:	10	73	(63)	10	157	(147)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	9	-	9	21	-	21
Spend to save adjustment	5	-	5	8	-	8
Release of CP4 long distance financial penalty provision	-	-	-	24	-	24
Total variance not included in total financial performance:	14	-	14	53	-	53
Breakdown of variance not included in total financial performance - Network Operations						
Southern resilience fund	(5)	-	(5)	(5)	-	(5)
Total variance not included in total financial performance:	(5)	-	(5)	(5)	-	(5)
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	283	361	(78)	855	949	(94)
Total variance not included in total financial performance:	283	361	(78)	855	949	(94)
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	12	-	12	12	-	12
Total variance not included in total financial performance:	12	-	12	12	-	12

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

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this. The remaining variance relates to additional income network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

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- (3) Variable income – financial outperformance for the control period to date has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. Network Rail commenced repayment of this funding towards the end of the current year resulting in some income this year, although this was substantially lower than the regulator anticipated. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. In addition, an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The outperformance recognised in Other single till income this year is mainly the result of additional property sales as well as higher station and depot income from offering operators additional facilities partly offset by a substantial decrease in the freight traffic (largely driven by demand for coal transportation). The favourable performance in the control period to date is largely driven by the same factors. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Slow freight growth owing structural changes in the industry and industrial action in Southern England have resulted in financial underperformance being recognised this year. For the control period to date, increases in passenger demand and consequent extra services provided have resulted in financial outperformance being recognised. These gains have been partially offset by lower freight demand. The volume incentive is discussed in more detail in Statement 12.

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- (6) Network operations – costs in 2016/17 are approximately 30 per cent higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7. There is a saving compared to the PR13 target as a result of Network Rail agreeing to restructure financing arrangements around the delivery of the Crossrail programme. However, as this change in financing results in lower income but also lower interest expenses (which are excluded from the scope of FPM) the benefit of this transaction has also been excluded. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. This year, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target in the prior year and the control period to date. This is more than offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance).
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.

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- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

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- (13) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident being higher than ever. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016), excessive rainfall causing a train derailment near Watford (September 2016) and storm Doris (February 2017) as well as the collapse of a sewer under the train line in South London (July 2016), collapse of a wall outside Liverpool Lime Street station after it was hit by a van (February 2017) and damage to overhead line electrification equipment (Luton, Ranskill Loop and Eves Lane). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

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- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT and Transport Scotland to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Thameslink, Edinburgh Glasgow Improvements Programme (EGIP) and Northern Hub following anticipated programme increases. The control period to date position is largely due to these same programmes but also Crossrail. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The FPM recognised in the current year and the control period to date all relate to one project: Manchester Victoria. At the end of 2015/16 contractor claims were included in the cost of the programme, which had substantially completed. The size of these claims caused the costs of the project to exceed the baseline agreed with the regulator, resulting in the recognition of financial underperformance. Following favourable settlement of these claims some of this underperformance has been mitigated in the current year.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.
- (18) Corporation tax – income tax payments have been made this year which partly offsets the favourable position for the opening two years of the control period. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.

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- (2) PPM – passenger train punctuality targets for England & Wales as well as in the Scotland geography were missed in 2016/17, continuing the trend from earlier years of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that England & Wales PPM target of 92.3 per cent was missed by and £0.25m (cash prices) for every 0.1 per cent that the PPM target of 92.0 per cent was missed by in the Scotland geography. The ORR's target for England & Wales PPM was much higher than Network Rail's own plans, given the CP4 exit position for performance compared to the regulator's assumption, the experiences in earlier years of the control period and ever more traffic on the network.
- (3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales for both this year and for the opening two years of the control period. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output of 2.2 per cent was missed by.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (notably: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development) there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

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2016-17

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(217)	195	(412)	(103)		(103)	-	-
Signalling	170	348	(178)	(44)		(43)	(1)	-
Civils	(123)	148	(271)	(68)		(55)	(13)	-
Buildings	36	80	(44)	(11)		(6)	(5)	-
Electrical power and fixed plant	7	72	(65)	(16)		(7)	(9)	-
Telecoms	13	17	(4)	(1)		(1)	-	-
Wheeled plant and machinery	48	48	-	-		-	-	-
IT	(7)	(7)	-	-		-	-	-
Property	-	(6)	6	1		1	-	-
Other renewals	(23)	(31)	8	2		4	(2)	-
Total	(96)	864	(960)	(240)		(210)	(30)	-

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(640)	450	(1,090)	(272)		(263)	(9)	-
Signalling	453	1,072	(619)	(155)		(148)	(7)	-
Civils	(329)	253	(582)	(145)		(99)	(46)	-
Buildings	(13)	113	(126)	(31)		(18)	(13)	-
Electrical power and fixed plant	217	372	(155)	(39)		(12)	(27)	-
Telecoms	73	93	(20)	(5)		(2)	(3)	-
Wheeled plant and machinery	172	172	-	-		-	-	-
IT	(122)	(122)	-	-		-	-	-
Property	14	12	2	-		1	(1)	-
Other renewals	(616)	(526)	(90)	(23)		3	(26)	-
Total	(791)	1,889	(2,680)	(670)		(538)	(132)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

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Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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- (2) Track – there has been notable financial underperformance in the current year. Nearly one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost at Cardiff, Swindon, Oxford, Bromsgrove and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Notable incidents this year include work restoring the Carlisle-Settle line and Dover sea wall which together contributed over £40m to financial underperformance. The underperformance in the control period to date is largely due to the same factors.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle. The underperformance in the control period to date is largely due to the same factors.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

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

in £m 2016-17 prices unless stated

- (7) Telecoms – financial underperformance has been reported this year, continuing the trend from the previous year. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units. The underperformance in the control period to date is largely due to the same factors.
- (8) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. This is partly offset by additional costs incurred on completing renewals projects from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification and Paddington roof). The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with notable contributions from electrification projects and FTN.

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

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(9)	137	-	(146)	(19)
East West Rail (committed scheme)	(63)	(66)	-	3	1
IEP Programme	47	43	-	4	1
Reading station area redevelopment	33	35	-	(2)	(1)
West coast power supply upgrade	13	28	-	(15)	(4)
Edinburgh Glasgow Improvements Programme (EGIP)	(76)	(10)	-	(66)	(17)
MML electrification	30	34	-	(4)	(1)
Walsall to Rugeley electrification	10	24	-	(14)	(4)
Redhill additional platform	-	5	-	(5)	(1)
Rolling programme of electrification (Scotland)	(24)	5	-	(29)	(7)
Kent power supply upgrade (CP4)	10	4	-	6	2
Chiltern Main Line Train Lengthening	(1)	2	-	(3)	(1)
Aberdeen to Inverness journey time improvements and other enhancements	(99)	(95)	-	(4)	(1)
Capacity relief to the ECML	(4)	2	-	(6)	(1)
Seven day railway projects	(5)	(8)	-	3	1
MML linespeed improvements	4	3	-	1	-
Manchester Victoria	9	-	-	9	9
Crossrail	(249)	(225)	-	(24)	(9)
Northern Hub	166	225	-	(59)	(15)
Waterloo	(14)	(14)	-	-	-
Other Enhancements	520	520	-	-	-
Total	298	649	-	(351)	(67)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(133)	146	-	(279)	(37)
East West Rail (committed scheme)	(56)	(35)	-	(21)	(5)
IEP Programme	63	59	-	4	1
Reading station area redevelopment	38	28	-	10	3
West coast power supply upgrade	14	29	-	(15)	(4)
Edinburgh Glasgow Improvements Programme (EGIP)	13	112	-	(99)	(25)
MML electrification	24	28	-	(4)	(1)
Walsall to Rugeley electrification	18	32	-	(14)	(4)
Redhill additional platform	-	5	-	(5)	(1)
Rolling programme of electrification (Scotland)	(29)	16	-	(45)	(11)
Kent power supply upgrade (CP4)	10	4	-	6	2
Chiltern Main Line Train Lengthening	(4)	(1)	-	(3)	(1)
Aberdeen to Inverness journey time improvements and other enhancements	(1)	3	-	(4)	(1)
Capacity relief to the ECML	(3)	3	-	(6)	(1)
Seven day railway projects	-	(3)	-	3	1
MML linespeed improvements	(4)	3	-	(7)	(2)
Manchester Victoria	(10)	1	-	(11)	(11)
Crossrail	(193)	(72)	-	(121)	(42)
Northern Hub	168	247	-	(79)	(20)
Waterloo	(26)	(22)	-	(4)	(1)
Other Enhancements	412	408	-	4	1
Total	301	991	-	(690)	(159)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes relating to the Scotland route and programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT/ Transport Scotland agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.

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

in £m 2016-17 prices unless stated

- (2) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period to date. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays. Anticipated programme costs have decreased slightly this year resulting in some minor financial outperformance being recognised this year to mitigate some of the financial underperformance reported in 2015/16.
- (3) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies. There have been some delays to the progress of the programme in the year partly caused by the need to remediate a spoil heap and improve Cow Lane highway as part of the scope of works. The promulgation of the programme has introduced some extra costs which has decreased the financial outperformance expected for the programme. As a result some financial underperformance has been recognised this year.
- (4) West coast power supply upgrade – since the end of last year, the anticipated final costs of the programme have increased resulting in financial underperformance being recognised in the current year and the control period to date. Costs have increased due in part of delays in a number of sectional commissionings due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required.
- (5) Edinburgh-Glasgow Improvements Programme (EGIP) – total programme costs have increased resulting in a portion of this financial underperformance being recognised this year. The extra programme costs include a re-assessment of contractor costs following variation orders and higher than expected tenders from suppliers, additional costs increasing the heights of parapets to accommodate modern overhead line electrification equipment, extra legislation compliance costs and supplementary design costs. In addition, planned access has been difficult to achieve and late running trains has reduced productivity of possessions. Delays in obtaining compulsory purchase orders for required works at Glasgow Queen Street has also resulted in delays to the programme.
- (6) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in 2016/17 and in the control period to date. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project.

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

in £m 2016-17 prices unless stated

- (7) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in 2016/17 and in the control period to date. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure.
- (8) Rolling programme of electrification (Scotland) – underperformance has been recognised in the year and the control period to date due to higher programme costs. The assessment of the baseline included in the ECAM process has proven to be over-optimistic, which mirrors the experience of many of the electrification enhancement programmes being delivered throughout the network. The extra costs includes higher contractor prices as well as costs to accommodate several structures originally proposed for demolition and removal that have now had to be retained due to beneficiary rights and rights of way. This was augmented by unplanned changes in wire heights in stations which had to be increased to meet interoperability regulation requirements.
- (9) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the year and the control period to date due to lower programme costs which have been identified this year. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs.
- (10) MML linespeed improvements – some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed.
- (11) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. This led to negative FPM being declared in the opening two years of the control period as programme costs have continued to increase, including contractor variation orders received after the programme was substantially complete. In the current year, most of these contractor claims recognised last year have been successfully refuted, allowing outperformance to be recognised this year, to partly mitigate the underperformance reported last year. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.
- (12) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

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

in £m 2016-17 prices unless stated

- (13) Northern Hub – underperformance has been recognised this year and for the control period to date following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is mainly due to increased scope arising from worse than expected asset condition necessitating extra remediation costs. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints and higher than expected supply chain costs have added extra cost pressures.
- (14) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 6a: Analysis of income, Great Britain

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	4,380	4,359	21	13,056	12,940	116	4,376
Franchised track access income							
Fixed charges	392	372	20	1,222	1,163	59	375
Variable charges							
Variable usage charge	173	175	(2)	520	520	-	174
Traction electricity charges	283	361	(78)	855	949	(94)	288
Electrification asset usage charge	16	15	1	46	44	2	15
Capacity charge	423	420	3	1,273	1,255	18	429
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	224	224	-	654	650	4	222
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	1,119	1,195	(76)	3,348	3,418	(70)	1,128
Total franchised track access income	1,511	1,567	(56)	4,570	4,581	(11)	1,503
Total franchised track access and grant income	5,891	5,926	(35)	17,626	17,521	105	5,879
Other single till income							
Property income	348	341	7	996	961	35	356
Freight income	56	93	(37)	195	257	(62)	62
Open access income	32	29	3	89	84	5	30
Stations income	274	257	17	805	772	33	264
Facility and financing charges	67	133	(66)	174	325	(151)	52
Depots Income	79	65	14	215	194	21	68
Other income	16	14	2	47	44	3	15
Total other single till income	872	932	(60)	2,521	2,637	(116)	847
Total income	6,763	6,858	(95)	20,147	20,158	(11)	6,726

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

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower income earned from Crossrail finance charges (which is offset by lower financing costs) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators and additional property sales).

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

in £m 2016-17 prices unless stated

- (3) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport and Transport Scotland (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

- (4) Fixed charges – fixed charge income was slightly higher than the determination in both the year and the control period to date. This is partly attributable to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators, notably in London North West route, continuing the trend of supplementary income received in earlier years of the control period. Fixed charges are higher than last year but this is mostly due to the expectation in the determination.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

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

in £m 2016-17 prices unless stated

- (6) Capacity charge – in the current year this is marginally favourable to the determination but in the control period to date the favourable variance is more evident. This is a combination the increases in charges arising from differences in inflation assumptions (refer to comments above) and because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive this control period (refer to Statement 12). There has been a slight decrease in the capacity charge earned this year. This is mostly due to the well-publicised industrial action undertaken this year which reduced the number of services that ran in the South East and, therefore, the revenue Network Rail generated from train operators.
- (7) Property income – this is higher than the determination with additional property sales more than compensating for lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. However, due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, leading to lower rental income. Property income for the control period to date is favourable. Lower property rental income (as noted above) has been more than offset by additional property sales, notably the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham reported in last year's Regulatory financial statements. Property income is lower than the previous year mainly due to less property sales income partly offset by extra rental revenue. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. As reported in last year's Regulatory financial statements, there were significant benefits in 2015/16 from the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. Property rental income is higher than the previous year which reflects the buoyant market conditions for many of areas that Network Rail operates in as well as offering premises that meet customers' demand. Also, some of the new facilities (such as the revamped Birmingham New Street station and inclusion of a mezzanine level at London Euston) were in place for the full year for the first time this year which has helped generate more income as well as deliver a better experience for the passenger.
- (8) Freight income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date. The decline in freight income compared to the previous year is due to further decline in coal transportation as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.

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

in £m 2016-17 prices unless stated

- (9) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance is higher than it may first appear as it absorbs lower than expected income from traction electricity (which can be seen in Statement 6b), owing to lower wholesale electricity prices as noted above.
- (10) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of Reading and Bristol stations from franchised to managed, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In addition, extra income has been earned following redevelopment of Birmingham New Street station, Euston and London Bridge. The current year also benefits from favourable settlement of commercial disputes. This is partly offset by reductions in income in Anglia as a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. In the control period to date, station income has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations and the impact of managed station redevelopment partly offset by the transfer of stations to the franchisee in the Anglia route. Income is higher than the prior year mainly due to extra income in Kent and Sussex as a result of the redevelopment of London Bridge and successful resolution of commercial disputes which suppressed income in 2015/16.
- (11) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. During the current year Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. Therefore, income earned in this category is higher than the previous year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges although there is a corresponding saving in interest costs incurred as reported in Statement 4.
- (12) Depots income - revenue is slightly higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as following the development of Reading depot (as noted in last year's regulatory accounts). Income has improved since last year following extra services offered and the successful resolution of commercial disputes.

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

in £m 2016-17 prices unless stated

	2016-17			Cumulative			2015-16
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property income							
Property rental	293	336	(43)	831	944	(113)	280
Property sales	55	38	17	165	114	51	76
Adjustment for commercial opex	-	(33)	33	-	(97)	97	-
Total property income	348	341	7	996	961	35	356
Freight income							
Freight variable usage charge	44	66	(22)	153	187	(34)	49
Freight traction electricity charges	5	11	(6)	16	27	(11)	5
Freight electrification asset usage charge	-	1	(1)	-	2	(2)	-
Freight capacity charge	3	6	(3)	10	16	(6)	4
Freight only line charge	1	4	(3)	7	13	(6)	2
Freight specific charge	-	2	(2)	-	2	(2)	-
Freight other income	2	-	2	4	-	4	1
Freight coal spillage charge	1	3	(2)	5	10	(5)	1
Total freight income	56	93	(37)	195	257	(62)	62
Open access income							
Variable usage charge income	7	2	5	16	7	9	6
Open access capacity charge	2	1	1	5	4	1	2
Open access traction electricity charges	4	6	(2)	10	15	(5)	2
Fixed contractual contribution	19	20	(1)	58	58	-	20
Open access other income	-	-	-	-	-	-	-
Total open access income	32	29	3	89	84	5	30
Stations income							
Managed stations income							
Long term charge	35	34	1	106	103	3	35
Qualifying expenditure	65	46	19	181	138	43	59
Total managed stations income	100	80	20	287	241	46	94
Franchised stations income							
Long term charge	128	129	(1)	381	387	(6)	124
Stations lease income	46	48	(2)	137	144	(7)	46
Total franchised stations income	174	177	(3)	518	531	(13)	170
Total stations income	274	257	17	805	772	33	264
Facility and financing charges							
Facility charges	57	60	(3)	164	168	(4)	52
Crossrail finance charge	10	70	(60)	10	152	(142)	-
Welsh Valleys finance charge	-	3	(3)	-	5	(5)	-
Total facility and financing charges	67	133	(66)	174	325	(151)	52
Depots income	79	65	14	215	194	21	68
Other	16	14	2	47	44	3	15
Total other single till income	872	932	(60)	2,521	2,637	(116)	847

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

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) Overall, single till income is lower than the regulator expected this year mainly as a result of lower income earned from Crossrail finance charges (which is offset by lower financing costs) and freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators and additional property sales.
- (2) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is slightly below the regulatory expectation for both current year and the control period to date. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new opportunities. However, due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, leading to lower income. Property rental income is higher than the previous year which reflects the buoyant market conditions for many of areas that Network Rail operates in and the ability to supply suitable properties to satisfy market demand. Also, some of the new facilities (such as the revamped Birmingham New Street station and inclusion of a mezzanine level at London Euston) were in place for the full year for the first time this year which has helped generate more income.
- (3) Property sales – income is higher than the regulator's determination this year. As noted in last year's Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Despite the strong performance this year, income is lower than the previous year which benefited from the disposal of Network Rail's interests in the Grand Central shopping complex in Birmingham, as reported in the media. For the control period to date, property sales are ahead of the regulatory target, mainly due to the better performance in the current year and the outperformance in the previous year.

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

in £m 2016-17 prices unless stated

- (4) Freight Income – this is well below the regulator’s determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator’s assumption for the lower control period to date. The decline in freight income compared to the previous year is due to further decline in coal transportation as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (5) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance is higher than it may first appear as it absorbs lower than expected income from traction electricity, owing to lower wholesale electricity prices as noted above. The amounts Network Rail can charge for this are largely driven by the market price of electricity meaning that although Network Rail receives lower income, it also incurs lower costs (shown in traction electricity costs in Statement 7a).
- (6) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption. The largest contribution to this favourable position comes from the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations after the targets in the regulator’s determination were set. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a). In addition, there is also some extra income as a result of the costs incurred revamping Birmingham New Street, London Euston and London Bridge, a portion of which are passed to the operators under the franchise contracts. These factors are also largely responsible for the favourable control period to date position compared to the regulator’s expectations. Managed stations income is higher than the previous year mainly as a result of extra income earned from the London Bridge redevelopment as noted above.
- (7) Franchised stations – long term charge – income in the year was broadly in line with the regulatory target. The transfer of a number of stations in the Anglia route from Network Rail to the franchisee on a long-term lease which has not foreseen in the determination reduced income. This transfers responsibility for maintaining and renewing the station to the franchisee who no longer have to pay charges to Network Rail to fulfil these tasks. This is augmented by the transfer of status of Reading and Bristol stations to Managed stations. These were offset by additional income earned in Sussex following this year following successful resolution of customer disputes. Income for the control period to date is lower than the regulator’s assumption due to the changes in Anglia and Western noted above. The partial compensation from extra income in Sussex only impacted the current year (whilst suppressing the previous year). The slight increase compared to 2015/16 is mostly due to the extra income in Sussex as noted above.

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

in £m 2016-17 prices unless stated

- (8) Franchised stations – Stations Lease Income – income is lower than the regulatory target for both the current year and the control period to date mostly as a result of the transfer of Bristol and Reading to Managed stations and the transfer of Anglia stations to the franchisee as noted above.
- (9) Facility charges – these are lower than the regulator assumed in its' determination as Network Rail has undertaken less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower. Facility charge income is higher than the previous year mainly due to extra income received from franchisees following the redevelopment of East Midland Parkway, including income received relating to previous year's services as agreed with the operator.
- (10) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. During the current year Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. Therefore, income earned in this category is higher than the previous year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges although there is a corresponding saving in interest costs incurred as reported in Statement 4.
- (11) Welsh Valleys finance charge – at the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainty over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year of the control period to date. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5).
- (12) Depots income – revenue is slightly higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as following the development of Reading depot (as noted in last year's regulatory accounts). Income has improved since last year following extra services offered and the successful resolution of commercial disputes.

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

in £m 2016-17 prices unless stated

- (13) Other income - in line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed 1 operations. The quinquennial regulatory control period for High Speed 1 does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed 1 set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed 1 determination.

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Arriva Trains Wales				
Variable Usage Charges	3.2	3.4	3.3	9.9
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	4.0	4.2	4.1	12.3
Fixed Charges	18.8	14.4	15.3	48.5
Station Facility Charge	-	-	-	-
Station Long Term Charges	10.2	10.4	10.3	30.9
Station QX	0.4	0.4	0.5	1.3
Other Charges	1.6	1.5	1.6	4.7
Total income	38.2	34.3	35.1	107.6

	2014-15	2015-16	2016-17	CP5 Total
C2C				
Variable Usage Charges	1.7	1.9	2.0	5.6
Traction Electricity Charges	6.5	7.5	8.1	22.1
Electrification Asset Usage Charges	0.4	0.5	0.5	1.4
Capacity Charges	2.4	2.6	2.6	7.6
Fixed Charges	4.9	3.8	4.1	12.8
Station Facility Charge	-	-	-	-
Station Long Term Charges	2.7	-	-	2.7
Station QX	-	-	0.1	0.1
Other Charges	1.2	1.3	1.1	3.6
Total income	19.8	17.6	18.5	55.9

	2014-15	2015-16	2016-17	CP5 Total
Chiltern				
Variable Usage Charges	2.1	2.3	2.4	6.8
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	1.6	1.7	2.6	5.9
Fixed Charges	4.8	3.9	4.9	13.6
Station Facility Charge	-	-	-	-
Station Long Term Charges	3.8	3.9	3.9	11.6
Station QX	-	-	-	-
Other Charges	11.5	14.1	17.4	43.0
Total income	23.8	25.9	31.2	80.9

	2014-15	2015-16	2016-17	CP5 Total
Cross Country				
Variable Usage Charges	10.6	10.8	10.6	32.0
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	24.3	24.9	24.6	73.8
Fixed Charges	22.6	17.2	16.5	56.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	1.7	1.8	1.7	5.2
Station QX	3.3	3.8	4.5	11.6
Other Charges	-	-	-	-
Total income	62.5	58.5	57.9	178.9

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
East Coast Main Line Rail				
Variable Usage Charges	19.6	-	-	19.6
Traction Electricity Charges	19.1	-	-	19.1
Electrification Asset Usage Charges	1.6	-	-	1.6
Capacity Charges	36.1	-	-	36.1
Fixed Charges	25.3	-	-	25.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	7.8	-	-	7.8
Station QX	3.1	-	-	3.1
Other Charges	2.6	-	-	2.6
Total income	115.2	-	-	115.2

	2014-15	2015-16	2016-17	CP5 Total
Virgin East Coast				
Variable Usage Charges	1.8	20.4	19.5	41.7
Traction Electricity Charges	1.7	20.5	20.5	42.7
Electrification Asset Usage Charges	0.1	1.7	1.8	3.6
Capacity Charges	3.5	40.1	40.2	83.8
Fixed Charges	2.4	21.3	22.4	46.1
Station Facility Charge	-	-	-	-
Station Long Term Charges	0.7	7.7	8.0	16.4
Station QX	0.3	3.1	3.1	6.5
Other Charges	0.2	2.9	2.9	6.0
Total income	10.7	117.7	118.4	246.8

	2014-15	2015-16	2016-17	CP5 Total
East Midlands				
Variable Usage Charges	7.7	7.8	7.6	23.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	17.6	18.0	17.7	53.3
Fixed Charges	15.4	11.7	12.2	39.3
Station Facility Charge	1.4	4.3	11.4	17.1
Station Long Term Charges	5.6	6.8	5.5	17.9
Station QX	0.3	0.3	0.3	0.9
Other Charges	6.8	6.7	6.8	20.3
Total income	54.8	55.6	61.5	171.9

	2014-15	2015-16	2016-17	CP5 Total
First Capital Connect				
Variable Usage Charges	3.2	-	-	3.2
Traction Electricity Charges	9.6	-	-	9.6
Electrification Asset Usage Charges	0.7	-	-	0.7
Capacity Charges	17.4	-	-	17.4
Fixed Charges	9.6	-	-	9.6
Station Facility Charge	0.4	-	-	0.4
Station Long Term Charges	4.7	-	-	4.7
Station QX	2.0	-	-	2.0
Other Charges	1.0	-	-	1.0
Total income	48.6	-	-	48.6

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Govia Thameslink Railway				
Variable Usage Charges	4.4	12.4	16.1	32.9
Traction Electricity Charges	17.5	50.4	60.9	128.8
Electrification Asset Usage Charges	0.9	2.2	2.7	5.8
Capacity Charges	24.5	67.9	81.4	173.8
Fixed Charges	11.5	26.1	31.9	69.5
Station Facility Charge	0.5	2.9	4.5	7.9
Station Long Term Charges	5.4	23.4	35.7	64.5
Station QX	1.9	7.6	9.1	18.6
Other Charges	3.0	3.2	8.7	14.9
Total income	69.6	196.1	251.0	516.7

	2014-15	2015-16	2016-17	CP5 Total
First Great Western				
Variable Usage Charges	19.3	19.5	19.6	58.4
Traction Electricity Charges	-	-	0.2	0.2
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	47.9	49.9	49.2	147.0
Fixed Charges	32.1	23.8	24.4	80.3
Station Facility Charge	1.9	2.0	2.0	5.9
Station Long Term Charges	16.9	17.0	16.8	50.7
Station QX	8.0	8.0	7.8	23.8
Other Charges	26.2	22.4	22.4	71.0
Total income	152.3	142.6	142.4	437.3

	2014-15	2015-16	2016-17	CP5 Total
Greater Anglia				
Variable Usage Charges	10.8	10.0	5.4	26.2
Traction Electricity Charges	32.0	25.7	13.6	71.3
Electrification Asset Usage Charges	2.2	1.9	1.1	5.2
Capacity Charges	17.9	14.5	7.6	40.0
Fixed Charges	26.9	17.9	9.8	54.6
Station Facility Charge	1.1	1.3	0.7	3.1
Station Long Term Charges	3.7	2.4	1.2	7.3
Station QX	2.9	2.0	1.1	6.0
Other Charges	2.9	4.4	2.5	9.8
Total income	100.4	80.1	43.0	223.5

	2014-15	2015-16	2016-17	CP5 Total
Abellio East Anglia				
Variable Usage Charges	-	-	4.4	4.4
Traction Electricity Charges	-	-	13.1	13.1
Electrification Asset Usage Charges	-	-	0.9	0.9
Capacity Charges	-	-	6.3	6.3
Fixed Charges	-	-	8.4	8.4
Station Facility Charge	-	-	0.6	0.6
Station Long Term Charges	-	-	0.9	0.9
Station QX	-	-	0.9	0.9
Other Charges	-	-	2.2	2.2
Total income	-	-	37.7	37.7

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
London Midland				
Variable Usage Charges	6.1	6.6	6.6	19.3
Traction Electricity Charges	14.1	16.0	15.5	45.6
Electrification Asset Usage Charges	0.9	1.0	1.0	2.9
Capacity Charges	34.9	35.0	35.1	105.0
Fixed Charges	18.7	14.2	14.2	47.1
Station Facility Charge	0.3	0.3	0.2	0.8
Station Long Term Charges	10.8	11.1	11.0	32.9
Station QX	4.8	6.0	6.8	17.6
Other Charges	3.4	3.4	3.3	10.1
Total income	94.0	93.6	93.7	281.3

	2014-15	2015-16	2016-17	CP5 Total
London Overground				
Variable Usage Charges	0.8	1.2	0.9	2.9
Traction Electricity Charges	4.1	7.1	4.7	15.9
Electrification Asset Usage Charges	0.1	0.3	0.2	0.6
Capacity Charges	2.3	3.0	1.9	7.2
Fixed Charges	3.7	3.9	2.6	10.2
Station Facility Charge	-	-	-	-
Station Long Term Charges	3.6	4.3	2.7	10.6
Station QX	0.4	1.0	0.6	2.0
Other Charges	0.6	0.6	0.5	1.7
Total income	15.6	21.4	14.1	51.1

	2014-15	2015-16	2016-17	CP5 Total
Arriva Rail London				
Variable Usage Charges	-	-	0.5	0.5
Traction Electricity Charges	-	-	3.3	3.3
Electrification Asset Usage Charges	-	-	0.1	0.1
Capacity Charges	-	-	1.1	1.1
Fixed Charges	-	-	1.6	1.6
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	1.7	1.7
Station QX	-	-	0.4	0.4
Other Charges	-	-	0.3	0.3
Total income	-	-	9.0	9.0

	2014-15	2015-16	2016-17	CP5 Total
Merseyrail				
Variable Usage Charges	0.8	0.8	0.8	2.4
Traction Electricity Charges	5.6	5.6	5.5	16.7
Electrification Asset Usage Charges	0.1	0.1	0.1	0.3
Capacity Charges	0.5	0.5	0.5	1.5
Fixed Charges	3.3	2.5	2.6	8.4
Station Facility Charge	-	-	-	-
Station Long Term Charges	7.9	7.9	7.7	23.5
Station QX	-	-	-	-
Other Charges	0.6	0.8	0.7	2.1
Total income	18.8	18.2	17.9	54.9

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
MTR Crossrail				
Variable Usage Charges	-	0.6	0.7	1.3
Traction Electricity Charges	-	3.4	4.1	7.5
Electrification Asset Usage Charges	-	0.2	0.2	0.4
Capacity Charges	-	2.9	3.4	6.3
Fixed Charges	-	1.6	2.0	3.6
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	0.8	0.9	1.7
Station QX	-	0.6	0.7	1.3
Other Charges	-	-	-	-
Total income	-	10.1	12.0	22.1

	2014-15	2015-16	2016-17	CP5 Total
Northern				
Variable Usage Charges	4.4	4.9	5.4	14.7
Traction Electricity Charges	4.5	6.3	7.3	18.1
Electrification Asset Usage Charges	0.2	0.3	0.4	0.9
Capacity Charges	8.4	8.5	8.9	25.8
Fixed Charges	25.5	19.6	20.2	65.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	16.5	16.6	17.1	50.2
Station QX	3.1	3.1	3.4	9.6
Other Charges	5.3	5.2	6.5	17.0
Total income	67.9	64.5	69.2	201.6

	2014-15	2015-16	2016-17	CP5 Total
Scotrail				
Variable Usage Charges	8.7	7.9	8.6	25.2
Traction Electricity Charges	12.2	13.1	14.0	39.3
Electrification Asset Usage Charges	0.9	0.8	1.0	2.7
Capacity Charges	10.1	10.0	10.5	30.6
Fixed Charges	95.4	88.4	89.2	273.0
Station Facility Charge	0.6	0.8	-	1.4
Station Long Term Charges	16.4	14.6	1.6	32.6
Station QX	3.7	0.8	3.5	8.0
Other Charges	6.5	6.2	0.3	13.0
Total income	154.5	142.6	128.7	425.8

	2014-15	2015-16	2016-17	CP5 Total
Serco Sleeper				
Variable Usage Charges	-	1.3	1.4	2.7
Traction Electricity Charges	-	0.1	1.4	1.5
Electrification Asset Usage Charges	-	-	0.2	0.2
Capacity Charges	-	0.2	0.7	0.9
Fixed Charges	-	1.0	4.2	5.2
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	0.1	0.1
Station QX	-	-	0.2	0.2
Other Charges	-	-	-	-
Total income	-	2.6	8.2	10.8

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
South Eastern				
Variable Usage Charges	8.6	9.8	9.2	27.6
Traction Electricity Charges	33.0	35.2	38.4	106.6
Electrification Asset Usage Charges	1.0	1.1	1.1	3.2
Capacity Charges	16.4	17.2	15.8	49.4
Fixed Charges	23.7	18.1	19.1	60.9
Station Facility Charge	0.1	0.1	0.1	0.3
Station Long Term Charges	24.2	23.7	23.6	71.5
Station QX	5.8	5.6	8.6	20.0
Other Charges	7.6	7.3	8.1	23.0
Total income	120.4	118.1	124.0	362.5

	2014-15	2015-16	2016-17	CP5 Total
South West Trains				
Variable Usage Charges	12.2	12.2	12.5	36.9
Traction Electricity Charges	37.6	39.8	39.4	116.8
Electrification Asset Usage Charges	1.1	1.1	1.2	3.4
Capacity Charges	26.1	26.4	26.1	78.6
Fixed Charges	25.1	19.2	20.3	64.6
Station Facility Charge	10.6	7.4	10.4	28.4
Station Long Term Charges	28.3	29.7	29.2	87.2
Station QX	4.3	5.0	4.7	14.0
Other Charges	7.8	10.5	9.2	27.5
Total income	153.1	151.3	153.0	457.4

	2014-15	2015-16	2016-17	CP5 Total
Southern				
Variable Usage Charges	8.9	3.7	-	12.6
Traction Electricity Charges	28.7	11.9	-	40.6
Electrification Asset Usage Charges	1.0	0.4	-	1.4
Capacity Charges	42.3	17.4	-	59.7
Fixed Charges	18.5	4.4	-	22.9
Station Facility Charge	2.2	0.9	-	3.1
Station Long Term Charges	21.9	6.9	-	28.8
Station QX	3.2	1.1	-	4.3
Other Charges	1.6	0.5	-	2.1
Total income	128.4	47.2	-	175.6

	2014-15	2015-16	2016-17	CP5 Total
Transpennine				
Variable Usage Charges	4.8	4.9	4.5	14.2
Traction Electricity Charges	2.2	2.3	2.4	6.9
Electrification Asset Usage Charges	0.2	0.2	0.2	0.6
Capacity Charges	11.1	11.3	10.9	33.3
Fixed Charges	11.2	9.3	10.4	30.9
Station Facility Charge	-	-	-	-
Station Long Term Charges	3.7	3.8	3.2	10.7
Station QX	1.5	1.8	1.6	4.9
Other Charges	0.1	0.1	0.1	0.3
Total Turnover	34.8	33.7	33.3	101.8

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Virgin West Coast				
Variable Usage Charges	32.3	31.3	31.5	95.1
Traction Electricity Charges	38.7	42.1	46.9	127.7
Electrification Asset Usage Charges	3.2	3.2	3.3	9.7
Capacity Charges	72.2	72.5	72.2	216.9
Fixed Charges	43.1	32.8	34.5	110.4
Station Facility Charge	8.8	8.9	8.8	26.5
Station Long Term Charges	11.4	11.5	11.4	34.3
Station QX	6.1	6.3	6.6	19.0
Other Charges	1.4	1.4	1.5	4.3
Total Turnover	217.2	210.0	216.7	643.9

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Non-Franchised Train Operators				
Variable Usage Charges	2.6	4.6	5.6	12.8
Traction Electricity Charges	3.2	1.3	2.6	7.1
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	1.3	1.7	1.8	4.8
Fixed Charges	19.3	19.2	18.8	57.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	1.5	1.2	1.4	4.1
Station QX	0.7	(0.2)	0.2	0.7
Other Charges	0.2	0.2	0.2	0.6
Total Turnover	28.8	28.0	30.6	87.4

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Charter Train Operators				
Variable Usage Charges	0.9	0.6	0.6	2.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	-	-	-	-
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Other Charges	-	-	-	-
Total Turnover	0.9	0.6	0.6	2.1

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Freight Operating Companies				
Variable Usage Charges	59.0	49.7	45.0	153.7
Traction Electricity Charges	6.6	5.2	5.0	16.8
Electrification Asset Usage Charges	0.1	0.1	0.1	0.3
Capacity Charges	3.5	3.8	3.5	10.8
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Other Charges	8.9	3.9	3.6	16.4
Total Turnover	78.1	62.7	57.2	198.0

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

in £m 2016-17 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. In addition, in 2015/16 the results of the Southern franchise were consolidated into Govia Thameslink's results. Therefore, there is no income for First Capital Connect after 2014/15 whilst Southern's income also decreases significantly from 2015/16. Conversely, income for Govia Thameslink Railway increases over the control period as the revenue is recognised in this category.
- (5) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.
- (6) MTR Crossrail started to operate services in 2015/16 and so was shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Greater Anglia and so in 2014/15 the associated income will also have been reported within the Greater Anglia figures which accounts for most of the decrease in the income from this operator in 2015/16 compared to 2014/15.
- (7) Abellio East Anglia replaced Greater Anglia as the franchise operator during the current year. Therefore, the Abellio East Anglia is shown in the Regulatory Financial Statements for the first time this year whilst there is a significant decrease in the income arising from Greater Anglia compared to 2015/16.
- (8) In 2015/16 Serco Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.
- (9) In 2015/16 a number of stations were transferred to C2C on a long-term lease. Therefore, the station income paid by this operator to Network Rail is lower in 2015/16 and 2016/17 compared to 2014/15.
- (10) During the year, Arriva Rail London has assumed responsibility for the London overground concession previously run by London Overground Rail Operations. Therefore, there is a significant decrease in the revenue reported from London Overground this year compared to 2015/16 with a corresponding increase in Arriva Rail London.
- (11) In 2016/17 Station facility charges paid by East Midlands Trains increased as a result of extra income recognised for additional services offered at East Midlands Parkway station.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	270	225	(45)	794	709	(85)	267
Signalling shift managers	14	14	-	52	42	(10)	18
Local operations managers	19	15	(4)	61	47	(14)	19
Controllers	37	32	(5)	107	96	(11)	36
Electrical control room operators	13	11	(2)	39	32	(7)	13
Total signaller expenditure	353	297	(56)	1,053	926	(127)	353
Non-signaller expenditure							
Mobile operations managers	37	31	(6)	108	95	(13)	35
Managed stations	63	38	(25)	175	119	(56)	60
Performance	16	14	(2)	53	43	(10)	21
Customer relationship executives	5	7	2	18	22	4	8
Route enhancement managers	-	-	-	5	-	(5)	-
Weather	12	18	6	39	57	18	12
Other	39	14	(25)	100	43	(57)	28
Operations delivery	4	-	(4)	10	-	(10)	4
HQ - Operations services	1	-	(1)	3	-	(3)	1
HQ - Performance and planning	13	-	(13)	18	-	(18)	4
HQ - Stations and customer services	1	-	(1)	2	-	(2)	1
HQ - Other	41	28	(13)	127	89	(38)	54
Other operating income	(31)	(20)	11	(103)	(63)	40	(31)
Total non-signaller expenditure	201	130	(71)	555	405	(150)	197
Total network operations expenditure	554	427	(127)	1,608	1,331	(277)	550
Support costs							
Core support costs							
Human resources	17	57	40	96	185	89	37
Information management	61	61	-	193	191	(2)	64
Government and corporate affairs	10	18	8	37	57	20	12
Group strategy	3	12	9	20	35	15	7
Finance	23	27	4	61	86	25	19
Business services	25	14	(11)	53	43	(10)	13
Accommodation	78	71	(7)	245	225	(20)	83
Utilities	51	44	(7)	136	133	(3)	41
Insurance	(9)	48	57	100	150	50	58
Legal and inquiry	8	6	(2)	23	19	(4)	8
Safety and sustainable development	19	8	(11)	68	27	(41)	25
Strategic sourcing	7	9	2	22	30	8	7
Business change	-	4	4	4	11	7	2
Other corporate functions	37	3	(34)	113	11	(102)	39
Core support costs	330	382	52	1,171	1,203	32	415
Other support costs							
Asset management services	32	44	12	108	133	25	40
Network rail telecoms	30	33	3	126	121	(5)	45
National delivery service	-	2	2	-	11	11	-
Infrastructure Projects	(26)	-	26	(74)	-	74	(29)
Commercial property	(5)	(4)	1	(20)	(11)	9	(10)
Group costs	(24)	(6)	18	(141)	(20)	121	(58)
Total other support costs	7	69	62	(1)	234	235	(12)
Total support costs	337	451	114	1,170	1,437	267	403
Traction electricity, industry costs and rates							
Traction electricity	298	388	90	915	1,022	107	314
Business rates	162	161	(1)	487	482	(5)	164
British transport police costs	90	71	(19)	260	221	(39)	84
RSSB costs	10	9	(1)	29	27	(2)	8
ORR licence fee and railway safety levy	15	17	2	50	52	2	17
Reporters fees	1	3	2	3	10	7	1
Other industry costs	6	2	(4)	12	7	(5)	5
Total traction electricity, industry costs and rates	582	651	69	1,756	1,821	65	593
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,473	1,529	56	4,534	4,589	55	1,546

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.

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

in £m 2016-17 prices unless stated

- (4) Network operations costs in 2016/17 are approximately 30 per cent higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year. Changes in pension legislation have increased staff costs, the development of London Bridge has resulted in extra running costs, performance improvement schemes have increased compared to last year. These extra headwinds have been largely absorbed through generating some minor efficiencies and a reduction of one-off costs compared to 2015/16.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

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

in £m 2016-17 prices unless stated

- (6) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are lower than the previous year due to further devolution of communications staff to the routes so they can better understand and support the local route teams and communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy costs as many discretionary projects have been cancelled and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. The restructuring of the team and the transfer to Finance occurred in the current year which has driven the noticeable reduction in costs compared to 2015/16, whilst increasing the costs in Finance.
- (9) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year. Costs are higher than the previous year due to this transfer from Group strategy.

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

in £m 2016-17 prices unless stated

- (10) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (11) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be 16 per cent lower than the CP4 exit position by 2016/17, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. This was mostly due to new office space acquired in London in 2014/15 for the Kent and Sussex routes. The cost reduction compared to the previous year is mainly due to the transfer of property costs relating to Network Rail's central development and training centre in Westwood. This facility houses the front line engineering apprentices Network Rail recruit every year to be the next generation of staff in the rail industry. Responsibility for apprentices now resides within Business services and so the costs of the Westwood facility have also been moved to this heading to offer greater transparency over the costs of apprentice activity.
- (12) Utilities – costs are higher than the determination this year which has largely negated the savings made in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year when some one-off benefits contributed to the result.
- (13) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.

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

in £m 2016-17 prices unless stated

- (14) Legal and inquiry – costs for the current year are slightly higher than the regulator assumed. This is mainly due to the transfer of some of the Business change responsibilities to Legal and inquiry and also to extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. These extra items have been offset by some efficiencies over and above the regulatory expectation. The extra expenditure in the control period to date compared to the ORR assumption is due to the same factors. Expenses in the current year are higher than the previous year reflecting the transfer of responsibilities from Business change.
- (15) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area. Costs are in lower than the previous year which included investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included largely in Safety and sustainability development (with some costs also recognised under the Asset management services heading).
- (16) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (17) Business change – no costs have been reported against this category in the current year. Responsibilities for Business change activities resides with various other functions whereas the determination assumed that this would be managed by a single department. Costs are lower than the previous year as the teams previously reported under this heading have been moved to Legal and inquiry to mirror organisational reporting changes.
- (18) Other corporate functions – costs are significantly higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are slightly lower than the previous year following some efficiencies realised by the route management teams in the current year.

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

in £m 2016-17 prices unless stated

- (19) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are lower than the previous year. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (20) Network Rail telecoms – costs for the year are lower than the determination largely due to successful implementation of efficiency plans, particularly around reducing landline, cloud and data usage acquired from suppliers. In addition, extra income has been earned through utilising the spare capacity on the network by selling additional services to third parties. Despite the savings made in the current year, costs for the control period to date are higher than the determination assumed. This was mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (21) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position would be achieved by 2017/18.
- (22) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.

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

in £m 2016-17 prices unless stated

- (23) Commercial Property – net costs in the year are broadly in line with the regulatory assumption. In the control period to date, net costs have been lower than the PR13 target mainly due to additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow) as well as overall price increases (reflecting market demand) and favourable settlement of a commercial claim in 2015/16. Net costs in the current year are higher than the previous year due to the aforementioned claim settlement flattering the results in that year.
- (24) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower re-organisation costs in the current year than the regulator expected as well as receipt of compensation from Crossrail Limited for agreeing to contractual changes. The determination assumed that Group would receive credits of c. £32m relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by c. £26m relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.
- (25) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the previous year mainly due to lower traction electricity costs partly offset by extra British Transport Police costs. The same factors explain the variance to the regulator's targets for the current year and the control period to date.

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

in £m 2016-17 prices unless stated

- (26) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are lower than the prior year reflecting lower market prices which is offset by lower income in Statement 6a. The overall net Traction electricity costs are lower than the previous year. As noted in the 2015/16 Regulatory financial statements the position in that year included recognition of losses on settlements of commercial claims.
- (27) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (28) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year's costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.
- (29) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of contribution that Network Rail is required to make under this mechanism is higher than the regulator's expectation which is causing an adverse variance in the current year and the control period to date. Network Rail has limited ability to influence the costs payable, as the RSSB acts as an independent organisation within the industry.

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

in £m 2016-17 prices unless stated

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

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	244	285	287	284
Operations and customer services non-signalling	-	-	-	-
MOMS	26	35	36	39
Control	42	48	48	49
Planning & Performance Staff Costs	31	33	39	37
Managed Stations Staff Costs	17	18	19	25
Operations Management Staff Costs	23	25	27	23
Other	117	61	94	97
Total operations & customer services costs	500	505	550	554
Total Network Operations	500	505	550	554
Support				
Human resources				
Functional support	31	15	16	15
Training (inc Westwood)	21	12	9	-
Graduates	2	-	2	-
Apprenticeships	7	9	9	-
Other	4	6	1	2
Total human resources	65	42	37	17
Information management				
Support	8	6	1	5
Projects	2	1	1	-
Licences	-	-	-	-
Business operations	52	62	61	55
Other	-	-	-	1
Total information management	62	69	63	61
Finance	19	18	19	23
Business Change	4	2	2	-
Contracts & Procurement	9	-	-	-
Strategic Sourcing (National Supply Chain)	-	7	7	7
Planning & development	15	9	7	3
Safety & compliance	16	-	-	-
Other corporate services	55	16	17	18
Commercial property	106	82	73	73
Infrastructure Projects	(59)	(18)	(28)	(26)
Route Services	13	19	19	19
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	147	-	-	-
National delivery service	3	-	-	-
Private party	-	-	-	-
Utilities	-	44	41	51
Network Rail Telecoms	-	51	46	30
Digital Railway	-	17	22	19
Safety Technical & Engineering	-	43	42	32
Government & Corporate Affairs	-	15	12	10
Business Services	-	15	13	25
Route Asset Management	-	1	2	-
Legal and inquiry	-	7	8	8
Group/central				
Pensions	1	-	-	-
Insurance	38	50	58	(9)
Redundancy/reorganisation costs	71	17	11	11
Staff incentives/Bonus reduction	5	(25)	(7)	-
Accommodation & Support Recharges	(3)	(28)	(27)	(26)
Commercial claims settlements	-	-	(31)	(9)
ORR financial penalty	82	(24)	-	-
Other	2	1	(4)	-
Total group/central costs	196	(9)	-	(33)
Total support	651	430	402	337
Total network operations and support costs	1,151	935	952	891

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (3) Network Operations – costs are broadly in line with the previous year. Changes in pension legislation have increased staff costs, the development of London Bridge has resulted in extra running costs and performance improvement schemes have increased compared to last year. These extra headwinds have been largely absorbed through generating some minor efficiencies and a reduction of one-off costs compared to 2015/16.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are lower than the previous year mostly due to the Insurance savings arising from reduced premiums (as cover has been reduced) and non-recurring savings following the actuarial reassessment of liabilities.
- (5) Human Resources – reductions in costs in the current year are mainly due to transfer of responsibilities from Human resources department to other areas of the organisation. As part of Network Rail’s devolution strategy certain training costs have been moved from the centre to the routes (the Route Services heading in this statement). In addition, as the above table shows there is a marked decrease in the Training, Graduates and Apprenticeships categories this year which now show £nil values. This is due to the responsibility for these activities moving to Business services.
- (6) Finance – costs are higher than the previous year due to a transfer of some planning & regulation staff from Group strategy to Finance to reflect organisational structure changes.
- (7) Business change – the decrease in costs compared to 2015/16 is the result of responsibility for this area being transferred to the Legal and inquiry department.
- (8) Planning & development – the costs in this area are lower than the previous year. As noted above, this is due to the transfer of some of the team to the Finance department to reflect the latest organisational structure and reporting lines.

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

in £m 2016-17 prices unless stated

- (9) Commercial property – costs are broadly in line with the previous year. This consists of savings made from transferring management of the Westwood training centre to Business services (to give accountability for all of the training and front line engineering apprenticeship to a single function) offset by some favourable one-off settlements of commercial claim that were experienced in 2015/16.
- (10) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Also, the previous year included some one-off benefits which helped suppress the prior year comparative.
- (11) Telecoms – costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (12) Digital railway – costs are lower than the previous year. As noted in the prior year's Regulatory financial statements, expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16.
- (13) Safety, Technical & Engineering - costs are lower than the previous year which included investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period.
- (14) Government & corporate affairs - costs are lower than the previous year due to further devolution of communications staff to the routes so they can better understand and support the local route teams and associated communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (15) Business services - costs in the year are noticeably higher than the previous year mainly arising from transfers of responsibility from Human resources, including professional training and development as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. These extra costs have been partly offset by a transfer of some contract & procurement staff to Route services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.

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

in £m 2016-17 prices unless stated

- (16) Group – Insurance – costs are noticeably lower than last year which is due to two main factors. Firstly, Network Rail has altered its insurance strategy to fall more in line with the rest of government. As a result premiums are lower, but more risk is retained by the organisation. This has saved c. £30m this year compared to the previous year. Secondly, as part of the year end actuarial review of liabilities, the level of provisions for outstanding claims was reduced. The increase in Insurance costs seen in the early years of the control period was mostly due to severe weather events towards the end of control period 4 which had a high profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result the business case for procuring a lower level of insurance cover became more compelling. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury or damage caused by Network Rail's road fleet) which are now more expensive.
- (17) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs in the last year of CP4. As part of this reorganisation initiative there was costs incurred in 2014/15 too. In the past two years, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least 2019.
- (18) Group – staff incentives – in 2014/15 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. The credit balance last year relates to lower expected payouts for long-term incentive plans to be made as a result of performance not meeting corporate targets. The planned costs of these schemes were included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets was recognised in Group. Changes in the method of calculating long-term incentives provides more certainty over the costs and so there is no such credit (or expense) this year.
- (19) Group – commercial claims settlements – as noted in the prior year's Regulatory financial statements Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties in 2015/16. The largest one of these was the recognition of amounts received for Crossrail Limited for agreeing to some contractual changes, largely around the method of financing charges. As this is likely to result in additional borrowing costs for Network Rail, no financial performance benefit (refer to Statement 5) was reported for this deal as borrowing costs are outside of the measure of financial performance. In the current year, there were further contractual refinements for which Network Rail were compensated. Again, this does not form part of the assessment of financial performance shown in Statement 5.

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

in £m 2016-17 prices unless stated

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

Statement 7c: Insurance reconciliation, Great Britain

in £m 2016-17 prices unless stated

A) Reconciliation of costs		Market based insurance			Self insurance Claims recognised			Total
Risk	Underlying cost	Claims paid	Market premiums	Underlying cost	by the captive	Captive premiums	Other	Total cost
			A					
Property	0	0	1	10	1	6	0	2
Business interruption	0	0	1	54	0	0	0	1
Terrorism	0	0	0	0	0	0	0	0
Employer's liability	0	0	0	1	0	0	0	0
Public & products liability	0	0	2	12	0	15	0	2
Motor	0	0	1	1	0	0	0	1
Construction all risks	3	0	1	5	2	1	0	3
Other cover	0	0	0	0	0	1	1	1
Investment return	0	0	0	0	0	0	2	2
Total	3	0	6	83	3	23	3	12

Total insurance recognised in:

Schedule 4 & 8	0	0	1	54	0	0	0	1
Operations	0	0	0	0	0	0	0	0
Support costs	3	0	5	29	3	23	3	11
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	3	0	6	83	3	23	3	12

B) Analysis of Network Rail Insurance Limited, Great Britain

Profit/(loss) derived from:	2016-17	2015-16	2014-15	Cumulative
Operations	57	(52)	(27)	(22)
Investment revenues	2	2	1	5
Finance costs	0	0	0	0
Profit/(loss) before tax	59	(50)	(26)	(17)
Tax	0	0	0	0
Profit/(loss) attributable to shareholders	59	(50)	(26)	(17)

Statement 7c: Insurance reconciliation, Great Britain – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Total insurance cost: $A+B+C=D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax, the rate of which increased once again this year following legislative changes.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.
- (2) This year Network Rail Insurance Limited has made a profit (unaudited) compared to losses made in the previous years of the control period. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. This year, the actuarial reassessment of liabilities resulted in reduced expected future pay-outs which helped to generate the profit.

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

in £m 2016-17 prices unless stated

Actual spend in year

	2016-17				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	270	0	0	270	225	0	0	225	(45)	0	0	(45)
Signalling shift managers	14	0	0	14	14	0	0	14	0	0	0	0
Local operations managers	20	(1)	0	19	15	0	0	15	(5)	1	0	(4)
Controllers	40	(3)	0	37	32	0	0	32	(8)	3	0	(5)
Electrical control room operators	15	(2)	0	13	11	0	0	11	(4)	2	0	(2)
Total signaller expenditure	359	(6)	0	353	297	0	0	297	(62)	6	0	(56)
Non-signaller expenditure												
Mobile operations managers	38	(1)	0	37	31	0	0	31	(7)	1	0	(6)
Managed stations	62	1	0	63	38	0	0	38	(24)	(1)	0	(25)
Performance	16	0	0	16	14	0	0	14	(2)	0	0	(2)
Customer relationship executives	6	(1)	0	5	7	0	0	7	1	1	0	2
Route enhancement managers	8	(8)	0	0	0	0	0	0	(8)	8	0	0
Weather	12	0	0	12	18	0	0	18	6	0	0	6
Other	52	(13)	0	39	14	0	0	14	(38)	13	0	(25)
Operations delivery	55	(51)	0	4	0	0	0	0	(55)	51	0	(4)
HQ - Operations services	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Performance and planning	24	(11)	0	13	0	0	0	0	(24)	11	0	(13)
HQ - Stations and customer	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Other	62	(21)	0	41	28	0	0	28	(34)	21	0	(13)
Other operating income	0	0	(31)	(31)	0	0	(20)	(20)	0	0	11	11
Total non-signaller expenditure	337	(105)	(31)	201	150	0	(20)	130	(187)	105	11	(71)
Total network operations	696	(111)	(31)	554	447	0	(20)	427	(249)	111	11	(127)

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

in £m 2016-17 prices unless stated

Actual spend in year

	2016-17				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	17	0	0	17	59	0	(2)	57	42	0	(2)	40
Information management	86	(22)	(3)	61	65	0	(4)	61	(21)	22	(1)	0
Government and corporate affairs	13	(3)	0	10	18	0	0	18	5	3	0	8
Group strategy	19	(15)	(1)	3	12	0	0	12	(7)	15	1	9
Finance	20	3	0	23	27	0	0	27	7	(3)	0	4
Business services	34	(3)	(6)	25	15	0	(1)	14	(19)	3	5	(11)
Accommodation	78	0	0	78	71	0	0	71	(7)	0	0	(7)
Utilities	63	0	(12)	51	44	0	0	44	(19)	0	12	(7)
Insurance	(9)	0	0	(9)	48	0	0	48	57	0	0	57
Legal and inquiry	9	(1)	0	8	6	0	0	6	(3)	1	0	(2)
Safety and sustainable development	27	(7)	(1)	19	8	0	0	8	(19)	7	1	(11)
Strategic sourcing	7	0	0	7	22	0	(13)	9	15	0	(13)	2
Business change	0	0	0	0	4	0	0	4	4	0	0	4
Other corporate functions	85	(2)	(46)	37	3	0	0	3	(82)	2	46	(34)
Core support costs	449	(50)	(69)	330	402	0	(20)	382	(47)	50	49	52
Other support costs												
Asset management services	77	(38)	(7)	32	66	0	(22)	44	(11)	38	(15)	12
Network Rail telecoms	63	(24)	(9)	30	33	0	0	33	(30)	24	9	3
National delivery service	0	0	0	0	27	0	(25)	2	27	0	(25)	2
Infrastructure projects	477	(495)	(8)	(26)	0	0	0	0	(477)	495	8	26
Commercial property	47	(14)	(38)	(5)	29	0	(33)	(4)	(18)	14	5	1
Group costs	(6)	(5)	(13)	(24)	1	0	(7)	(6)	7	5	6	18
Total other support costs	658	(576)	(75)	7	156	0	(87)	69	(502)	576	(12)	62
Total support costs	1,107	(626)	(144)	337	558	0	(107)	451	(549)	626	37	114

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

in £m 2016-17 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	797	(3)	0	794	709	0	0	709	(88)	3	0	(85)
Signalling shift managers	53	(1)	0	52	42	0	0	42	(11)	1	0	(10)
Local operations managers	64	(3)	0	61	47	0	0	47	(17)	3	0	(14)
Controllers	116	(9)	0	107	96	0	0	96	(20)	9	0	(11)
Electrical control room operators	43	(4)	0	39	32	0	0	32	(11)	4	0	(7)
Total signaller expenditure	1,073	(20)	0	1,053	926	0	0	926	(147)	20	0	(127)
Non-signaller expenditure												
Mobile operations managers	111	(3)	0	108	95	0	0	95	(16)	3	0	(13)
Managed stations	174	1	0	175	119	0	0	119	(55)	(1)	0	(56)
Performance	54	(1)	0	53	43	0	0	43	(11)	1	0	(10)
Customer relationship executives	23	(5)	0	18	22	0	0	22	(1)	5	0	4
Route enhancement managers	30	(25)	0	5	0	0	0	0	(30)	25	0	(5)
Weather	47	(8)	0	39	57	0	0	57	10	8	0	18
Other	180	(80)	0	100	43	0	0	43	(137)	80	0	(57)
Operations delivery	117	(107)	0	10	0	0	0	0	(117)	107	0	(10)
HQ - Operations services	3	0	0	3	0	0	0	0	(3)	0	0	(3)
HQ - Performance and planning	42	(24)	0	18	0	0	0	0	(42)	24	0	(18)
HQ - Stations and customer	2	0	0	2	0	0	0	0	(2)	0	0	(2)
HQ - Other	169	(42)	0	127	89	0	0	89	(80)	42	0	(38)
Other operating income	1	0	(104)	(103)	0	0	(63)	(63)	(1)	0	41	40
Total non-signaller expenditure	953	(294)	(104)	555	468	0	(63)	405	(485)	294	41	(150)
Total network operations	2,026	(314)	(104)	1,608	1,394	0	(63)	1,331	(632)	314	41	(277)

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

in £m 2016-17 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	113	(11)	(6)	96	192	0	(7)	185	79	11	(1)	89
Information management	279	(77)	(9)	193	205	0	(14)	191	(74)	77	(5)	(2)
Government and corporate affairs	43	(6)	0	37	57	0	0	57	14	6	0	20
Group strategy	54	(31)	(3)	20	35	0	0	35	(19)	31	3	15
Finance	58	3	0	61	86	0	0	86	28	(3)	0	25
Business services	65	(5)	(7)	53	45	0	(2)	43	(20)	5	5	(10)
Accommodation	248	(3)	0	245	225	0	0	225	(23)	3	0	(20)
Utilities	184	(2)	(46)	136	133	0	0	133	(51)	2	46	(3)
Insurance	100	0	0	100	150	0	0	150	50	0	0	50
Legal and inquiry	24	(1)	0	23	19	0	0	19	(5)	1	0	(4)
Safety and sustainable development	98	(25)	(5)	68	27	0	0	27	(71)	25	5	(41)
Strategic sourcing	22	0	0	22	70	0	(40)	30	48	0	(40)	8
Business change	4	0	0	4	11	0	0	11	7	0	0	7
Other corporate functions	454	(196)	(145)	113	11	0	0	11	(443)	196	145	(102)
Core support costs	1,746	(354)	(221)	1,171	1,266	0	(63)	1,203	(480)	354	158	32
Other support costs												
Asset management services	228	(102)	(18)	108	198	0	(65)	133	(30)	102	(47)	25
Network Rail telecoms	213	(64)	(23)	126	121	0	0	121	(92)	64	23	(5)
National delivery service	0	0	0	0	87	0	(76)	11	87	0	(76)	11
Infrastructure projects	1,230	(1,280)	(24)	(74)	0	0	0	0	(1,230)	1,280	24	74
Commercial property	135	(46)	(109)	(20)	86	0	(97)	(11)	(49)	46	12	9
Group costs	(20)	(5)	(116)	(141)	(2)	0	(18)	(20)	18	5	98	121
Total other support costs	1,786	(1,497)	(290)	(1)	490	0	(256)	234	(1,296)	1,497	34	235
Total support costs	3,532	(1,851)	(511)	1,170	1,756	0	(319)	1,437	(1,776)	1,851	192	267

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.

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

in £m 2016-17 prices unless stated

- (3) Network operations costs in 2016/17 are approximately 30 per cent higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year. Changes in pension legislation have increased staff costs, the development of London Bridge has resulted in extra running costs, performance improvement schemes have increased compared to last year. These extra headwinds have been largely absorbed through generating some minor efficiencies and a reduction of one-off costs compared to 2015/16.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

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

in £m 2016-17 prices unless stated

- (5) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (6) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are lower than the previous year due to further devolution of communications staff to the routes so they can better understand and support the local route teams and communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (7) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy costs as many discretionary projects have been cancelled and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. The restructuring of the team and the transfer to Finance occurred in the current year which has driven the noticeable reduction in costs compared to 2015/16, whilst increasing the costs in Finance.
- (8) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year. Costs are higher than the previous year due to this transfer from Group strategy.

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

in £m 2016-17 prices unless stated

- (9) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (10) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be 16 per cent lower than the CP4 exit position by 2016/17, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. This was mostly due to new office space acquired in London in 2014/15 for the Kent and Sussex routes. The cost reduction compared to the previous year is mainly due to the transfer of property costs relating to Network Rail's central development and training centre in Westwood. This facility houses the front line engineering apprentices Network Rail recruit every year to be the next generation of staff in the rail industry. Responsibility for apprentices now resides within Business services and so the costs of the Westwood facility have also been moved to this heading to offer greater transparency over the costs of apprentice activity.
- (11) Utilities – costs are higher than the determination this year which has largely negated the savings made in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year when some one-off benefits contributed to the result.
- (12) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.

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

in £m 2016-17 prices unless stated

- (13) Legal and inquiry – costs for the current year are slightly higher than the regulator assumed. This is mainly due to the transfer of some of the Business change responsibilities to Legal and inquiry and also to extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. These extra items have been offset by some efficiencies over and above the regulatory expectation. The extra expenditure in the control period to date compared to the ORR assumption is due to the same factors. Expenses in the current year are higher than the previous year reflecting the transfer of responsibilities from Business change.
- (14) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area. Costs are in lower than the previous year which included investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included largely in Safety and sustainability development (with some costs also recognised under the Asset management services heading).
- (15) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (16) Business change – no costs have been reported against this category in the current year. Responsibilities for Business change activities resides with various other functions whereas the determination assumed that this would be managed by a single department. Costs are lower than the previous year as the teams previously reported under this heading have been moved to Legal and inquiry to mirror organisational reporting changes.
- (17) Other corporate functions – costs are significantly higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are slightly lower than the previous year following some efficiencies realised by the route management teams in the current year.

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

in £m 2016-17 prices unless stated

- (18) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are lower than the previous year. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (19) Network Rail telecoms – costs for the year are lower than the determination largely due to successful implementation of efficiency plans, particularly around reducing landline, cloud and data usage acquired from suppliers. In addition, extra income has been earned through utilising the spare capacity on the network by selling additional services to third parties. Despite the savings made in the current year, costs for the control period to date are higher than the determination assumed. This was mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (20) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position would be achieved by 2017/18.
- (21) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.

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

in £m 2016-17 prices unless stated

- (22) Commercial Property – net costs in the year are broadly in line with the regulatory assumption. In the control period to date, net costs have been lower than the PR13 target mainly due to additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow) as well as overall price increases (reflecting market demand) and favourable settlement of a commercial claim in 2015/16. Net costs in the current year are higher than the previous year due to the aforementioned claim settlement flattering the results in that year
- (23) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower re-organisation costs in the current year than the regulator expected as well as receipt of compensation from Crossrail Limited for agreeing to contractual changes. The determination assumed that Group would receive credits of c. £32m relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by c. £26m relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	548	425	(123)	1,604	1,319	(285)	539
Signalling	199	157	(42)	588	485	(103)	192
Civils	184	145	(39)	476	451	(25)	171
Buildings	74	52	(22)	146	158	12	37
Electrical power and fixed plant	91	97	6	276	294	18	90
Telecoms	26	21	(5)	71	64	(7)	23
Other network operations	156	153	(3)	558	479	(79)	189
Asset management services	63	35	(28)	157	108	(49)	55
National Delivery Service	(10)	45	55	(24)	138	162	(9)
Property	8	5	(3)	30	16	(14)	9
Group	(20)	(18)	2	(63)	(54)	9	(21)
Total network maintenance	1,319	1,117	(202)	3,819	3,458	(361)	1,275

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to extra reactive maintenance works and civils inspection costs, increases in network traffic (this was assumed in the regulator's determination), changes in government legislation affecting pension arrangements, partly offset by reductions in project expenditure on initiatives that are now complete (vegetation management and tidy railway).
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16 with some extra expenses resulting from changes in government legislation affecting pensions and the transfer of certain activities from Other network operations to Track to improve local accountability and cost control.

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

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting pension legislation changes and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The increase in costs compared to the previous year are also due to a combination of increased reactive maintenance and inspection costs.

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

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reversing the trend witnessed in earlier years of the control period. Despite the higher costs this year, the overall cost in the control period to date is still lower than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – some efficiencies have been made in this category, with the savings generated across almost all of Network Rail's operational routes, continuing the trend of the earlier years of the control period. This has been achieved through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. In addition, certain responsibilities have been moved to Other network operations which has increased costs in that category. Costs are broadly in line with the previous year.
- (7) Telecoms – costs are higher than the regulatory assumption this year. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. The control period to date position is higher than the regulator's assumption mostly due to the adverse variance in the current year.
- (8) Other network operations – costs for the current year are largely in line with the regulator's expectation. For the control period to date, however, costs are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. A total of £38m was spent in 2014/15 and £7m in 2015/16 on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower than the previous year as a result of the completion of the aforementioned projects and the transfer of activity from this category to other headings within this statement (notably Asset management services, Track and Signalling) as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (9) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant (which has contributed to the saving in that category), additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. The same factors are responsible for the extra spend in the control period to date. Costs have increased compared to the previous year mainly due to a transfer of certain responsibilities from Other network operations to the Asset management services teams within the routes as part of Network Rail's commitment to devolution to enable more tactical decisions to be made closer to the passenger.

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

in £m 2016-17 prices unless stated

- (10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (11) Property – costs in the control period to date are higher than the regulatory assumption mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail's rental estate following tenant's bankruptcy which left Network Rail to bear the costs of site clearance. In addition, in the current year some extra costs for commercial property waste clearance were incurred.
- (12) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period to date due to additional vehicle purchases completed towards the end of the previous control period. Future plans for sourcing the company's vehicle requirements (leasing from a third party as opposed to outright capital purchase) may mean that the level of notional income recognised will decrease in the latter years of the control period.

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

	2014-15	2015-16	2016-17
Track	8,133	8,143	8,580
Signalling	3,268	3,262	3,774
Civils	261	247	243
Buildings	155	169	208
Electrical power and fixed plant	1,516	1,521	1,734
Telecoms	488	522	516
Other network operations	1,631	1,790	2,054
Asset management services	-	-	-
National delivery service	743	1,081	1,105
Property	-	-	-
Group	-	-	-
Other maintenance	-	-	-
Total network maintenance headcount	16,195	16,735	18,214

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

Notes:

- (1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not directly comparable.
- (2) This statement refers to the average heading during the year.
- (3) This statement records the full time equivalent staff rather than the total number of employees.
- (4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount reported in this statement has increased compared to the previous year. This is a combination of extra resource recruited to deal with the expanding network (such as extra electrification assets), attempts to reduce the unfilled vacancies in the organisation to increase the level of maintenance work that can be performed and reduce reliance on overtime and a reclassification of certain local capital delivery teams to reflect organisational hierarchy changes.
- (2) Maintenance headcount attributed to network operations has increased compared with the previous year. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisation to improve responsiveness and reduce reliance on overtime or external contractors. In addition, a number of teams responsible for delivering some of the more straight forward renewals activities have moved from the Support part of the organisation to the Maintenance part to reflect organisational hierarchy movements. This has minimal impact on Maintenance expenses as the vast majority of these costs are capitalised. Resource has also grown in Electrical power and fixed plant as the network expands its proportion of electrified train lines. As a result, extra resource is required to ensure the smooth running of these assets.

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Ashford	24	22	23	69
Bedford	18	18	18	54
Bletchley	29	29	30	88
Bristol	19	18	20	57
Brighton	25	26	24	75
Carlisle	24	24	25	73
Clapham	26	25	27	78
Cardiff	31	31	31	93
Croydon	24	25	26	75
Derby	22	22	25	69
Doncaster	18	17	19	54
Eastleigh	22	21	21	64
Edinburgh	21	22	23	66
Glasgow	15	15	15	45
Hitchin	23	24	25	72
Ipswich	27	26	26	79
Leeds	17	18	19	54
Liverpool	22	24	25	71
London Bridge	23	24	24	71
London Euston	28	25	25	78
Manchester	30	29	30	89
Motherwell	28	27	26	81
Newcastle	21	25	26	72
Orpington	19	20	20	59
Perth	14	14	16	44
Plymouth	15	15	16	46
Preston	16	15	16	47
Reading	16	17	19	52
Romford	34	31	33	98
Saltley	24	26	28	78
Sandwell & Dudley	19	21	23	63
Sheffield	15	15	18	48
Shrewsbury	15	16	17	48
Stafford	20	21	22	63
Swindon	15	17	20	52
Tottenham	33	31	32	96
Warrington	20	19	19	58
Woking	29	25	24	78
York	19	21	24	64
Centrally managed				
Structures examinations	72	88	104	264
Major items of maintenance plant	6	5	4	15
HQ managed activities	66	35	27	128
Other	220	286	284	790
Total network maintenance	1,224	1,275	1,319	3,818

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

in £m 2016-17 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule
- (3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

- (1) Costs are higher than the previous year due to extra reactive maintenance works and asset inspection costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases), changes in government legislation effecting pension arrangements partly offset by reduced project expenditure (vegetation management and tidy railway).
- (2) Overall depots costs are higher than the previous year which largely reflects transfers of responsibilities and costs away from central functions to front line in order to promote better decision making by those closer to the passenger. In addition, staff costs increased following changes in government legislation surrounding pensions. Movements in the costs incurred by each depot are expected to fluctuate each year due to the individual circumstances of that depot and the challenges faced in any given year.
- (3) Structures examinations – costs are higher than the previous year largely due to extra contractor claims and disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion.
- (4) HQ managed activities – costs are lower than the previous year. In 2014/15, Network Rail's Board took the decision to long-term incentive payments to senior staff. These savings, and more, were instead reinvested into two major maintenance programmes, Tidy Railway and Vegetation Management, which were designed to generate long-term improvements in train performance. The costs of these initiatives were largely born in 2014/15 although some continued into 2015/16. As these programmes are now complete there is no such spend in the current year and so costs are lower than 2015/16.

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

in £m 2016-17 prices unless stated

- (5) Other – whilst costs in this category appear consistent with the previous year, this is made up of increases in reactive maintenance costs offset by the transfer of responsibilities from central functions to the front line, leading to increases in the costs reported by the depots. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR

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

	2014-15			2015-16			2016-17		
	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305	306	-	306
Bedford	300	-	300	301	-	301	284	-	284
Bletchley	364	1	365	390	1	391	365	-	365
Bristol	366	1	367	378	1	379	326	-	326
Brighton	358	1	359	329	-	329	324	-	324
Carlisle	373	-	373	378	-	378	374	-	374
Clapham	300	-	300	317	-	317	335	1	336
Cardiff	416	1	417	423	1	424	444	1	445
Croydon	295	-	295	275	2	277	287	-	287
Derby	460	1	461	495	-	495	400	-	400
Doncaster	292	-	292	291	-	291	294	-	294
Eastleigh	298	2	300	315	1	316	341	-	341
Edinburgh	327	-	327	348	-	348	353	-	353
Glasgow	250	-	250	253	-	253	256	-	256
Hitchin	342	1	343	358	1	359	363	-	363
Ipswich	405	-	405	420	-	420	424	-	424
Leeds	309	2	311	309	1	310	305	-	305
Liverpool	346	-	346	353	-	353	348	1	349
London Bridge	294	1	295	285	-	285	290	1	291
London Euston	322	-	322	315	-	315	292	-	292
Manchester	447	3	450	447	1	448	455	-	455
Motherwell	402	-	402	413	-	413	409	-	409
Newcastle	383	-	383	382	-	382	380	-	380
Orpington	260	-	260	247	-	247	248	-	248
Perth	216	-	216	221	-	221	230	-	230
Plymouth	314	1	315	333	-	333	273	-	273
Preston	271	2	273	273	-	273	278	-	278
Reading	331	5	336	350	6	356	328	4	332
Romford	426	4	430	448	2	450	453	1	454
Saltley	328	-	328	348	-	348	348	-	348
Sandwell & Dudley	304	3	307	312	4	316	322	1	323
Sheffield	317	1	318	312	-	312	300	1	301
Shrewsbury	259	-	259	270	-	270	291	-	291
Stafford	325	2	327	322	1	323	326	1	327
Swindon	256	2	258	306	1	307	298	-	298
Tottenham	428	1	429	452	1	453	459	3	462
Warrington	343	-	343	341	-	341	343	-	343
Woking	380	2	382	390	6	396	359	-	359
York	372	2	374	381	2	383	385	1	386
Centrally managed									
Route HQ	2,172	142	2,314	2,093	142	2,235	3,745	154	3,899
Other HQ	623	119	742	959	122	1,081	1,019	85	1,104
Total network maintenance	15,894	301	16,195	16,437	297	16,734	17,960	255	18,215

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

Notes:

- (1) This statement refers to the average heading during the year.
- (2) This statement records the full time equivalent staff rather than the total number of employees.
- (3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Headcount in the depots has increased compared to the previous year which is partly the result of a change in responsibilities between Route HQ and individual depots. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduced reliance on overtime and external contractors. In addition, extra resource has been recruited to deal with the expansion of the network and the increased enhanced assets on the network. This has been more than offset by a transfer of capital delivery teams to route centres to allow better planning and delivery of works.
- (3) Route HQ – the increase in headcount is largely due to the transfer of responsibilities from local depots and other parts of the organisation to consolidate local capital delivery teams in one place. This has minimal impact on total Maintenance costs as the expenses relating to these individuals and the work they are undertaken is included within renewals. Undertaking those renewals jobs which are simpler or more routine allow greater flexibility for local route teams to determine the timing of the delivery.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	975	758	(217)	2,896	2,256	(640)	1,006
Signalling	551	721	170	1,878	2,331	453	661
Civils	559	436	(123)	1,764	1,435	(329)	636
Buildings	126	162	36	541	528	(13)	226
Electrical power and fixed plant	194	201	7	470	687	217	147
Telecoms	71	84	13	209	282	73	54
Wheeled plant and machinery	69	117	48	234	406	172	92
Information technology	91	84	(7)	386	264	(122)	130
Property	21	21	-	61	75	14	15
Other renewals	117	94	(23)	525	(91)	(616)	178
Total renewals expenditure	2,774	2,678	(96)	8,964	8,173	(791)	3,145

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is £0.8bn higher than the determination which included an assumption that £0.4bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was broadly in line with the previous year. Non-volume work was higher due to extra slab track projects (notably at Glasgow Queen Street) whilst S&C renewal costs were lower (due to lower volumes delivered this year and some marginal improvements in unit costs this year) and High output expenditure reduced (volumes decreased by about one-fifth arising from aforementioned plant and access issues).

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was much lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, in 2015/16, over £50m was invested in the North Lincolnshire programme but, as this programme was substantially complete in that year, expenditure in the current year was only around £5m.

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

in £m 2016-17 prices unless stated

- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. This year included significant costs for the repair of Dover sea wall and repair of a bridge on the Settle-Carlisle line. Whilst the remediation works were a success and the assets' capability restored the incidents accounted for more than £40m of the overspend in the current year alone. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £100m of extra costs this control period), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. As noted in the prior year's regulatory financial statements the level of activity in 2015/16 was artificially high as it included works deferred from the first year of the control period when delays in awarding framework contracts to suppliers resulted in a lower than planned level of delivery.

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

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year mainly due to lower investment at Franchised stations (the largest project in the prior year was Liverpool Moorfields station development). In addition, a higher proportion of minor works undertaken this year were classified as maintenance in line with Network Rail's cost and volume reporting policies. This meant lower Buildings renewals, but higher Buildings maintenance (as shown in Statement 8a). Also, as noted in the prior year's Regulatory financial statements the high costs in 2015/16 were partly due to additional scope and partly due to delays in introducing contractor framework agreements at the start of CP5. The original plan for the control period was for expenditure to be weighted towards the earlier years with reductions as time progressed so the decrease in the current year is in line with this expectation.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional costs for Overhead line, SCADA and Fixed plant. Overhead line mostly relates to additional works on East Coast Main Line resilience and Great Eastern OLE programmes. Activity on the SCADA programme in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals). As noted in the previous year's Regulatory financial statements, Fixed plant expenditure in 2015/16 was suppressed by delays in purchasing equipment arising from commercial considerations.

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

in £m 2016-17 prices unless stated

- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Most of the underspend in the control period to date is expected to be caught up in the remaining years of the control period as further programmes are designed and delivered. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is around a quarter less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is higher than the previous year which was impacted by delays in delivery of key projects as noted in last year's Regulatory financial statements and from increased activity on GSMR activities.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is only approximately 40 per cent of the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is higher than the determination assumed continuing the trend of the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.

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

in £m 2016-17 prices unless stated

(10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are higher in the current year compared to 2015/16 as this year included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings.

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN, buildings and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.
- g. Other – costs reported in this category mainly relate to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	350	250	(100)	1,004	756	(248)
High output renewal	193	140	(53)	615	356	(259)
Plain line refurbishment	64	28	(36)	191	87	(104)
S&C renewal	160	174	14	547	520	(27)
S&C refurbishment	51	46	(5)	134	128	(6)
Track non-volume	59	51	(8)	136	195	59
Off track	98	69	(29)	269	214	(55)
Total track	975	758	(217)	2,896	2,256	(640)
Signalling						
Full conventional resignalling	221	193	(28)	811	698	(113)
Modular resignalling	8	28	20	37	121	84
ERTMS resignalling	8	58	50	37	79	42
Partial conventional resignalling	110	164	54	303	538	235
Targeted component renewal	9	17	8	16	80	64
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	14	11	(3)	54	33	(21)
Operating strategy other capital expenditure	27	18	(9)	150	146	(4)
Level crossings	37	121	84	133	283	150
Minor works	95	74	(21)	295	237	(58)
Centrally managed costs	23	37	14	42	116	74
Other	(1)	-	1	-	-	-
Total signalling	551	721	170	1,878	2,331	453
Civils						
Underbridges	252	189	(63)	671	634	(37)
Overbridges	55	31	(24)	180	102	(78)
Bridgeguard 3	5	-	(5)	27	-	(27)
Major structures	21	16	(5)	88	51	(37)
Tunnels	21	29	8	75	89	14
Other assets	54	42	(12)	193	136	(57)
Structures other	(3)	33	36	40	107	67
Earthworks	154	96	(58)	489	316	(173)
Other	-	-	-	1	-	(1)
Total civils	559	436	(123)	1,764	1,435	(329)
Buildings						
Managed stations	12	34	22	60	121	61
Franchised stations	86	100	14	357	317	(40)
Light maint depots	12	8	(4)	48	26	(22)
Depot plant	1	7	6	8	26	18
Lineside buildings	8	5	(3)	40	14	(26)
MDU buildings	6	6	-	25	19	(6)
NDS depots	1	2	1	3	5	2
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	126	162	36	541	528	(13)

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	2	8	6	5	35	30
Overhead Line	63	55	(8)	128	134	6
DC distribution	38	36	(2)	102	134	32
Conductor rail	11	12	1	32	39	7
SCADA	10	7	(3)	10	47	37
Energy efficiency	-	3	3	5	8	3
System capability / capacity	1	3	2	9	26	17
Other electrical power	7	16	9	27	49	22
Fixed plant	62	61	(1)	152	215	63
Total electrical power and plant	194	201	7	470	687	217
Telecoms						
Operational communications	7	10	3	19	28	9
Network	8	20	12	22	48	26
SISS	8	27	19	20	88	68
Projects and other	5	18	13	22	62	40
Non-route capital expenditure	43	9	(34)	126	56	(70)
Total telecoms	71	84	13	209	282	73
Wheeled plant and machinery						
High output	27	15	(12)	92	111	19
Incident response	-	-	-	-	6	6
Infrastructure monitoring	2	3	1	9	11	2
Intervention	16	16	-	34	101	67
Materials delivery	3	6	3	40	10	(30)
On track plant	9	24	15	25	52	27
Seasonal	-	2	2	4	38	34
Locomotives	-	-	-	-	-	-
Fleet support plant	-	5	5	-	18	18
Road vehicles	-	46	46	18	59	41
S&C delivery	12	-	(12)	12	-	(12)
Total wheeled plant and machinery	69	117	48	234	406	172
Information Technology						
IM delivered renewals	86	75	(11)	354	236	(118)
Traffic management	5	9	4	32	28	(4)
Total information technology	91	84	(7)	386	264	(122)
Property						
MDUs/offices	16	14	(2)	41	54	13
Commercial estate	5	7	2	20	21	1
Corporate services	-	-	-	-	-	-
Total property	21	21	-	61	75	14
Other renewals						
Asset information strategy	48	36	(12)	126	150	24
Intelligent infrastructure	7	26	19	28	57	29
Faster isolations	10	35	25	29	109	80
LOWS	2	2	-	4	7	3
Small plant	4	11	7	9	33	24
Research and development	-	-	-	-	-	-
Phasing overlay	-	(16)	(16)	-	(447)	(447)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	34	-	(34)	314	-	(314)
Other	12	-	(12)	15	-	(15)
West Coast	-	-	-	-	-	-
Total other renewals	117	94	(23)	525	(91)	(616)
Total renewals	2,774	2,678	(96)	8,964	8,173	(791)

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

in £m 2016-17 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is £0.8bn higher than the determination which included an assumption that £0.4bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.

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

in £m 2016-17 prices unless stated

- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was broadly in line with the previous year. Non-volume work was higher due to extra slab track projects (notably at Glasgow Queen Street) whilst S&C renewal costs were lower (due to lower volumes delivered this year and some marginal improvements in unit costs this year) and High output expenditure reduced (volumes decreased by about one-fifth arising from aforementioned plant and access issues).

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was much lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, in 2015/16, over £50m was invested in the North Lincolnshire programme but, as this programme was substantially complete in that year, expenditure in the current year was only around £5m.

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

in £m 2016-17 prices unless stated

- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. This year included significant costs for the repair of Dover sea wall and repair of a bridge on the Settle-Carlisle line. Whilst the remediation works were a success and the assets' capability restored the incidents accounted for more than £40m of the overspend in the current year alone. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £100m of extra costs this control period), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. As noted in the prior year's regulatory financial statements the level of activity in 2015/16 was artificially high as it included works deferred from the first year of the control period when delays in awarding framework contracts to suppliers resulted in a lower than planned level of delivery.

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

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year mainly due to lower investment at Franchised stations (the largest project in the prior year was Liverpool Moorfields station development). In addition, a higher proportion of minor works undertaken this year were classified as maintenance in line with Network Rail's cost and volume reporting policies. This meant lower Buildings renewals, but higher Buildings maintenance (as shown in Statement 8a). Also, as noted in the prior year's Regulatory financial statements the high costs in 2015/16 were partly due to additional scope and partly due to delays in introducing contractor framework agreements at the start of CP5. The original plan for the control period was for expenditure to be weighted towards the earlier years with reductions as time progressed so the decrease in the current year is in line with this expectation.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional costs for Overhead line, SCADA and Fixed plant. Overhead line mostly relates to additional works on East Coast Main Line resilience and Great Eastern OLE programmes. Activity on the SCADA programme in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals). As noted in the previous year's Regulatory financial statements, Fixed plant expenditure in 2015/16 was suppressed by delays in purchasing equipment arising from commercial considerations.

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

in £m 2016-17 prices unless stated

- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Most of the underspend in the control period to date is expected to be caught up in the remaining years of the control period as further programmes are designed and delivered. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is around a quarter less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is higher than the previous year which was impacted by delays in delivery of key projects as noted in last year's Regulatory financial statements and from increased activity on GSMR activities.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is only approximately 40 per cent of the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is higher than the determination assumed continuing the trend of the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.

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

in £m 2016-17 prices unless stated

(10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are higher in the current year compared to 2015/16 as this year included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings.

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN, buildings and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.
- g. Other – costs reported in this category mainly relate to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

Statement 10: Other information, Great Britain

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	217	239	22	685	691	6	263
Access charge supplement Income	(224)	(224)	-	(654)	(650)	4	(222)
Net (income)/cost	(7)	15	22	31	41	10	41
Schedule 8							
Performance element income	(19)	-	19	(49)	-	49	(6)
Performance element costs	206	4	(202)	457	13	(444)	114
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	187	4	(183)	408	13	(395)	108

B) Opex memorandum account	2016-17	Cumulative	2015-16
Volume incentive	(5)	16	11
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	1	6	3
RSSB Costs	(2)	-	-
ORR licence fee and railway safety levy	(2)	(2)	-
Reporters fees	(2)	(4)	-
Other industry costs	4	2	-
Network Rail HS1	4	8	4
Difference in CP4 opex memo	-	(9)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(2)	17	18

C) Network Rail's compliance with the limits set in the licence	Annual 2016-17	Annual Limit	Cumulative Actual	Cumulative Limit	Actual FY15 to FY16	Limit FY15 to FY16	Actual FY17 to FY19	Limit FY17 to FY19
Licence condition								
Turnover (per annum)	39	185						
Investment (any point in time)			157	277				
Specific Consents								
Property development	-	50						
Property (E&W)					112	230	4	170
Property (Scotland)					0	2	0	6

D) Net income / (costs) from alliances:	2016-17	Cumulative	2015-16
Payment from South West Trains	-	2	1
Total alliance income	-	2	1
Payment to South West Trains	-	(2)	-
Total alliance costs	-	(2)	-
Net alliance income / (cost)	-	-	1

E) Workforce information	Male				Female				Total
	Permanent		Temporary		Permanent		Temporary		
(Headcount)	Full time	Part time	Full time	Part time	Full time	Part time	Full time	Part time	
66 and over	245	25	1	-	17	4	-	-	292
61-65	1,524	28	1	-	113	10	1	-	1,677
56-60	3,583	26	6	-	296	21	5	-	3,937
51-55	4,816	8	16	1	551	29	7	-	5,428
46-50	5,071	9	16	-	720	43	16	2	5,877
41-45	4,056	7	16	-	772	103	6	-	4,960
36-40	3,223	13	11	1	825	138	20	3	4,234
31-35	3,467	4	29	-	892	108	19	1	4,520
26-30	3,270	3	48	-	830	33	32	1	4,217
21-25	1,992	3	82	2	412	8	29	1	2,529
20 and under	361	-	29	-	41	-	17	-	448
Total staff employed (Headcount)	31,608	126	255	4	5,469	497	152	8	38,119
of which:									
train drivers	-	-	-	-	-	-	-	-	-
apprentices	574	-	13	-	37	-	9	-	633
Agency staff / Contingent Labour / Consultants	-	-	1,366	4	-	-	289	1	1,660
of which apprentices	-	-	1	-	-	-	-	-	1

Statement 10: Other information, Great Britain - continued

in £m 2016-17 prices unless stated

(FTE)	Headcount			Full time equivalent		
	Male	Female	Total	Male	Female	Total
Board executive	7	3	10	7	3	10
Executive director / director	57	9	66	57	9	66
Bands 1	289	60	349	289	60	349
Bands 2	1,120	268	1,388	1,119	265	1,384
Bands 3	2,805	925	3,730	2,793	917	3,710
Bands 4	3,778	1,435	5,213	3,769	1,422	5,191
Signallers	4,030	288	4,318	4,028	288	4,316
Electrical control operators	154	1	155	154	1	155
Maintenance	15,016	232	15,248	15,009	228	15,237
Controllers	333	42	375	333	42	375
Bands 5-8	3,422	2,765	6,187	3,412	2,694	6,106
Other	982	98	1,080	982	98	1,080
Total permanent staff	31,993	6,126	38,119	31,952	6,027	37,979
Agency staff / Contingent Labour / Consultants	1,370	290	1,660	1,370	290	1,660
Total staff (FTE)	33,363	6,416	39,779	33,322	6,317	39,639

(on an FTE basis)	Salary	Allowances	Performance Related Bonus	Overtime	Employer pension	Employer national insurance	Total paybill for payroll staff	Total cost for contingent labour	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	2	-	-	-	-	-	2	-	-	2
Executive director / director	11	1	2	-	1	2	17	-	-	17
Bands 1	33	3	6	-	3	5	50	-	-	50
Bands 2	96	9	9	-	9	14	137	-	-	137
Bands 3	182	7	11	1	16	23	240	-	-	240
Bands 4	189	8	4	2	15	23	241	-	-	241
Signallers	137	9	2	50	13	24	235	-	-	235
Electrical control operators	7	-	-	4	1	1	13	-	-	13
Maintenance	456	41	8	148	71	71	795	-	-	795
Controllers	18	1	-	6	2	3	30	-	-	30
Bands 5-8	132	5	2	5	10	14	168	-	-	168
Other	39	3	1	15	4	7	69	-	-	69
Total Paybill	1,302	87	45	231	145	187	1,997	-	-	1,997
Agency staff / Contingent Labour / Consultants	-	-	-	-	-	-	-	97	-	97
Total Staff Costs	1,302	87	45	231	145	187	1,997	97	-	2,094

F) Staff costs information

	Male	Female	Total
Salary	1,114	188	1,302
Allowances	78	9	87
Performance related bonus	38	7	45
Overtime	226	5	231
Employer pension contribution	129	16	145
Employer NI contribution	164	23	187
Total Paybill	1,749	248	1,997
Agency staff / Contingent Labour / Consultants	-	-	97
Total Staff Costs			2,094

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	797,533	16
Number of employees paid in excess of highest paid director	-	N/A
Median remuneration of workforce	49,938	1

Remuneration ranged from £0 to £797,533 (2015-16 £0 to £756,495)

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

G) Reporter information

	2016-17	2015-16
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.5	0.5
Fees payable to the company's auditors for other audit related services:	0.0	0.0
The audit of the company's subsidiaries	0.1	0.1
Regulatory accounts audit and interim review	0.1	0.1
Total amounts payable to auditors	0.7	0.7
	2016-17	
Independent Reporter		
Expenditure (in year)*	Total in Year Expenditure	
Expenditure with Independent Reporters		
Ove Arup & Partners**	0.3	9.1
The Nichols Group	0.1	1.1
Asset Management Consulting Ltd	0.2	0.2
Total Expenditure with Independent Reporters	0.6	10.4

* Based on invoices received in the Financial Year

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

Statement 10: Other information, Great Britain – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

Statement 10: Other information, Great Britain – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This is the case in the current year. The minor control period to date variance is a factor of the difference between the inflation rates used to uplift the contractual payments and the inflation rates used to uplift the regulator's PR13 targets. Performance element costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are lower than the regulatory assumption. This is a combination of undertaking less renewals activity offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Track - Plain line and Signalling - Full and partial conventional resignalling), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.

Statement 10: Other information, Great Britain – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident being higher than ever. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016), excessive rainfall causing a train derailment near Watford (September 2016) and storm Doris (February 2017) as well as the collapse of a sewer under the train line in South London (July 2016), collapse of a wall outside Liverpool Lime Street station after it was hit by a van (February 2017) and damage to overhead line electrification equipment (Luton, Ranskill Loop and Eves Lane). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. Applying the 2015/16 targets to the current year accounts for c. £15m of the increase. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum currently shows a net loss for this year which is primarily due to the Volume Incentive (see Statement 12) partly offset by differences in income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 will be added to the Opex memorandum. The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6. For the control period to date, gains made on the volume incentive and High Speed 1 compensation have been partly offset by the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

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

in £m 2016-17 prices unless stated

Service	Staff	Agency	Contractors & consultants	2016-17			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	22	1	-	-	-	6	29
Renewals	-	-	-	-	-	-	-
Total	22	1	-	-	-	6	29

Service	Staff	Agency	Contractors & consultants	Cumulative			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	65	1	-	-	-	20	86
Renewals	-	-	-	-	-	-	-
Total	65	1	-	-	-	20	86

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

in £m 2016-17 prices unless stated

Notes:

- (1) The balance on the outstanding loan from Network Rail Infrastructure Limited to Network Rail (High Speed) Limited is £nil. This has been the case since 2010/11 when Network Rail (High Speed) Limited repaid its' loan from Network Rail Infrastructure Limited.
- (2) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Charges levied by Network Rail are broadly in line with the prior year. This reflects the agreement introduced at the start of HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, Great Britain

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(4)	(1)	309	307	0.8%	1.50	pence per passenger train mile
Passenger farebox (millions)	14	3	9,512	9,113	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(20)	(4)	20	20	3.9%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(15)	(3)	22,218	22,138	5.4%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(25)	(5)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Great Britain – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, reversing some of the gains made in earlier in the control period (as shown in the below table). This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. For the control period to date, Network Rail has outperformed growth targets. As the below table illustrates, this is a combination of better than expected passenger growth partly offset by slower freight growth. Whilst the freight metrics have improved slightly this control period compared to the CP4 exit position, the regulator assumed approximately 4 per cent growth per year which, in the light of structural issues facing the industry, has not been possible to achieve.

	Passenger train miles	Passenger farebox	Freight train miles	Freight gross tonne miles	Total
2014/15	4	6	-	-	10
2015/16	5	9	(2)	(1)	11
2016/17	(1)	3	(4)	(3)	(5)
Total	8	18	(6)	(4)	16

Statement 12: Volume incentives, Great Britain – continued

in £m 2016-17 prices unless stated

- (2) Passenger train mile growth in the current year has been slightly lower than the ORR's expectation. In fact, passenger train miles was lower than the previous year. This was mostly due to well-publicised industrial relations issues between trade unions and Southern trains, which contributed to a 10 per cent drop in traffic in this area this year. If the Sussex route (where Southern trains operates) had achieved the same level of passenger train miles as in 2015/16, the Network Rail would have earned £2m under the Passenger train miles element of this metric this year, rather than recognising a loss of £1m. Despite these issues in the current year, growth over the control period as a whole has exceeded expectation as Network Rail and operators have worked together to respond to increased passenger demand resulting in financial outperformance being recognised in the control period to date (refer to Statement 5a).
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (4) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected and this leaves Network Rail facing a payout under this mechanism. The determination assumed that growth during the control period to date would have been over 10 per cent. However, the deterioration in demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media in recent years has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism implies. The largest shortfall is in the London North East route where the baseline assumed large increases in the quantity of biomass fuel transported to the Drax power station which proved to be overoptimistic.
- (5) Freight gross tonne miles has increased compared to the prior year by around 2.8 per cent, but this is lower than the regulatory expectation of 5.4 per cent. In addition, in 2015/16 freight gross tonne miles was lower than the regulator's baseline. The slower rates of growth are similar to the reasons noted above. Again, The London North East route has the largest gap to target due to growth assumptions for biomass transport to the Drax power station made at the time of the determination which have proved to be overoptimistic.

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain

in £m 2016-17 prices unless stated

2016-17					Full Project		
					A	B	$C = A \div B$
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	537	336	626	1,171	535
	High Output Renewal	km	276	193	239	373	641
	Plain line Refurbishment	km	372	57	113	767	147
	S&C Renewal/Refurbishment	point ends	1,023	157	299	1,919	156
	Track Drainage	lm	138,342	36	77	287,109	0
	Fencing	km	691	28	98	2,716	36
	Slab Track	km	2	19	26	2	13,000
	Off track	km/No.	578	17	38	1,009	38
	Other	-	-	-	-	-	-
Total			141,821	843	1,516	295,066	-
Signalling	Full Conventional Resignalling	SEU	585	74	380	1,022	372
	Modular Resignalling	SEU	38	-	32	57	561
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	379	74	293	681	430
	Targeted Component Renewal	SEU	27	5	7	41	171
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	20	9	25	27	926
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			1,049	162	737	1,828	-
Civils	Underbridges	m ²	116,178	193	446	183,753	2
	Overbridges (incl BG3)	m ²	15,463	36	69	16,323	4
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	19,573	13	32	42,324	1
	Culverts	m ²	4,174	11	23	5,070	5
	Footbridges	m ²	2,748	7	19	3,909	5
	Coastal & Estuarial Defences	m	2,763	5	14	2,763	5
	Retaining Walls	m ²	14,721	9	11	14,791	1
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	3,415	84	231	6,918	33
	EW Drainage	m	125,756	14	28	168,631	0
	Other	-	-	-	-	-	-
Total			304,791	372	873	444,482	-
Buildings	Buildings (MS)	m ²	8,214	-	2	8,214	0
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	1,581	-	1	2,108	0
	Train sheds (MS)	m ²	11,321	1	4	14,929	0
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	11,169	2	6	16,624	0
	Buildings (FS)	m ²	13,473	4	11	16,577	1
	Platforms (FS)	m ²	32,825	10	21	40,806	1
	Canopies (FS)	m ²	35,600	8	29	80,638	0
	Train sheds (FS)	m ²	1,500	-	-	1,500	-
	Footbridges (FS)	m ²	2,054	10	23	4,446	5
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	-	94,619	5	12	163,556	0
	Light Maintenance Depots	m ²	79,484	6	21	107,475	0
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	13,967	3	12	27,926	0
	MDU Buildings	m ²	8,529	1	4	10,607	0
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			314,336	50	146	495,406	-

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	63	17	68	170	400
	Mid-life refurbishment	Wire runs	5	1	9	5	1,800
	Structure renewals	No.	285	9	39	817	48
	Other OLE	-	-	-	-	-	-
	OLE abandonments	-	-	-	-	-	-
	Conductor rail	km	41	9	43	168	256
	HV Switchgear Renewal AC	No.	7	-	1	18	56
	HV Cables AC	-	-	-	-	-	-
	Protection Relays AC	No.	12	-	2	24	83
	Booster Transformers AC	-	-	-	-	-	-
	Other AC	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	1	5	28	179
	HV cables DC	km	12	3	12	18	667
	LV cables DC	km	33	13	40	77	519
	Transformer Rectifiers DC	-	-	-	-	-	-
	LV switchgear renewal DC	No.	37	5	18	96	188
	Protection Relays DC	No.	61	2	5	197	25
	Other DC	-	-	-	-	-	-
	SCADA	RTU	1	-	2	2	1,000
	Energy efficiency	-	-	-	-	-	-
	System Capability/Capacity	-	-	-	-	-	-
	Other Electrical Power	-	-	-	-	-	-
	Points Heaters	point end	76	1	8	92	87
	Signalling Power Cables	km	53	6	8	53	151
	Signalling Supply Points	No.	14	3	26	56	464
	Other Fixed Plant	-	-	-	-	-	-
Total			722	70	286	1,821	-
Telecoms	Customer Information Systems	No.	23	-	1	23	43
	Public Address	No.	90	-	-	105	-
	CCTV	No.	339	2	2	365	5
	Other Surveillance	No.	27	-	-	560	-
	PABX Concentrator	No. lines	6,116	1	1	7,204	0
	Processor Controlled Concentrator	No. lines	14	-	-	30	-
	DOO CCTV	No.	36	2	8	151	53
	DOO Mirrors	-	-	-	-	-	-
	PETS	No.	11	-	1	34	29
	HMI Small	-	-	-	-	-	-
	HMI Large	No.	60	-	-	695	-
	Radio	-	-	-	-	-	-
	Power	-	-	-	-	-	-
	Other comms	-	-	-	-	-	-
	Network	No.	36	2	13	57	228
	Projects and Other	-	-	-	-	-	-
	Non Route capex	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			6,752	7	26	9,224	-

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, England & Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	3,916	3,898	18	11,696	11,591	105	3,919
Fixed Income	299	279	20	942	884	58	283
Variable Income	1,032	1,106	(74)	3,107	3,179	(72)	1,047
Other Single Till Income	825	872	(47)	2,367	2,462	(95)	796
Opex memorandum account	(4)	-	(4)	14	-	14	17
Total Income	6,068	6,155	(87)	18,126	18,116	10	6,062
Operating expenditure							
Network operations	510	387	(123)	1,468	1,208	(260)	500
Support costs	301	406	105	1,038	1,293	255	353
Traction electricity, industry costs and rates	531	598	67	1,609	1,672	63	543
Network maintenance	1,201	1,005	(196)	3,475	3,114	(361)	1,158
Schedule 4	178	207	29	606	611	5	234
Schedule 8	187	4	(183)	404	12	(392)	107
Total operating expenditure	2,908	2,607	(301)	8,600	7,910	(690)	2,895
Capital expenditure							
Renewals	2,415	2,378	(37)	8,012	7,231	(781)	2,831
PR13 enhancement expenditure	3,067	3,574	507	8,406	8,996	590	2,796
Non PR13 enhancement expenditure	56	-	(56)	415	-	(415)	219
Total capital expenditure	5,538	5,952	414	16,833	16,227	(606)	5,846
Other expenditure							
Financing costs	1,635	1,751	116	4,254	4,825	571	1,302
Corporation tax (received)/paid	2	-	(2)	(2)	4	6	-
Total other expenditure	1,637	1,751	114	4,252	4,829	577	1,302
Total expenditure	10,083	10,310	227	29,685	28,966	(719)	10,043

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to the aforementioned additional services offered to operators.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity income partly offset by incremental revenue from offering more train paths to operators to help meet passenger demand for train travel. Income is broadly in line with the previous year, with a marginal decrease mostly due to lower electricity income. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination mainly due to changes in the way certain capital programmes are funded, which is offset by a corresponding saving in Financing costs. Excluding these items, income is higher than the determination as a result of station and depot facilities provided to operators offsetting lower freight income. Income is higher than the previous year as the extra stations and depots facilities offered to operators have offset lower property sales and continued decline in demand for freight. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The negative amount reported in the current year is largely due to costs recognised on the volume incentive due to lower demand for freight and the impact of industrial action in Southern England. The variance to the previous year can also be explained by these factors. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.

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

in £m 2016-17 prices unless stated

- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The savings made in the control period to date are also due to these two factors. Costs are lower than the previous year as a result of lower market electricity prices (although this is offset by reductions in income earned by network Rail) and higher British Transport Police costs as Network Rail now bears a greater proportion of these industry costs. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year and additional structures inspections costs have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination mostly as a result of reduced delivery of renewals which require network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes investment in projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.

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

in £m 2016-17 prices unless stated

- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. This is partly driven by prioritisation of investment in core activities this year and as well as reprofiling of expenditure between years. The control period to date position is caused by similar factors. Investment is higher than the previous year reflecting net extra delivery across a wide range of schemes and programmes with Crossrail and Northern Hub as milestones in those areas approach. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period to date is axiomatic. Expenditure is lower than the previous year reflecting Network Rail's constrained funding arrangements (as discussed in more detail in Statement 4) necessitating prioritisation of core activities. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

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

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	48,716	46,906	1,810
Indexation to 2015-16 prices	2,817	2,712	105
Opening RAB for the year (2015-16 prices)	51,533	49,618	1,915
Indexation for the year	1,130	1,089	41
Opening RAB (2016-17 prices)	52,663	50,707	1,956
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,186	2,378	(192)
PR13 enhancements	3,024	2,665	359
Non-PR13 enhancements	80	-	80
Total enhancements	3,104	2,665	439
Amortisation	(2,299)	(2,299)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2017	55,654	53,451	2,203

RAB Regulatory financial position - cumulative, England & Wales

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	45,000	49,271	52,663	45,000
Adjustments for the actual capital expenditure outturn in CP4	1,280	-	-	1,280
Renewals	2,577	2,611	2,186	7,374
PR13 enhancements	2,512	2,765	3,024	8,301
Non-PR13 enhancements	108	218	80	406
Total enhancements	2,620	2,983	3,104	8,707
Amortisation	(2,201)	(2,202)	(2,299)	(6,702)
Adjustments for under-delivery of regulatory outputs	(5)	-	-	(5)
Closing RAB	49,271	52,663	55,654	55,654

Statement 2a: RAB - Regulatory financial position, England & Wales – continued

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in the first two years of the control period relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) more than offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b. The control period to date position is broadly in line with the original PR13 assumptions.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There are significant contributions from Thameslink and Northern Hub projects.

Statement 2a: RAB - Regulatory financial position, England & Wales – continued

in £m 2016-17 prices unless stated

- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in the current year were lower than in earlier years of the control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

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

£m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	2,423	2,430	2,378	7,231
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	226	-	-	226
Capitalised financing on CP4 deferrals	5	10	11	26
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	2,654	2,440	2,389	7,483
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(662)	(536)	(892)	(2,090)
Capitalised financing on acceleration / (deferrals) of expenditure	(14)	(41)	(73)	(128)
Adjustments for efficient overspend	724	899	905	2,528
Capitalised financing on efficient overspend	15	51	92	158
25% retention of efficient overspend	(181)	(225)	(227)	(633)
Capitalised financing on efficient overspend 25% retention	(4)	(12)	(23)	(39)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	56	37	12	105
Capitalised financing on efficient overspend through spend to save framework	1	4	5	10
Retention of efficient overspend through spend to save framework	(11)	(5)	(1)	(17)
Capitalised financing on efficient overspend through spend to save framework retention	-	(1)	(1)	(2)
Other adjustments	(1)	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	2,577	2,611	2,186	7,374
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(3)	(11)	(11)	(25)
Adjustment for 25% retention of efficient overspend	192	231	228	651
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	12	12
Total actual renewals expenditure (see statement 9)	2,766	2,831	2,415	8,012

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

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	2,518	2,738	2,665	7,921
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	202	(202)	-	-
Capitalised financing on CP4 deferrals	4	5	-	9
Baseline adjustments	-	275	909	1,184
Capitalised financing on Baseline adjustments	-	6	32	38
Adjustments to DfT funding	(160)	-	-	(160)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(7)	(18)
Other adjustments	26	25	-	51
Capitalised financing on other adjustments	1	2	2	5
Adjusted PR13 determination (enhancements)	2,587	2,842	3,601	9,030
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(191)	(168)	(768)	(1,127)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(12)	(33)	(49)
Adjustments for efficient overspend	74	(29)	91	136
Capitalised financing on efficient overspend	2	3	4	9
25% retention of efficient overspend	(18)	7	(23)	(34)
Capitalised financing of 25% efficient overspend	-	(1)	(1)	(2)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	68	162	170	400
agreements - retention of efficient overspend	(11)	(40)	(28)	(79)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	11	17
Adjustments for efficient overspend through spend to save framework	5	(5)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,512	2,765	3,024	8,301
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	122	209	65	396
overspend	(16)	-	-	(16)
Capitalised financing on non-PR13 enhancements expenditure	2	9	15	26
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	108	218	80	406
Total enhancements (added to the RAB - see statement 2a)	2,620	2,983	3,104	8,707
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(2)	(10)	(23)	(35)
Adjustment for 25% retention of efficient overspend	46	32	51	129
Other adjustments	18	10	(9)	19
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	484	303	430	1,217
Other adjustments	-	-	-	-
Total actual enhancement expenditure (see statement 3)	3,166	3,318	3,553	10,037

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).

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

in £m 2016-17 prices unless stated

- (11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.
- (12) Enhancements – Other adjustments – the amounts in the opening two years of the control period reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme.
- (13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from the Northern Hub programme. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (15) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

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

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- (18) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reversed in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.
- (19) Enhancements – 10 per cent retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income. In the current year the amount retained by Network Rail is 10 per cent.
- (20) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (21) Non-PR13 enhancements – Other adjustments (including discretionary investment) – almost all of the expenditure for the control period to date relates to Manchester Victoria station redevelopment. Expenditure on this programme was funded through the regulator's investment framework but the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5). The credit balance this year relates to favourable settlement of commercial claims, reducing the overall expenditure on the programme.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	2015-16 Baseline	Difference
Funds						
East coast connectivity	27	50	23	54	77	23
Stations - National Station Improvement Programme (NSIP)	9	16	7	40	54	14
Stations - Access for All (AfA)	30	31	1	91	95	4
Development	10	9	(1)	111	137	26
Level crossing safety	16	31	15	45	76	31
Passenger journey improvement	8	54	46	15	62	47
The strategic rail freight network	15	62	47	104	153	49
Total funds	115	253	138	460	654	194
Committed projects						
Thameslink	417	408	(9)	1,416	1,283	(133)
Crossrail	641	392	(249)	1,570	1,377	(193)
GW electrification (Paddington to Cardiff)	637	695	58	1,545	1,574	29
Adjustment for DfT funding - GW electrification	-	-	-	(76)	(76)	-
Bridgend to Swansea electrification	1	15	14	14	29	15
East West Rail (committed scheme)	76	13	(63)	239	183	(56)
Northern Hub	345	511	166	764	932	168
IEP Programme	74	121	47	204	267	63
North Trans Pennine Electrification East	49	105	56	75	130	55
North Trans Pennine Electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Reading station area redevelopment	(10)	23	33	125	163	38
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(85)	(85)	-
Stafford area improvement scheme	21	22	1	163	154	(9)
West coast power supply upgrade	42	55	13	158	172	14
Total committed projects	2,293	2,360	67	6,109	6,103	(6)
Named schemes						
The Electric Spine:						
MML electrification	54	84	30	159	183	24
Derby station area remodelling	13	14	1	20	21	1
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	6	6	-	6	6
Electric spine (DfT SoFA amount)	54	124	70	126	204	78
Total Electric Spine projects	121	228	107	305	414	109
Thames Valley:						
Acton to Willesden electrification (WCML)	-	1	1	1	3	2
Thames Valley branches	1	7	6	2	9	7
Oxford Station area capacity and station enlargement	11	25	14	23	35	12
Total Thames Valley projects	12	33	21	26	47	21
Midlands						
Walsall to Rugeley electrification	14	24	10	47	65	18
Total Midlands Projects	14	24	10	47	65	18
Yorkshire						
Huddersfield station capacity improvement	(3)	1	4	(1)	1	2
Total Yorkshire Projects	(3)	1	4	(1)	1	2
Airports & Ports:						
Western access to London Heathrow Airport	-	-	-	7	8	1
Service Improvements in the Ely Area	1	(1)	(2)	2	2	-
Redhill additional platform	18	18	-	23	23	-
Total airports & Ports	19	17	(2)	32	33	1

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

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	2015-16 Baseline	Difference
South East						
Waterloo	126	112	(14)	176	150	(26)
Total South East	126	112	(14)	176	150	(26)
West						
Dr Days to Filton Abbey Wood capacity improvements	13	19	6	29	31	2
Bristol Temple Meads passenger capacity	1	2	1	2	3	1
Total West	14	21	7	31	34	3
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	1	1	-	2	2
South London HV traction power upgrade	-	2	2	2	3	1
West Anglia main line capacity increase	14	24	10	22	30	8
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	-	-	4	4	-
West of England DMU capability works	2	1	(1)	3	2	(1)
East Kent resignalling phase 2	10	-	(10)	53	55	2
Stevenage and Gordon Hill turnbacks	-	2	2	3	5	2
Reading, Ascot to London Waterloo train lengthening	22	30	8	26	33	7
Uckfield line train lengthening	5	7	2	19	20	1
MML long distance high speed services train lengthening	-	9	9	2	12	10
Route gauge Clearance for different EMUs	7	13	6	11	15	4
Bradford Mill Lane capacity	(1)	1	2	-	2	2
Leeds station capacity	-	1	1	-	2	2
Chiltern Main Line Train Lengthening	1	-	(1)	16	12	(4)
North West train lengthening	-	10	10	-	10	10
New Cross Grid	2	12	10	5	15	10
Anglia traction power supply upgrade	6	17	11	13	24	11
Sussex traction power supply upgrade	27	31	4	32	36	4
Wessex traction power supply upgrade	25	22	(3)	39	43	4
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	8	12	4	18	23	5
LNE routes traction power supply upgrade	1	7	6	1	8	7
Total HLOS capacity metric schemes	129	202	73	270	357	87
Third party funded						
Welsh Valley lines electrification	-	-	-	2	2	-
Total Third Party funded	-	-	-	2	2	-

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

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	2015-16 Baseline	Difference
CP4 Projects Rollovers						
Birmingham New St Gateway	18	9	(9)	180	223	43
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	30	41	11	45	56	11
Redditch Branch Enhancement	-	-	-	17	17	-
Kent power supply upgrade (CP4)	7	17	10	62	72	10
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Capacity relief to the ECML	7	3	(4)	81	78	(3)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
DC Regeneration	-	-	-	2	1	(1)
Package 4, Gravesend Train Lengthening	-	(1)	(1)	-	(1)	(1)
Package 7,10 Car Park West Suburban Railway	-	1	1	15	16	1
Wessex Automatic Selective Door Opening	(1)	-	1	1	2	1
Battersea Park Station Planform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	5	1
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	2	6	4	26	22	(4)
Westerleigh Junction - Barnt Green linespeed increase	-	3	3	-	3	3
Station Security	-	-	-	-	-	-
Other CP4 Rollover	(2)	(6)	(4)	4	-	(4)
Total CP4 rollovers	61	73	12	451	509	58
Other projects						
Seven day railway projects	11	6	(5)	50	47	(3)
ERTMS Cab fitment	9	53	44	28	79	51
R&D allowance	6	-	(6)	13	15	2
Depots and stabling	61	149	88	125	221	96
Income generating property schemes	79	42	(37)	282	265	(17)
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	166	250	84	498	627	129
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	3,067	3,574	507	8,406	8,996	590
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	(1)	-	1	24	-	(24)
NHub Huyton & Roby	-	-	-	-	-	-
DNOs clearance work	8	-	(8)	20	-	(20)
OCSLNE SCPF Newcastle Station	-	-	-	19	-	(19)
Tram Train Project	(7)	-	7	(7)	-	7
NW Electrification	15	-	(15)	96	-	(96)
W001cReadingIndFeeder	23	-	(23)	23	-	(23)
Ilkestone New Station	6	-	(6)	6	-	(6)
Other government sponsored schemes	10	-	(10)	29	-	(29)
Total Government sponsored schemes	54	-	(54)	210	-	(210)
Network Rail spend to save schemes						
Mountfield	1	-	(1)	32	-	(32)
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	1	-	(1)	32	-	(32)
East West Rail (committed scheme)	8	-	(8)	142	-	(142)
Other	2	-	(2)	11	-	(11)
Total Schemes promoted by third parties	10	-	(10)	153	-	(153)
Discretionary Investment	(9)	-	9	20	-	(20)
Total non PR13 enhancement expenditure	56	-	(56)	415	-	(415)
Total Network Rail funded enhancements (see Statement 1)	3,123	3,574	451	8,821	8,996	175
Third Party PAYG	430	-	(430)	1,216	-	(1,216)
Total enhancements (see statement 2b)	3,553	3,574	21	10,037	8,996	(1,041)

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

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Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £3,123m (as shown in Statement 1). This comprises the total enhancement figure in the table above £3,553m less the PAYG schemes funded by third parties (£430m).
- (5) Investment expenditure this year was higher than the previous year. This is a combination of increases and decreases across a wide range of programmes and reflects ramping up of activity to meet milestones contained in the overall enhancement portfolio.

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

- (a) East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure in the current year is lower than the baseline as some of the activity on this fund has now been deferred from the current control period to CP6. Reduced expenditure in the current year is partly due to delays implementing the North Allerton to Newcastle freight loops project. The underspend for the control period to date arises from the variance in the current year.
- (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is less than the baseline in the current year and the control period to date but is expected to match the baseline by the end of CP5. Underspends in the current year were largely driven from work to prioritise delivery of portfolio and concentration by the organisation on other programmes.
- (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. This year included delivery of important projects at Virginia Water, Manningtree, Hamilton Central and Penrith stations. Expenditure in the current year and the control period to date is broadly in line with the baseline.
- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is in line with the baseline but is lower than in the control period to date due to lower than expected investment in 2015/16.
- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was noticeably lower than the determination in this year and is much lower for the control period to date largely as a result of contractor disputes leading to delays. Discussions appear to have reached a mutually agreed conclusion so the level of expenditure is expected to increase over the remainder of the control period. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land.
- (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is significantly lower than the baseline this year although a ramp up on activity is expected in future years, particularly on Market Harborough, Leicester and Derby-Sheffield line speed improvements. The current year variance accounts for the saving in the control period to date.

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

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- (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline this year but a catch up is planned over the remainder of the control period. Underspend this year includes rescheduling of activity to coincide with other projects to gain delivery synergies (such as the Transpennine Route Upgrade programme), insufficient access to instigate change and more challenge on tender price bids. The current year variance accounts for the vast majority of saving in the control period to date.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is in line with the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline this year (such as Crossrail) and some which have spent less (such as Northern Hub and GW electrification (Paddington to Cardiff)). The following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is consistent with the baseline but is higher in the control period to date. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator's determination in the year and control period to date as some of the work has been accelerated from future years into the current year to help meet the programme milestones. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (c) GW electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused an underspend in the control period to date. The savings in the current year are largely driven by continued design delays and materials logistics issues. Despite these delays major regulatory milestones are still expected to be achieved.
- (d) Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (e) Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - This project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. There was minimal activity on this project during the year as the programme looks to develop a joint strategy with the GW electrification project. Delays in implementing the latter project are having a knock-on effect on the Bridgend to Swansea electrification works. The underspend in the control period to date is driven by the variance in the current year.

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

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- (f) East West Rail - The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is noticeably higher than the baseline this year. The project is split into two phases, elements of the second phase planning and design have been accelerated into the current year so the programme can dovetail with construction of HS2. Higher costs are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a). The control period to date variance is largely the result of the overspend in the current year.
- (g) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Despite the ramp up in activity in the current year, investment is significantly lower than the baseline. This is due to a combination of factors including: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries) have necessitated alternative designs, amalgamation of various disparate projects to generate programme overhead reductions and better link projects to minimise passenger disruption and contractor performance issues. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review. The control period to date variance is largely the result of the underspend in the current year
- (h) IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is significantly lower than the baseline as activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme. In addition, there are some modest reductions in programme cost which have resulted in financial outperformance being recognised this year (refer to Statement 5a). The control period to date variance is largely the result of the underspend in the current year
- (i) North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. Investment in the current year is significantly higher than the previous year but is still less than the baseline as parts of the programme have been re-profiled into future years. Delays have been caused by re-organisation of various projects under a single programme team to improve accountability and planning synergies. The control period to date variance is largely the result of the underspend in the current year
- (j) North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East as the baseline for this programme has been expanded to include the West element.

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

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- (k) Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. The credit balance in the current year relates to some gains made on disposal of some of the plant used to deliver the project. In addition, there has been a slowdown in delivery in the current year to remediate a spoil heap and improve Cow Lane highway as part of the scope of works. The underspend in the current year accounts for most of the control period to date variance. The control period to date also benefits from financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.
 - (l) Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
 - (m) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is consistent with the baseline. The programme has spent slightly more than the baseline in the control period to date due to work being brought forward from later in the control period.
 - (n) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the current year are lower than the baseline. Despite this, financial underperformance has been recognised (refer to Statement 5c) as a result of expected increases in the total programme costs. There has been deferral of certain parts of this scheme this year with revised delivery timetables agreed with DfT and also descoping of the final outputs of the programme as certain elements, such as the section of the line between Whitmore and Weaver, are no longer required. The variance in the control period to date is largely caused by the underspend in the current year.
- (8) PR13 funded schemes – named schemes - expenditure in the year is slightly lower than the baseline but this consists of underspend across most of the England & Wales programmes with significant extra costs in Scottish programmes, especially Aberdeen to Inverness journey time improvements. The following notable variances between expenditure and baselines are set out below:
- (a) Midland Mainline Electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure is lower than the baseline due to some delays encountered by the project. This includes reconstruction of two bridges that has been delayed due to access constraints and further work undertaken to assure project costs and contractor estimates. The control period to date variance largely arises from the current year underspend.
 - (b) Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. Expenditure for the year and control period to date is consistent with the baseline.

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

in £m 2016-17 prices unless stated

- (c) Oxford-Bletchley-Bedford electrification - This project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year has been minimal compared to the baseline as other parts of the company's electrification programme have received priority. The control period to date variance stems from the current year underspend.
- (d) Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. The control period to date variance largely arises from the current year underspend.
- (e) Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity in the first three years of the control period.
- (f) Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. Expenditure in the current year is lower than the plan. Whilst the design phased of the programme is largely complete there have been delays in commencing the on-site works following further discussions with stakeholders. The programme is now expected to be largely delivered in CP6, with the funds saved on this project to be reinvested in creating additional benefits to passengers. The control period to date variance largely arises from the current year underspend.
- (g) Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year which reflects acceleration of activity in 2015/16 along with delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. The control period to date variance largely arises from the current year underspend. Investment is expected to ramp up over the remainder of the control period to catch up this this underspend.
- (h) Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure is lower than the baseline as work has been deferred into future years due to slower progress by contractors and identification of a number of historic mine works found underneath the line. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. As a result financial underperformance has been recognised in the current year (refer to Statement 5c).

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

in £m 2016-17 prices unless stated

- (i) Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. There is a credit balance against this project this year as the activity previously classified as Huddersfield station capacity improvement has been moved to North Trans Pennine Electrification East to reflect changes in the programme management. By combining different parts of the programme under one management team, project management costs can be saved, works can be planned more effectively to minimise passenger disruption and other synergies can be achieved.
 - (j) Western access to London Heathrow Airport – This project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period to date is broadly in line with the agreed baseline.
 - (k) Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Progress on this project is in line with the Hendy review expectations. However, as the project is now expected to cost more than the baseline over its life cycle (arising from extra work to meet timetable commitments) some financial underperformance has been reported this year (refer to Statement 5c).
 - (l) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Investment in the year is higher than baseline mostly due to acceleration of activity from future years to meet programme milestones. In addition, design changes and higher contractor delivery costs have increased like-for-like costs on this programme. Consequently, financial underperformance has been acknowledged in the control period to date (refer to Statement 5a), meaning that not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
 - (m) Dr Days to Filton Abbey Wood Capacity Improvements - The project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure is higher in the current year than the baseline. This was mainly a catch up of underspend from earlier in the control period and so the costs in the control period to date and now broadly consistent with the baseline.
 - (n) Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. In line with the Hendy review there was limited activity on this project in the first three years of the control period.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is significantly less than the baseline. This is due to variances across a number of schemes, with relatively few schemes spending more than the baseline. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:

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

in £m 2016-17 prices unless stated

- (a) West Anglia main line capacity increase – This project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. In the current year, expenditure was lower than the baseline. This was partly due to acceleration of activity in 2015/16, and deferral of planned activity from the current year to later years of the control period due in part to delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract award. The control period to date variance largely arises from the current year underspend.
- (b) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure this year was higher than the baseline. The Hendy review baselines assumed that the programme would have been finished by the end of 2015/16 and hence no allowance was made for expenditure in 2016/17. However, activity was re-profiled into the current year, causing the overspend. For the control period to date, expenditure is broadly in line with the baseline and the project is substantially complete.
- (c) Reading, Ascot to London Waterloo train lengthening - This project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Expenditure in the year is lower than the baseline. This is partly caused by deferral of the Feltham element of the scheme into future years arising from delays in local council delivering highway mitigation works. The variance in the control period to date is caused by the lower expenditure in the current year.
- (d) Uckfield line train lengthening - The key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure in the year and the scheme to date is broadly in line the baseline.
- (e) MML long distance high speed services train lengthening - The project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Minimal work was completed this year as the project has been reprofiled to later in the control period and beyond. Most of the milestones for this programme are in CP6, as agreed with the regulator. The variance in the control period to date is predominately due to the underspend in the current year.
- (f) Route gauge Clearance for different EMUs – expenditure is lower than the baseline for the year which comprised an acceleration of activity into 2015/16 and delays in delivering the Thames Valley element of the scheme this year. This has been caused by delays in agreeing the scope of works with stakeholders postponing commencement of physical work. The variance in the control period to date is largely the result of the underspend in the current year.
- (g) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs are generally in line with plan but the total programme costs are expected to be slightly higher than the baseline which has resulted in financial underperformance (refer to Statement 5c).

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

in £m 2016-17 prices unless stated

- (h) North West train lengthening - This project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. There has been minimal work so far on this programme which has caused a variance in the current year and the control period to date. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress.
- (i) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure is lower than the baseline in the current year. The most appropriate way to progress this project is still being discussed with stakeholders, with milestones currently being re-assessed. The variance in the control period to date is largely the result of the underspend in the current year.
- (j) Anglia traction power supply upgrade - The aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. In the current year expenditure is lower than the baseline mainly due to slower progress by the specialist electrification contractor delivering the required works. The variance in the control period to date is largely the result of the underspend in the current year.
- (k) Sussex traction power supply upgrade - The principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic of the Thameslink Programme. Expenditure for the year is slightly below target as resource constraints have resulted in reprofiling activity until later in the control period. The variance in the control period to date is largely the result of the underspend in the current year.
- (l) Wessex traction power supply upgrade – The aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure in the current year is higher than the baseline which was mainly due to a catch up of activity deferred in 2015/16. Investment is slightly lower than the baseline for the control period to date as some activity has been deferred to later in the control period.
- (m) London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.
- (n) Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure is slightly lower than the baseline as the project has been reprofiled into 2017/18. The variance in the control period to date is largely the result of the underspend in the current year.
- (o) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. There has been minimal activity on this programme this year owing to restrictions in suitable resource and access. The variance in the control period to date is largely the result of the underspend in the current year.
- (10) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the early years of the control period is in line with baseline agreed following the Hendy review.

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

in £m 2016-17 prices unless stated

(11) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is lower than the baseline which is mostly due to savings on Bromsgrove electrification and Kent power supply upgrade partly offset by additional spend on Birmingham Gateway. Notable variance between the funding available and actual spend in these areas are noted below:

- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period to date are lower than the agreed Hendy baseline as a result of more of the programme being funded through cash contributions from third party (included in the PAYG category of this statement) but this has been treated as neutral when assessing financial performance. The Hendy baseline assumed that the programme would have progressed further by the end of 2015/16 but there remains certain outstanding elements of the programme.
- (b) Bromsgrove Elec - Midlands Improvements Programme - This project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. Expenditure in the current year is lower than the baseline. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. The variance in the control period to date is largely the result of the underspend in the current year.
- (c) Redditch branch enhancement – this project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure for the control period to date is in line with the baseline and this programme is substantially complete.
- (d) Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was lower than the baseline assumed which is largely due to savings made by the project resulting in financial outperformance (Statement 5c). The project is largely complete and delivery risks have been successfully managed, resulting in decreased expected final costs. The variance in the control period to date is largely the result of the underspend in the current year.
- (e) Capacity relief to the ECML (East Coast Main Line) – The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was higher than the baseline due to some unexpected costs incurred in finishing the project and finalising claims from contractors. As a result, financial underperformance has been recognised in the current year (refer to Statement 5c).

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

in £m 2016-17 prices unless stated

- (f) Package 7,10 Car Park West Suburban Railway – The project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.
- (g) Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.
- (h) MML Linespeed Improvements – this project aims to increase the linespeed on the Midlands Main Line. The expected costs to complete this programme are higher than the estimates prepared to support the aforementioned Hendy review. Consequently, financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). In the current year expenditure was lower than planned as a result of acceleration of activity into 2015/16 last year and some modest efficiencies made this year, resulting in financial outperformance.
- (i) Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. The credit in the current year is due to some expenditure being reclassified to Wessex traction power supply upgrade to correspond to agreed funding arrangements.
- (12) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in Depots & stabling and ERTMS cab fitment programme offset by additional income generating schemes. Notable variances to the baseline include:
 - (a) Seven day railway projects – The key projects in this fund are Balcombe to Copyhold Bi-directional Signalling Upgrade and Mobile Maintenance System. Expenditure is higher than the baseline in the current year which is largely a catch up of underspends in 2015/16. In addition, there has been some financial outperformance (refer to Statement 5c) on the Mobile Maintenance System element of the programme.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure this year is significantly lower than the baseline as lead suppliers on certain projects within the programme have been re-tendered to achieve improved costs and capabilities. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs. The variance in the control period to date is largely the result of the underspend in the current year.

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

in £m 2016-17 prices unless stated

- (c) R&D allowance – In the Hendy Review the majority of this fund was rephased from the current control period to CP6 and hence there is no baseline in the current year. Expenditure in the year largely represents a catch up of underspends in previous years. In addition, there are economically sound areas that Network Rail feels it's important to invest in today in order to generate efficiencies to benefit the industry in the future.
 - (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is lower than the baseline. Major reasons include deferral of Exeter depot following re-profiling from the sponsor and delays to Banbury depot project (asbestos on exiting site and badger activity in local area). The variance in the control period to date is largely the result of the underspend in the current year.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Major investment this year was undertaken at London Bridge to coincide with the Thameslink redevelopment works. Expenditure is expected to reduce towards the end of the control period and the total investment over the control period is expected to be lower than the PR13 assumption. The variance in the control period to date is largely the result of the extra investment in the current year.
 - (f) Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (13) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington. The credit in the Tram Train project is due to an agreed change of funding as part of the project is now being funded through the PAYGO category.

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

in £m 2016-17 prices unless stated

- (b) Network Rail Spend to save – the main project in the current and previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths.
- (c) Schemes promoted by third parties – as with last year the main item in this category which accounts for the majority of the expenditure was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification.
- (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and, earlier in the control period, on CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). Manchester Victoria costs in the previous year included an assessment of contractor claims and disputes. However, further negotiation and challenge has resulted in a reduction in the costs of the project as the claims were largely successfully rebutted. This has meant that some of the financial underperformance recognised in previous years has been reversed out this year (refer to Statement 5c).
- (e) PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. Significant programmes in this category in the current year include: Gospel Oak to Barking electrification works, Crossrail, Tram Train project and works to support HS2 development. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

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

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	36,572	35,591	(981)	29,335	28,642	(693)
Income						
Grant income	(3,916)	(3,898)	18	(11,489)	(11,387)	102
Fixed charges	(299)	(279)	20	(924)	(869)	55
Variable charges	(1,032)	(1,106)	(74)	(3,052)	(3,123)	(71)
Other single till income	(825)	(872)	(47)	(2,326)	(2,421)	(95)
Total income	(6,072)	(6,155)	(83)	(17,791)	(17,800)	(9)
Expenditure						
Network operations	510	387	(123)	1,443	1,186	(257)
Support costs	301	406	105	1,019	1,270	251
Traction electricity, industry costs and rates	531	598	67	1,578	1,644	66
Network maintenance	1,201	1,005	(196)	3,415	3,058	(357)
Schedule 4	178	207	29	595	600	5
Schedule 8	187	4	(183)	398	12	(386)
Renewals	2,415	2,378	(37)	7,863	7,103	(760)
PR13 enhancement	3,067	2,665	(402)	8,264	7,782	(482)
Non-PR13 enhancement	56	-	(56)	406	-	(406)
Total expenditure	8,446	7,650	(796)	24,981	22,655	(2,326)
Financing						
Interest expenditure on nominal debt - FIM covered	367	579	212	1,133	1,557	424
Interest expenditure on index linked debt - FIM covered	217	252	35	652	713	61
Expenditure on the FIM	271	403	132	896	1,111	215
Interest expenditure on government borrowing	376	-	(376)	710	-	(710)
Interest on cash balances held by Network Rail	(5)	(21)	(16)	(23)	(44)	(21)
Total interest costs	1,226	1,213	(13)	3,368	3,337	(31)
Accretion on index linked debt - FIM covered	409	538	129	816	1,488	672
Total financing costs	1,635	1,751	116	4,184	4,825	641
Corporation tax	2	-	(2)	(2)	4	6
Other	165	-	(165)	41	511	470
Movement in net debt	4,176	3,246	(930)	11,413	10,195	(1,218)
Closing net debt	40,748	38,837	(1,911)	40,748	38,837	(1,911)

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

(£m, nominal prices)	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	4,176	3,403	3,834
Represented by:			
New debt issued			
Market issued debt	-	-	-
Borrowing from government	5,551	6,821	5,859
Accretion on index linked debt	409	204	203
Debt repaid	(2,174)	(2,791)	(2,160)
Decrease in net cash balances	368	(874)	223
Other	22	43	(291)
Increase in net debt	4,176	3,403	3,834

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

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	March 2017		March 2016		March 2015	
	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
Market issued debt						
Nominal borrowings (GBP)	4,670	11%	5,131	13%	6,810	20%
Nominal borrowings (Foreign currency)	2,583	6%	4,299	11%	5,398	16%
Total nominal borrowings	7,253	17%	9,430	24%	12,208	36%
Index linked borrowings (GBP)	16,446	39%	16,014	42%	15,811	47%
Borrowing from government	18,240	44%	12,687	34%	5,859	17%
Total regulatory borrowings	41,939	100%	38,131	100%	33,878	100%
Uncleared cash items	-		-		-	
Obligations under finance lease	-		-		-	
Net cash balances	(1,191)		(1,559)		(709)	
Regulatory net debt as at 31 March 2017	40,748		36,572		33,169	

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	0.90	0.87	0.71	1.03
FFO/interest	2.89	2.88	2.59	2.92
Net debt/RAB (gearing)	69.5%	71.0%	73.2%	72.7%
FFO/debt	9.3%	8.4%	7.8%	9.1%
RCF/debt	6.1%	5.5%	4.8%	6.0%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

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

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to England & Wales has increased by £4.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt at 31 March 2017 attributable to England & Wales is £1.9bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by £0.7bn mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network (£1.7bn), higher performance regime costs (£0.4bn) and higher net operating costs (£0.3bn) have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings (£0.6bn) and favourable working capital movements (£0.5bn).
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of some of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

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

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- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.
- (14) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as over 40 per cent of the value of Network Rail's gross debt at the year end is payable to government. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year have been replaced by drawdowns against the DfT loan facility. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that most of the interest costs associated with such instrument are added to the principle. The proportion of this index-linked debt has decreased this year as the rate of overall gross debt has increased at a quicker rate than RPI.

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

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

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

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

(17) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(18) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

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- (19) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is slightly higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator's expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.
- (20) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year.
- (21) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

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

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(22) Debt maturity – section E) shows that most of Network Rail's debt is repayable in more than five years. As an infrastructure entity it makes sense to have a stable view of cashflows and so such long-dated arrangements significantly reduce exposure to short-term financial markets, which are subject to greater turbulence and liquidity risk. The proportion of debt items with a maturity of more than five years has decreased compared to the previous year. This is because the DfT borrowings (which will come to represent a higher percentage of debt as the control period progresses) are all repayable within the control period, thus increasing the weighting of short-term debt. This accounts for the noticeable increase in the debt due within one year this year. In addition, Network Rail is holding less cash assets at the end of this year compared to the previous year (as shown in section C) of this statement).

Statement 5a: Total financial performance, England & Wales

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2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income									
Grant Income	3,916	3,898	18	-	18	-	-	-	-
Fixed Income	299	279	20	-	20	-	-	-	-
Variable Income	769	771	(2)	-	-	-	-	(2)	(2)
Other Single Till Income	825	872	(47)	-	(67)	-	-	20	20
Opex memorandum account	(4)	-	(4)	-	2	-	-	(6)	(6)
Total Income	5,805	5,820	(15)	-	(27)	-	-	12	12
Expenditure									
Network operations	510	387	(123)	-	(5)	-	-	(118)	(118)
Support costs	301	406	105	-	13	-	-	92	92
Industry costs and rates	252	233	(19)	-	-	-	-	(19)	(19)
Traction electricity	15	27	12	-	-	-	-	12	12
Reporter's fees	1	3	2	-	-	2	-	-	-
Network maintenance	1,201	1,005	(196)	-	-	(40)	-	(156)	(156)
Schedule 4 costs	178	207	29	-	-	69	-	(40)	(40)
Schedule 8 costs	187	4	(183)	-	-	-	-	(183)	(183)
Renewals	2,415	2,378	(37)	-	12	856	-	(905)	(227)
PR13 Enhancements	3,067	3,574	507	-	-	768	-	(261)	(51)
Non PR13 Enhancements	56	-	(56)	-	-	(65)	-	9	9
Financing Costs	1,635	1,751	116	-	116	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	2	-	(2)	-	-	(2)	-	-	-
Total Expenditure	9,820	9,975	155	-	136	1,588	-	(1,569)	(681)
Total:	-	-	140	-	109	1,588	-	(1,557)	(669)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters									(669)
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(152)
Under-delivery of train performance requirements (CaSL)									(53)
Missed milestones for Offering Rail Better Information Services (ORBIS)									(37)
Missed Enhancement milestones									-
Total adjustment for under-delivery outputs									(242)
Total financial out / (under) performance to be recognised									(911)

Statement 5a: Total financial performance, England & Wales - continued

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	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: performance	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance
	A	B	C		D	E	F	
			Favourable / (Adverse)					
								$G = C - D - E - F = G \times 25\%$
Income								
Grant Income	11,696	11,591	105	-	105	-	-	-
Fixed Income	942	884	58	-	58	-	-	-
Variable Income	2,310	2,295	15	-	-	-	-	15
Other Single Till Income	2,367	2,462	(95)	-	(155)	-	-	60
Opex memorandum account	14	-	14	-	1	-	-	13
Total Income	17,329	17,232	97	-	9	-	-	88
Expenditure								
Network operations	1,468	1,208	(260)	-	(5)	-	-	(255)
Support costs	1,038	1,293	255	-	50	-	-	205
Industry costs and rates	751	708	(43)	-	(8)	-	-	(35)
Traction electricity	58	71	13	-	-	-	-	13
Reporter's fees	3	9	6	-	-	6	-	-
Network maintenance	3,475	3,114	(361)	-	-	(22)	-	(339)
Schedule 4 costs	606	611	5	-	-	104	-	(99)
Schedule 8 costs	404	12	(392)	-	-	-	-	(392)
Renewals	8,012	7,231	(781)	-	12	1,734	-	(2,527)
PR13 Enhancements	8,406	8,996	590	-	-	1,121	-	(531)
Non PR13 Enhancements	415	-	(415)	-	-	(404)	-	(11)
Financing Costs	4,254	4,825	571	-	571	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(2)	4	6	-	-	6	-	-
Total Expenditure	28,888	28,082	(806)	-	620	2,545	-	(3,971)
Total:	-	-	(709)	-	629	2,545	-	(3,883)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(1,568)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(324)
Under-delivery of train performance requirements (CaSL)								(103)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(37)
Missed Enhancement milestones								(5)
Total adjustment for under-delivery outputs								(469)
Total financial out / (under) performance to be recognised								(2,037)

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	2016-17			Cumulative		
			Variance not included in total financial performance			Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:	Actual	Adjusted PR13		Actual	Adjusted PR13	
Adjustments for external traction electricity	(263)	(335)	72	(797)	(884)	87
Total variance not included in total financial performance:	(263)	(335)	72	(797)	(884)	87
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	10	70	(60)	10	152	(142)
Adjustment for Welsh Valleys finance charge	-	3	(3)	-	5	(5)
Total variance not included in total financial performance:	10	73	(63)	10	157	(147)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	9	-	9	21	-	21
Spend to save adjustment	4	-	4	7	-	7
Release of CP4 long distance financial penalty provision	-	-	-	22	-	22
Total variance not included in total financial performance:	13	-	13	50	-	50
financial performance - Network Operations costs:						
Southern resilience fund	(5)	-	(5)	(5)	-	(5)
Total variance not included in total financial performance:	(5)	-	(5)	(5)	-	(5)
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	263	335	(72)	797	884	(87)
Total variance not included in total financial performance:	263	335	(72)	797	884	(87)
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance	12	-	12	12	-	12
Total variance not included in total financial performance:	12	-	12	12	-	12

Statement 5a: Total financial performance, England & Wales – continued

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Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this. The remaining variance relates to additional income network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

Statement 5a: Total financial performance, England & Wales – continued

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- (3) Variable income – financial outperformance for the control period to date has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. Network Rail commenced repayment of this funding towards the end of the current year resulting in some income w this year, although this was substantially lower than the regulator anticipated. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. In addition, an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The outperformance recognised in Other single till income this year is mainly the result of additional property sales as well as higher station and depot income from offering operators additional facilities partly offset by a substantial decrease in the freight traffic (largely driven by demand for coal transportation). The favourable performance in the control period to date is largely driven by the same factors. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Slow freight growth owing structural changes in the industry and industrial action in Southern England have resulted in financial underperformance being recognised this year. For the control period to date, increases in passenger demand and consequent extra services provided have resulted in financial outperformance being recognised. These gains have been partially offset by lower freight demand. The volume incentive is discussed in more detail in Statement 12.

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- (6) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the behest of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it was been agreed with the regulator that this fund will be outside the scope of the FPM

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7. There is a saving compared to the PR13 target as a result of Network Rail agreeing to restructure financing arrangements around the delivery of the Crossrail programme. However, as this change in financing results in lower income but also lower interest expenses (which are excluded from the scope of FPM) the benefit of this transaction has also been excluded. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. This year, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target in the prior year and the control period to date. This is more than offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance).
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.

Statement 5a: Total financial performance, England & Wales – continued

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- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

Statement 5a: Total financial performance, England & Wales – continued

in £m 2016-17 prices unless stated

- (13) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident being higher than ever. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016), excessive rainfall causing a train derailment near Watford (September 2016) and storm Doris (February 2017) as well as the collapse of a sewer under the train line in South London (July 2016), collapse of a wall outside Liverpool Lime Street station after it was hit by a van (February 2017) and damage to overhead line electrification equipment (Luton, Ranskill Loop and Eves Lane). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, England & Wales – continued

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- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Thameslink and Northern Hub following anticipated programme increases. The control period to date position is due to largely due to these same programmes but also Crossrail. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The FPM recognised in the current year and the control period to date all relate to one project: Manchester Victoria. At the end of 2015/16 contractor claims were included in the cost of the programme, which had substantially completed. The size of these claims caused the costs of the project to exceed the baseline agreed with the regulator, resulting in the recognition of financial underperformance. Following favourable settlement of these claims some of this underperformance has been mitigated in the current year.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.
- (18) Corporation tax – income tax payments have been made this year which partly offsets the favourable position for the opening two years of the control period. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.

Statement 5a: Total financial performance, England & Wales – continued

in £m 2016-17 prices unless stated

- (2) PPM – passenger train punctuality targets for England & Wales were missed in 2016/17, continuing the trend from earlier years of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that England & Wales PPM target of 92.3 per cent was missed by. The ORR's target for England & Wales PPM was much higher than Network Rail's own plans, given the CP4 exit position for performance compared to the regulator's assumption, the experiences in earlier years of the control period and ever more traffic on the network.
- (3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales for both this year and for the opening two years of the control period. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output of 2.2 per cent was missed by.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (notably: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development) there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

Statement 5b: Total financial performance - renewals variance analysis, England & Wales

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(136)	243	(379)	(95)		(95)	-	-
Signalling	140	304	(164)	(41)		(40)	(1)	-
Civils	(105)	162	(267)	(67)		(55)	(12)	-
Buildings	28	68	(40)	(10)		(6)	(4)	-
Electrical power and fixed plant	5	69	(64)	(16)		(7)	(9)	-
Telecoms	17	20	(3)	(1)		(1)	-	-
Wheeled plant and machinery	43	43	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	1	(4)	5	1		1	-	-
Other renewals	(24)	(31)	7	2		4	(2)	-
Total	(37)	868	(905)	(227)		(199)	(28)	-

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(553)	447	(1,000)	(250)		(243)	(7)	-
Signalling	311	904	(593)	(148)		(141)	(7)	-
Civils	(279)	282	(561)	(140)		(102)	(38)	-
Buildings	(21)	101	(122)	(30)		(16)	(14)	-
Electrical power and fixed plant	205	355	(150)	(38)		(12)	(26)	-
Telecoms	67	82	(15)	(4)		(2)	(2)	-
Wheeled plant and machinery	153	153	-	-		-	-	-
IT	(110)	(110)	-	-		-	-	-
Property	24	19	5	1		1	-	-
Other renewals	(578)	(487)	(91)	(23)		2	(25)	-
Total	(781)	1,746	(2,527)	(632)		(513)	(119)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

Statement 5b: Total financial performance - renewals variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost Cardiff, Swindon, Oxford, Bromsgrove and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout England & Wales. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Notable incidents this year include work restoring the Carlisle-Settle line and Dover sea wall which together contributed over £40m to financial underperformance. The underperformance in the control period to date is largely due to the same factors.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle. The underperformance in the control period to date is largely due to the same factors.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

Statement 5b: Total financial performance - renewals variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

- (7) Telecoms – financial underperformance has been reported this year, continuing the trend from the previous year. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units. The underperformance in the control period to date is largely due to the same factors.
- (8) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. This is partly offset by additional costs incurred on completing renewals projects from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification and Paddington roof). The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with notable contributions from electrification projects and FTN.

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales

in £m 2016-17 prices unless stated
2016-17

	Variance to (acceleration) of PR13	Deferral/ work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(9)	137	-	(146)	(19)
East West Rail (committed scheme)	(63)	(66)	-	3	1
IEP Programme	47	43	-	4	1
Reading station area redevelopment	33	35	-	(2)	(1)
West coast power supply upgrade	13	28	-	(15)	(4)
MML electrification	30	34	-	(4)	(1)
Walsall to Rugeley electrification	10	24	-	(14)	(4)
Redhill additional platform	-	5	-	(5)	(1)
Kent power supply upgrade (CP4)	10	4	-	6	2
Chiltern Main Line Train Lengthening	(1)	2	-	(3)	(1)
Capacity relief to the ECML	(4)	2	-	(6)	(1)
Seven day railway projects	(5)	(8)	-	3	1
MML linespeed improvements	4	3	-	1	-
Manchester Victoria	9	-	-	9	9
Crossrail	(249)	(225)	-	(24)	(9)
Northern Hub	166	225	-	(59)	(15)
Waterloo	(14)	(14)	-	-	-
Other Enhancements	474	474	-	-	-
Total	451	703	-	(252)	(42)

Cumulative

	Variance to (acceleration) of PR13	Deferral/ work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(133)	146	-	(279)	(37)
East West Rail (committed scheme)	(56)	(35)	-	(21)	(5)
IEP Programme	63	59	-	4	1
Reading station area redevelopment	38	28	-	10	3
West coast power supply upgrade	14	29	-	(15)	(4)
MML electrification	24	28	-	(4)	(1)
Walsall to Rugeley electrification	18	32	-	(14)	(4)
Redhill additional platform	-	5	-	(5)	(1)
Kent power supply upgrade (CP4)	10	4	-	6	2
Chiltern Main Line Train Lengthening	(4)	(1)	-	(3)	(1)
Capacity relief to the ECML	(3)	3	-	(6)	(1)
Seven day railway projects	(3)	(6)	-	3	1
MML linespeed improvements	(4)	3	-	(7)	(2)
Manchester Victoria	(10)	1	-	(11)	(11)
Crossrail	(193)	(72)	-	(121)	(42)
Northern Hub	168	247	-	(79)	(20)
Waterloo	(26)	(22)	-	(4)	(1)
Other Enhancements	272	268	-	4	1
Total	175	717	-	(542)	(122)

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

- (2) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period to date. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays. Anticipated programme costs have decreased slightly this year resulting in some minor financial outperformance being recognised this year to mitigate some of the financial underperformance reported in 2015/16.
- (3) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies. There have been some delays to the progress of the programme in the year partly caused by the need to remediate a spoil heap and improve Cow Lane highway as part of the scope of works. The promulgation of the programme has introduced some extra costs which has decreased the financial outperformance expected for the programme. As a result some financial underperformance has been recognised this year.
- (4) West coast power supply upgrade – since the end of last year, the anticipated final costs of the programme have increased resulting in financial underperformance being recognised in the current year and the control period to date. Costs have increased due in part of delays in a number of sectional commissionings due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required.
- (5) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in 2016/17 and in the control period to date. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project.
- (6) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in 2016/17 and in the control period to date. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure.
- (7) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the year and the control period to date due to lower programme costs which have been identified this year. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs.

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales – continued

in £m 2016-17 prices unless stated

- (8) MML linespeed improvements – some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed.
- (9) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. This led to negative FPM being declared in the opening two years of the control period as programme costs have continued to increase, including contractor variation orders received after the programme was substantially complete. In the current year, most of these contractor claims recognised last year have been successfully refuted, allowing outperformance to be recognised this year, to partly mitigate the underperformance reported last year. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.
- (10) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.
- (11) Northern Hub – underperformance has been recognised this year and for the control period to date following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is mainly due to increased scope arising from worse than expected asset condition necessitating extra remediation costs. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints and higher than expected supply chain costs have added extra cost pressures.
- (12) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 6a: Analysis of income, England & Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	3,916	3,898	18	11,696	11,591	105	3,919
Franchised track access income							
Fixed charges	299	279	20	942	884	58	283
Variable charges							
Variable usage charge	158	161	(3)	475	479	(4)	159
Traction electricity charges	263	335	(72)	797	884	(87)	268
Electrification asset usage charge	15	14	1	43	41	2	14
Capacity charge	402	402	-	1,213	1,200	13	409
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	194	194	-	579	575	4	197
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	1,032	1,106	(74)	3,107	3,179	(72)	1,047
Total franchised track access income	1,331	1,385	(54)	4,049	4,063	(14)	1,330
Total franchised track access and grant income	5,247	5,283	(36)	15,745	15,654	91	5,249
Other single till income							
Property income	334	321	13	950	903	47	341
Freight income	53	83	(30)	180	230	(50)	58
Open access income	32	29	3	89	84	5	30
Stations income	253	236	17	740	708	32	242
Facility and financing charges	66	132	(66)	171	322	(151)	51
Depots Income	71	57	14	190	172	18	59
Other income	16	14	2	47	43	4	15
Total other single till income	825	872	(47)	2,367	2,462	(95)	796
Total income	6,072	6,155	(83)	18,112	18,116	(4)	6,045

Statement 6a: Analysis of income, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower income earned from Crossrail finance charges (which is offset by lower financing costs) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators and additional property sales).

Statement 6a: Analysis of income, England & Wales – continued

in £m 2016-17 prices unless stated

- (3) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

- (4) Fixed charges – fixed charge income was slightly higher than the determination in both the year and the control period to date. This is partly attributable to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators, notably in London North West route, continuing the trend of supplementary income received in earlier years of the control period. Fixed charges are higher than last year but this is mostly due to the expectation in the determination.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, England & Wales – continued

in £m 2016-17 prices unless stated

- (6) Capacity charge – in the current year this is marginally favourable to the determination but in the control period to date the favourable variance is more evident. This is a combination the increases in charges arising from differences in inflation assumptions (refer to comments above) and because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive this control period (refer to Statement 12). There has been a slight decrease in the capacity charge earned this year. This is mostly due to the well-publicised industrial action undertaken this year which reduced the number of services that ran in the South East and, therefore, the revenue Network Rail generated from train operators.
- (7) Property income – this is higher than the determination with additional property sales more than compensating for lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. However, due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, leading to lower rental income. Property income for the control period to date is favourable. Lower property rental income (as noted above) has been more than offset by additional property sales, notably the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham reported in last year's Regulatory financial statements. Property income is lower than the previous year mainly due to less property sales income partly offset by extra rental revenue. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. As reported in last year's Regulatory financial statements, there were significant benefits in 2015/16 from the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. Property rental income is higher than the previous year which reflects the buoyant market conditions for many of areas that Network Rail operates in as well as offering premises that meet customers' demand. Also, some of the new facilities (such as the revamped Birmingham New Street station and inclusion of a mezzanine level at London Euston) were in place for the full year for the first time this year which has helped generate more income as well as deliver a better experience for the passenger.
- (8) Freight income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date. The decline in freight income compared to the previous year is due to further decline in coal transportation as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.

Statement 6a: Analysis of income, England & Wales – continued

in £m 2016-17 prices unless stated

- (9) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance is higher than it may first appear as it absorbs lower than expected income from traction electricity (which can be seen in Statement 6b), owing to lower wholesale electricity prices as noted above.
- (10) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of Reading and Bristol stations from franchised to managed, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In addition, extra income has been earned following redevelopment of Birmingham New Street station, Euston and London Bridge. The current year also benefits from favourable settlement of commercial disputes. This is partly offset by reductions in income in Anglia as a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. In the control period to date, station income has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations and the impact of managed station redevelopment partly offset by the transfer of stations to the franchisee in the Anglia route. Income is higher than the prior year mainly due to extra income in Kent and Sussex as a result of the redevelopment of London Bridge and successful resolution of commercial disputes which suppressed income in 2015/16.
- (11) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. During the current year Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. Therefore, income earned in this category is higher than the previous year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges although there is a corresponding saving in interest costs incurred as reported in Statement 4.
- (12) Depots income - revenue is slightly higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as following the development of Reading depot (as noted in last year's regulatory accounts). Income has improved since last year following extra services offered and the successful resolution of commercial disputes.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	279	316	(37)	787	887	(100)	265
Property sales	55	36	19	163	107	56	76
Adjustment for commercial opex	-	(31)	31	-	(91)	91	-
Total property income	334	321	13	950	903	47	341
Freight income							
Freight variable usage charge	42	60	(18)	141	169	(28)	46
Freight traction electricity charges	4	10	(6)	16	25	(9)	5
Freight electrification asset usage charge	-	1	(1)	-	2	(2)	-
Freight capacity charge	3	5	(2)	10	15	(5)	4
Freight only line charge	1	3	(2)	5	10	(5)	1
Freight specific charge	-	2	(2)	-	1	(1)	-
Freight other income	2	-	2	4	-	4	1
Freight coal spillage charge	1	2	(1)	4	8	(4)	1
Total freight income	53	83	(30)	180	230	(50)	58
Open access income							
Variable usage charge income	7	2	5	16	7	9	6
Open access capacity charge	2	1	1	5	4	1	2
Open access traction electricity charges	4	6	(2)	10	15	(5)	2
Fixed contractual contribution	19	20	(1)	58	58	-	20
Open access other income	-	-	-	-	-	-	-
Total open access income	32	29	3	89	84	5	30
Stations income							
Managed stations income							
Long term charge	32	32	-	97	95	2	32
Qualifying expenditure	60	41	19	167	124	43	54
Total managed stations income	92	73	19	264	219	45	86
Franchised stations income							
Long term charge	117	117	-	344	352	(8)	112
Stations lease income	44	46	(2)	132	137	(5)	44
Total franchised stations income	161	163	(2)	476	489	(13)	156
Total stations income	253	236	17	740	708	32	242
Facility and financing charges							
Facility charges	56	59	(3)	161	165	(4)	51
Crossrail finance charge	10	70	(60)	10	152	(142)	-
Welsh Valleys finance charge	-	3	(3)	-	5	(5)	-
Total facility and financing charges	66	132	(66)	171	322	(151)	51
Depots income	71	57	14	190	172	18	59
Other	16	14	2	47	43	4	15
Total other single till income	825	872	(47)	2,367	2,462	(95)	796

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

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) Overall, single till income is lower than the regulator expected this year mainly as a result of lower income earned from Crossrail finance charges (which is offset by lower financing costs) and freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators and additional property sales.
- (2) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is slightly below the regulatory expectation for both current year and the control period to date. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new opportunities. However, due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, leading to lower income. Property rental income is higher than the previous year which reflects the buoyant market conditions for many of areas that Network Rail operates in and the ability to supply suitable properties to satisfy market demand. Also, some of the new facilities (such as the revamped Birmingham New Street station and inclusion of a mezzanine level at London Euston) were in place for the full year for the first time this year which has helped generate more income.
- (3) Property sales – income is higher than the regulator's determination this year. As noted in last year's Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Despite the strong performance this year, income is lower than the previous year which benefited from the disposal of Network Rail's interests in the Grand Central shopping complex in Birmingham, as reported in the media. For the control period to date, property sales are ahead of the regulatory target, mainly due to the better performance in the current year and the outperformance in the previous year.

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

in £m 2016-17 prices unless stated

- (4) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date. The decline in freight income compared to the previous year is due to further decline in coal transportation as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (5) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance is higher than it may first appear as it absorbs lower than expected income from traction electricity, owing to lower wholesale electricity prices as noted above. The amounts Network Rail can charge for this are largely driven by the market price of electricity meaning that although Network Rail receives lower income, it also incurs lower costs (shown in traction electricity costs in Statement 7a).
- (6) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption. The largest contribution to this favourable position comes from the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations after the targets in the regulator's determination were set. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a). In addition, there is also some extra income as a result of the costs incurred revamping Birmingham New Street, London Euston and London Bridge, a portion of which are passed to the operators under the franchise contracts. These factors are also largely responsible for the favourable control period to date position compared to the regulator's expectations. Managed stations income is higher than the previous year mainly as a result of extra income earned from the London Bridge redevelopment as noted above.
- (7) Franchised stations – long term charge – income in the year was broadly in line with the regulatory target. The transfer of a number of stations in the Anglia route from Network Rail to the franchisee on a long-term lease which has not foreseen in the determination reduced income. This transfers responsibility for maintaining and renewing the station to the franchisee who no longer have to pay charges to Network Rail to fulfil these tasks. This is augmented by the transfer of status of Reading and Bristol stations to Managed stations. These were offset by additional income earned in Sussex following this year following successful resolution of customer disputes. Income for the control period to date is lower than the regulator's assumption due to the changes in Anglia and Western noted above. The partial compensation from extra income in Sussex only impacted the current year (whilst suppressing the previous year). The slight increase compared to 2015/16 is mostly due to the extra income in Sussex as noted above.

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

in £m 2016-17 prices unless stated

- (8) Franchised stations – Stations Lease Income – income is lower than the regulatory target for both the current year and the control period to date mostly as a result of the transfer of Bristol and Reading to Managed stations and the transfer of Anglia stations to the franchisee as noted above.
- (9) Facility charges – these are lower than the regulator assumed in its' determination as Network Rail has undertaken less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower. Facility charge income is higher than the previous year mainly due to extra income received from franchisees following the redevelopment of East Midland Parkway, including income received relating to previous year's services as agreed with the operator.
- (10) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. During the current year Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. Therefore, income earned in this category is higher than the previous year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges although there is a corresponding saving in interest costs incurred as reported in Statement 4.
- (11) Welsh Valleys finance charge – at the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainty over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year of the control period to date. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5).
- (12) Depots income – revenue is slightly higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as following the development of Reading depot (as noted in last year's regulatory accounts). Income has improved since last year following extra services offered and the successful resolution of commercial disputes.

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

in £m 2016-17 prices unless stated

- (13) Other income - in line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed 1 operations. The quinquennial regulatory control period for High Speed 1 does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed 1 set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed 1 determination.

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Arriva Trains Wales				
Variable Usage Charges	3.2	3.4	3.3	9.9
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	4.0	4.2	4.1	12.3
Fixed Charges	18.8	14.4	15.3	48.5
Station Facility Charge	-	-	-	-
Station Long Term Charges	10.2	10.4	10.3	30.9
Station QX	0.4	0.4	0.5	1.3
Other Charges	1.6	1.5	1.6	4.7
Total income	38.2	34.3	35.1	107.6

	2014-15	2015-16	2016-17	CP5 Total
C2C				
Variable Usage Charges	1.7	1.9	2.0	5.6
Traction Electricity Charges	6.5	7.5	8.1	22.1
Electrification Asset Usage Charges	0.4	0.5	0.5	1.4
Capacity Charges	2.4	2.6	2.6	7.6
Fixed Charges	4.9	3.8	4.1	12.8
Station Facility Charge	-	-	-	-
Station Long Term Charges	2.7	-	-	2.7
Station QX	-	-	0.1	0.1
Other Charges	1.2	1.3	1.1	3.6
Total income	19.8	17.6	18.5	55.9

	2014-15	2015-16	2016-17	CP5 Total
Chiltern				
Variable Usage Charges	2.1	2.3	2.4	6.8
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	1.6	1.7	2.6	5.9
Fixed Charges	4.8	3.9	4.9	13.6
Station Facility Charge	-	-	-	-
Station Long Term Charges	3.8	3.9	3.9	11.6
Station QX	-	-	-	-
Other Charges	11.5	14.1	17.4	43.0
Total income	23.8	25.9	31.2	80.9

	2014-15	2015-16	2016-17	CP5 Total
Cross Country				
Variable Usage Charges	9.8	10.0	9.8	29.6
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	22.7	23.1	22.9	68.7
Fixed Charges	22.6	17.2	16.5	56.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	1.5	1.6	1.5	4.6
Station QX	3.0	3.5	4.2	10.7
Other Charges	-	-	-	-
Total income	59.6	55.4	54.9	169.9

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
East Coast Main Line Rail				
Variable Usage Charges	17.6	-	-	17.6
Traction Electricity Charges	19.1	-	-	19.1
Electrification Asset Usage Charges	1.5	-	-	1.5
Capacity Charges	32.7	-	-	32.7
Fixed Charges	25.3	-	-	25.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	7.5	-	-	7.5
Station QX	2.6	-	-	2.6
Other Charges	1.2	-	-	1.2
Total income	107.5	-	-	107.5

	2014-15	2015-16	2016-17	CP5 Total
Virgin East Coast				
Variable Usage Charges	1.6	18.2	17.2	37.0
Traction Electricity Charges	1.7	20.5	20.5	42.7
Electrification Asset Usage Charges	0.1	1.6	1.7	3.4
Capacity Charges	3.1	36.5	36.3	75.9
Fixed Charges	2.4	21.3	22.4	46.1
Station Facility Charge	-	-	-	-
Station Long Term Charges	0.7	7.4	7.7	15.8
Station QX	0.3	2.5	2.5	5.3
Other Charges	0.1	1.3	1.4	2.8
Total income	10.0	109.3	109.7	229.0

	2014-15	2015-16	2016-17	CP5 Total
East Midlands				
Variable Usage Charges	7.7	7.8	7.6	23.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	17.6	18.0	17.7	53.3
Fixed Charges	15.4	11.7	12.2	39.3
Station Facility Charge	1.4	4.3	11.4	17.1
Station Long Term Charges	5.6	6.8	5.5	17.9
Station QX	0.3	0.3	0.3	0.9
Other Charges	6.8	6.7	6.8	20.3
Total income	54.8	55.6	61.5	171.9

	2014-15	2015-16	2016-17	CP5 Total
First Capital Connect				
Variable Usage Charges	3.2	-	-	3.2
Traction Electricity Charges	9.6	-	-	9.6
Electrification Asset Usage Charges	0.7	-	-	0.7
Capacity Charges	17.4	-	-	17.4
Fixed Charges	9.6	-	-	9.6
Station Facility Charge	0.4	-	-	0.4
Station Long Term Charges	4.7	-	-	4.7
Station QX	2.0	-	-	2.0
Other Charges	1.0	-	-	1.0
Total income	48.6	-	-	48.6

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Govia Thameslink Railway				
Variable Usage Charges	4.4	12.4	16.1	32.9
Traction Electricity Charges	17.5	50.4	60.9	128.8
Electrification Asset Usage Charges	0.9	2.2	2.7	5.8
Capacity Charges	24.5	67.9	81.4	173.8
Fixed Charges	11.5	26.1	31.9	69.5
Station Facility Charge	0.5	2.9	4.5	7.9
Station Long Term Charges	5.4	23.4	35.7	64.5
Station QX	1.9	7.6	9.1	18.6
Other Charges	3.0	3.2	8.7	14.9
Total income	69.6	196.1	251.0	516.7

	2014-15	2015-16	2016-17	CP5 Total
First Great Western				
Variable Usage Charges	19.3	19.5	19.6	58.4
Traction Electricity Charges	-	-	0.2	0.2
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	47.9	49.9	49.2	147.0
Fixed Charges	32.1	23.8	24.4	80.3
Station Facility Charge	1.9	2.0	2.0	5.9
Station Long Term Charges	16.9	17.0	16.8	50.7
Station QX	8.0	8.0	7.8	23.8
Other Charges	26.2	22.4	22.4	71.0
Total income	152.3	142.6	142.4	437.3

	2014-15	2015-16	2016-17	CP5 Total
Greater Anglia				
Variable Usage Charges	10.8	10.0	5.4	26.2
Traction Electricity Charges	32.0	25.7	13.6	71.3
Electrification Asset Usage Charges	2.2	1.9	1.1	5.2
Capacity Charges	17.9	14.5	7.6	40.0
Fixed Charges	26.9	17.9	9.8	54.6
Station Facility Charge	1.1	1.3	0.7	3.1
Station Long Term Charges	3.7	2.4	1.2	7.3
Station QX	2.9	2.0	1.1	6.0
Other Charges	2.9	4.4	2.5	9.8
Total income	100.4	80.1	43.0	223.5

	2014-15	2015-16	2016-17	CP5 Total
Abellio East Anglia				
Variable Usage Charges	-	-	4.4	4.4
Traction Electricity Charges	-	-	13.1	13.1
Electrification Asset Usage Charges	-	-	0.9	0.9
Capacity Charges	-	-	6.3	6.3
Fixed Charges	-	-	8.4	8.4
Station Facility Charge	-	-	0.6	0.6
Station Long Term Charges	-	-	0.9	0.9
Station QX	-	-	0.9	0.9
Other Charges	-	-	2.2	2.2
Total income	-	-	37.7	37.7

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
London Midland				
Variable Usage Charges	6.1	6.6	6.6	19.3
Traction Electricity Charges	14.1	16.0	15.5	45.6
Electrification Asset Usage Charges	0.9	1.0	1.0	2.9
Capacity Charges	34.9	35.0	35.1	105.0
Fixed Charges	18.7	14.2	14.2	47.1
Station Facility Charge	0.3	0.3	0.2	0.8
Station Long Term Charges	10.8	11.1	11.0	32.9
Station QX	4.8	6.0	6.8	17.6
Other Charges	3.4	3.4	3.3	10.1
Total income	94.0	93.6	93.7	281.3

	2014-15	2015-16	2016-17	CP5 Total
London Overground				
Variable Usage Charges	0.8	1.2	0.9	2.9
Traction Electricity Charges	4.1	7.1	4.7	15.9
Electrification Asset Usage Charges	0.1	0.3	0.2	0.6
Capacity Charges	2.3	3.0	1.9	7.2
Fixed Charges	3.7	3.9	2.6	10.2
Station Facility Charge	-	-	-	-
Station Long Term Charges	3.6	4.3	2.7	10.6
Station QX	0.4	1.0	0.6	2.0
Other Charges	0.6	0.6	0.5	1.7
Total income	15.6	21.4	14.1	51.1

	2014-15	2015-16	2016-17	CP5 Total
Arriva Rail London				
Variable Usage Charges	-	-	0.5	0.5
Traction Electricity Charges	-	-	3.3	3.3
Electrification Asset Usage Charges	-	-	0.1	0.1
Capacity Charges	-	-	1.1	1.1
Fixed Charges	-	-	1.6	1.6
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	1.7	1.7
Station QX	-	-	0.4	0.4
Other Charges	-	-	0.3	0.3
Total income	-	-	9.0	9.0

	2014-15	2015-16	2016-17	CP5 Total
Merseyrail				
Variable Usage Charges	0.8	0.8	0.8	2.4
Traction Electricity Charges	5.6	5.6	5.5	16.7
Electrification Asset Usage Charges	0.1	0.1	0.1	0.3
Capacity Charges	0.5	0.5	0.5	1.5
Fixed Charges	3.3	2.5	2.6	8.4
Station Facility Charge	-	-	-	-
Station Long Term Charges	7.9	7.9	7.7	23.5
Station QX	-	-	-	-
Other Charges	0.6	0.8	0.7	2.1
Total income	18.8	18.2	17.9	54.9

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
MTR Crossrail				
Variable Usage Charges	-	0.6	0.7	1.3
Traction Electricity Charges	-	3.4	4.1	7.5
Electrification Asset Usage Charges	-	0.2	0.2	0.4
Capacity Charges	-	2.9	3.4	6.3
Fixed Charges	-	1.6	2.0	3.6
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	0.8	0.9	1.7
Station QX	-	0.6	0.7	1.3
Other Charges	-	-	-	-
Total income	-	10.1	12.0	22.1

	2014-15	2015-16	2016-17	CP5 Total
Northern				
Variable Usage Charges	4.4	4.9	5.4	14.7
Traction Electricity Charges	4.5	6.3	7.3	18.1
Electrification Asset Usage Charges	0.2	0.3	0.4	0.9
Capacity Charges	8.4	8.5	8.9	25.8
Fixed Charges	25.5	19.6	20.2	65.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	16.5	16.6	17.1	50.2
Station QX	3.1	3.1	3.4	9.6
Other Charges	5.3	5.2	6.5	17.0
Total income	67.9	64.5	69.2	201.6

	2014-15	2015-16	2016-17	CP5 Total
Scotrail				
Variable Usage Charges	0.6	-	-	0.6
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	0.1	-	-	0.1
Capacity Charges	0.4	-	-	0.4
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	0.1	-	-	0.1
Other Charges	-	-	-	-
Total income	1.2	-	-	1.2

	2014-15	2015-16	2016-17	CP5 Total
Serco Sleeper				
Variable Usage Charges	-	0.7	0.8	1.5
Traction Electricity Charges	-	-	0.7	0.7
Electrification Asset Usage Charges	-	-	0.2	0.2
Capacity Charges	-	0.1	0.4	0.5
Fixed Charges	-	-	2.2	2.2
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	0.1	0.1
Station QX	-	-	0.1	0.1
Other Charges	-	-	-	-
Total income	-	0.8	4.5	5.3

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
South Eastern				
Variable Usage Charges	8.6	9.8	9.2	27.6
Traction Electricity Charges	33.0	35.2	38.4	106.6
Electrification Asset Usage Charges	1.0	1.1	1.1	3.2
Capacity Charges	16.4	17.2	15.8	49.4
Fixed Charges	23.7	18.1	19.1	60.9
Station Facility Charge	0.1	0.1	0.1	0.3
Station Long Term Charges	24.2	23.7	23.6	71.5
Station QX	5.8	5.6	8.6	20.0
Other Charges	7.6	7.3	8.1	23.0
Total income	120.4	118.1	124.0	362.5

	2014-15	2015-16	2016-17	CP5 Total
South West Trains				
Variable Usage Charges	12.2	12.2	12.5	36.9
Traction Electricity Charges	37.6	39.8	39.4	116.8
Electrification Asset Usage Charges	1.1	1.1	1.2	3.4
Capacity Charges	26.1	26.4	26.1	78.6
Fixed Charges	25.1	19.2	20.3	64.6
Station Facility Charge	10.6	7.4	10.4	28.4
Station Long Term Charges	28.3	29.7	29.2	87.2
Station QX	4.3	5.0	4.7	14.0
Other Charges	7.8	10.5	9.2	27.5
Total income	153.1	151.3	153.0	457.4

	2014-15	2015-16	2016-17	CP5 Total
Southern				
Variable Usage Charges	8.9	3.7	-	12.6
Traction Electricity Charges	28.7	11.9	-	40.6
Electrification Asset Usage Charges	1.0	0.4	-	1.4
Capacity Charges	42.3	17.4	-	59.7
Fixed Charges	18.5	4.4	-	22.9
Station Facility Charge	2.2	0.9	-	3.1
Station Long Term Charges	21.9	6.9	-	28.8
Station QX	3.2	1.1	-	4.3
Other Charges	1.6	0.5	-	2.1
Total income	128.4	47.2	-	175.6

	2014-15	2015-16	2016-17	CP5 Total
Transpennine				
Variable Usage Charges	4.4	4.5	4.1	13.0
Traction Electricity Charges	2.2	2.3	2.4	6.9
Electrification Asset Usage Charges	0.1	0.1	0.1	0.3
Capacity Charges	10.7	11.0	10.4	32.1
Fixed Charges	11.2	9.3	10.4	30.9
Station Facility Charge	-	-	-	-
Station Long Term Charges	3.7	3.7	3.2	10.6
Station QX	1.4	1.7	1.5	4.6
Other Charges	0.1	0.1	0.1	0.3
Total Turnover	33.8	32.7	32.2	98.7

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Virgin West Coast				
Variable Usage Charges	29.4	28.8	28.7	86.9
Traction Electricity Charges	38.7	42.1	46.9	127.7
Electrification Asset Usage Charges	2.9	3.0	3.0	8.9
Capacity Charges	67.8	68.6	67.9	204.3
Fixed Charges	43.1	32.8	34.5	110.4
Station Facility Charge	8.8	8.9	8.8	26.5
Station Long Term Charges	11.1	11.2	11.1	33.4
Station QX	5.7	5.9	6.2	17.8
Other Charges	1.4	1.4	1.5	4.3
Total Turnover	208.9	202.7	208.6	620.2

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Non-Franchised Train Operators				
Variable Usage Charges	2.6	4.6	5.6	12.8
Traction Electricity Charges	3.2	1.3	2.6	7.1
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	1.3	1.7	1.8	4.8
Fixed Charges	19.3	19.2	18.8	57.3
Station Facility Charge	-	-	-	-
Station Long Term Charges	1.5	1.2	1.4	4.1
Station QX	0.7	(0.2)	0.2	0.7
Other Charges	0.2	0.2	0.2	0.6
Total Turnover	28.8	28.0	30.6	87.4

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Charter Train Operators				
Variable Usage Charges	0.9	0.6	0.6	2.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	-	-	-	-
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Other Charges	-	-	-	-
Total Turnover	0.9	0.6	0.6	2.1

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Freight Operating Companies				
Variable Usage Charges	52.6	49.7	45.0	147.3
Traction Electricity Charges	6.6	5.2	5.0	16.8
Electrification Asset Usage Charges	0.1	0.1	0.1	0.3
Capacity Charges	3.2	3.8	3.5	10.5
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Other Charges	7.2	3.9	3.6	14.7
Total Turnover	69.7	62.7	57.2	189.6

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

in £m 2016-17 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. In addition, in 2015/16 the results of the Southern franchise were consolidated into Govia Thameslink's results. Therefore, there is no income for First Capital Connect after 2014/15 whilst Southern's income also decreases significantly from 2015/16. Conversely, income for Govia Thameslink Railway increases over the control period as the revenue is recognised in this category.
- (5) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.
- (6) MTR Crossrail started to operate services in 2015/16 and so was shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Greater Anglia and so in 2014/15 the associated income will also have been reported within the Greater Anglia figures which accounts for most of the decrease in the income from this operator in 2015/16 compared to 2014/15.
- (7) Abelio East Anglia replaced Greater Anglia as the franchise operator during the current year. Therefore, the Abelio East Anglia is shown in the Regulatory Financial Statements for the first time this year whilst there is a significant decrease in the income arising from Greater Anglia compared to 2015/16.
- (8) In 2015/16 Caledonian Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.
- (9) In 2015/16 a number of stations were transferred to C2C on a long-term lease. Therefore, the station income paid by this operator to Network Rail is lower in 2015/16 and 2015/16 compared to 2014/15.
- (10) During the year, Arriva Rail London has assumed responsibility for the London overground concession previously run by London Overground Rail Operations. Therefore, there is a significant decrease in the revenue reported from London Overground this year compared to 2015/16 with a corresponding increase in Arriva Rail London.
- (11) In 2016/17 Station facility charges paid by East Midlands Trains increased as a result of extra income recognised for additional services offered at East Midlands Parkway station.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales

in £m 2016-17 prices unless stated

	2016-17			Cumulative			2015-16
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	244	203	(41)	720	640	(80)	242
Signalling shift managers	12	13	1	46	39	(7)	16
Local operations managers	17	14	(3)	55	44	(11)	17
Controllers	34	30	(4)	100	89	(11)	34
Electrical control room operators	13	10	(3)	37	30	(7)	12
Total signaller expenditure	320	270	(50)	958	842	(116)	321
Non-signaller expenditure							
Mobile operations managers	35	29	(6)	100	89	(11)	32
Managed stations	57	34	(23)	157	107	(50)	54
Performance	13	13	-	42	40	(2)	17
Customer relationship executives	5	6	1	17	20	3	8
Route enhancement managers	-	-	-	5	-	(5)	-
Weather	12	17	5	39	54	15	12
Other	38	11	(27)	98	34	(64)	27
Operations delivery	5	-	(5)	13	-	(13)	5
HQ - Operations services	1	-	(1)	3	-	(3)	1
HQ - Performance and planning	13	-	(13)	18	-	(18)	4
HQ - Stations and customer services	1	-	(1)	2	-	(2)	1
HQ - Other	37	25	(12)	111	80	(31)	46
Other operating income	(27)	(18)	9	(95)	(58)	37	(28)
Total non-signaller expenditure	190	117	(73)	510	366	(144)	179
Total network operations expenditure	510	387	(123)	1,468	1,208	(260)	500
Support costs							
Core support costs							
Human resources	15	52	37	88	168	80	34
Information management	55	55	-	175	172	(3)	58
Government and corporate affairs	9	16	7	34	52	18	11
Group strategy	3	11	8	18	32	14	6
Finance	22	24	2	56	78	22	17
Business services	23	13	(10)	49	39	(10)	12
Accommodation	71	65	(6)	217	205	(12)	72
Utilities	46	40	(6)	121	119	(2)	37
Insurance	(8)	43	51	90	135	45	52
Legal and inquiry	7	5	(2)	20	17	(3)	7
Safety and sustainable development	17	7	(10)	62	24	(38)	22
Strategic sourcing	6	8	2	19	27	8	6
Business change	-	4	4	4	10	6	2
Other corporate functions	31	3	(28)	94	10	(84)	33
Core support costs	297	346	49	1,047	1,088	41	369
Other support costs							
Asset management services	29	38	9	96	115	19	36
Network Rail telecoms	27	30	3	113	109	(4)	40
National delivery service	-	1	1	-	9	9	-
Infrastructure Projects	(23)	-	23	(67)	-	67	(27)
Commercial property	(5)	(4)	1	(19)	(10)	9	(10)
Group costs	(24)	(5)	19	(132)	(18)	114	(55)
Total other support costs	4	60	56	(9)	205	214	(16)
Total support costs	301	406	105	1,038	1,293	255	353
Traction electricity, industry costs and rates							
Traction electricity	278	362	84	855	955	100	293
Business rates	145	144	(1)	437	432	(5)	147
British transport police costs	80	64	(16)	232	199	(33)	75
RSSB costs	9	8	(1)	26	24	(2)	7
ORR licence fee and railway safety levy	13	15	2	45	47	2	15
Reporters fees	1	3	2	3	9	6	1
Other industry costs	5	2	(3)	11	6	(5)	5
Total traction electricity, industry costs and rates	531	598	67	1,609	1,672	63	543
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,342	1,391	49	4,115	4,173	58	1,396

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year. Changes in pension legislation have increased staff costs, the development of London Bridge has resulted in extra running costs, performance improvement schemes have increased compared to last year. These extra headwinds have been largely absorbed through generating some minor efficiencies and a reduction of one-off costs compared to 2015/16.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (6) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are lower than the previous year due to further devolution of communications staff to the routes so they can better understand and support the local route teams and communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy costs as many discretionary projects have been cancelled and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. The restructuring of the team and the transfer to Finance occurred in the current year which has driven the noticeable reduction in costs compared to 2015/16, whilst increasing the costs in Finance.
- (9) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year. Costs are higher than the previous year due to this transfer from Group strategy.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (10) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (11) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be much lower than the CP4 exit position by 2016/17, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. This was mostly due to new office space acquired in London in 2014/15 for the Kent and Sussex routes. The cost reduction compared to the previous year is mainly due to the transfer of property costs relating to Network Rail's central development and training centre in Westwood. This facility houses the front line engineering apprentices Network Rail recruit every year to be the next generation of staff in the rail industry. Responsibility for apprentices now resides within Business services and so the costs of the Westwood facility have also been moved to this heading to offer greater transparency over the costs of apprentice activity.
- (12) Utilities – costs are higher than the determination this year which has largely negated the savings made in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year when some one-off benefits contributed to the result.
- (13) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (14) Legal and inquiry – costs for the current year are slightly higher than the regulator assumed. This is mainly due to the transfer of some of the Business change responsibilities to Legal and inquiry and also to extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. These extra items have been offset by some efficiencies over and above the regulatory expectation. The extra expenditure in the control period to date compared to the ORR assumption is due to the same factors. Expenses in the current year are higher than the previous year reflecting the transfer of responsibilities from Business change.
- (15) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area. Costs are in lower than the previous year which included investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included largely in Safety and sustainability development (with some costs also recognised under the Asset management services heading).
- (16) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (17) Business change – no costs have been reported against this category in the current year. Responsibilities for Business change activities resides with various other functions whereas the determination assumed that this would be managed by a single department. Costs are lower than the previous year as the teams previously reported under this heading have been moved to Legal and inquiry to mirror organisational reporting changes.
- (18) Other corporate functions – costs are significantly higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are slightly lower than the previous year following some efficiencies realised by the route management teams in the current year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (19) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are lower than the previous year. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (20) Network Rail telecoms – costs for the year are lower than the determination largely due to successful implementation of efficiency plans, particularly around reducing landline, cloud and data usage acquired from suppliers. In addition, extra income has been earned through utilising the spare capacity on the network by selling additional services to third parties. Despite the savings made in the current year, costs for the control period to date are higher than the determination assumed. This was mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (21) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position would be achieved by 2017/18.
- (22) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (23) Commercial Property – net costs in the year are broadly in line with the regulatory assumption. In the control period to date, net costs have been lower than the PR13 target mainly due to additional car park income generated at multiple sites, including new facilities (such as Haywards Heath) as well as overall price increases (reflecting market demand) and favourable settlement of a commercial claim in 2015/16. Net costs in the current year are higher than the previous year due to the aforementioned claim settlement flattening the results in that year.
- (24) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower re-organisation costs in the current year than the regulator expected as well as receipt of compensation from Crossrail Limited for agreeing to contractual changes. The determination assumed that Group would receive credits relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by costs relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.
- (25) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the previous year mainly due to lower traction electricity costs partly offset by extra British Transport Police costs. The same factors explain the variance to the regulator's targets for the current year and the control period to date.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

- (26) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are lower than the prior year reflecting lower market prices which is offset by lower income in Statement 6a. The overall net Traction electricity costs are lower than the previous year. As noted in the 2015/16 Regulatory financial statements the position in that year included recognition of losses on settlements of commercial claims.
- (27) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (28) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year's costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.
- (29) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of contribution that Network Rail is required to make under this mechanism is higher than the regulator's expectation which is causing an adverse variance in the current year and the control period to date. Network Rail has limited ability to influence the costs payable, as the RSSB acts as an independent organisation within the industry.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2016-17 prices unless stated

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

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	218	260	259	258
MOMS	23	32	33	37
Control	38	45	45	46
Planning & Performance Staff Costs	29	28	35	35
Managed Stations Staff Costs	16	16	17	23
Operations Management Staff Costs	20	23	25	21
Other	112	55	86	90
Total operations & customer services costs	456	459	500	510
Total Network Operations	456	459	500	510
Support				
Human resources				
Functional support	28	14	15	14
Training (inc Westwood)	19	11	8	-
Graduates	2	-	2	-
Apprenticeships	6	8	8	-
Other	4	6	1	1
Total human resources	59	39	34	15
Information management				
Support	7	6	1	5
Projects	2	1	1	-
Licences	-	-	-	-
Business operations	47	56	55	50
Other	-	-	-	-
Total information management	56	63	57	55
Finance	17	16	17	22
Business Change	3	2	2	-
Contracts & Procurement	8	-	-	-
Strategic Sourcing (National Supply Chain)	-	6	6	6
Planning & development	14	8	6	3
Safety & compliance	14	-	-	-
Other corporate services	50	14	15	16
Commercial property	100	72	62	66
Infrastructure Projects	(53)	(16)	(26)	(23)
Route Services	11	16	16	17
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	132	-	-	-
National delivery service	3	-	-	-
Private party	-	-	-	-
Utilities	-	39	37	46
Network Rail Telecoms	-	46	40	27
Digital Railway	-	15	20	17
Safety Technical & Engineering	-	39	38	29
Government & Corporate Affairs	-	14	11	9
Business Services	-	14	12	23
Route Asset Management	-	-	1	(2)
Legal and inquiry	-	6	7	7
Group/central				
Pensions	1	-	-	-
Insurance	34	45	52	(8)
Redundancy/reorganisation costs	64	15	10	10
Staff incentives/Bonus Reduction	4	(23)	(6)	-
Accommodation & Support Recharges	(3)	(25)	(25)	(23)
Commercial claims settlements	-	-	(30)	(9)
ORR financial penalty	74	(22)	-	-
Other	2	2	(4)	(2)
Total group/central costs	176	(8)	(3)	(32)
Total support	590	385	352	301
Total network operations and support costs	1,046	844	852	811

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (3) Network Operations – costs are broadly in line with the previous year. Changes in pension legislation have increased staff costs, the development of London Bridge has resulted in extra running costs and performance improvement schemes have increased compared to last year. These extra headwinds have been largely absorbed through generating some minor efficiencies and a reduction of one-off costs compared to 2015/16.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are lower than the previous year mostly due to the Insurance savings arising from reduced premiums (as cover has been reduced) and non-recurring savings following the actuarial reassessment of liabilities.
- (5) Human Resources – reductions in costs in the current year are mainly due to transfer of responsibilities from Human resources department to other areas of the organisation. As part of Network Rail’s devolution strategy certain training costs have been moved from the centre to the routes (the Route Services heading in this statement). In addition, as the above table shows there is a marked decrease in the Training, Graduates and Apprenticeships categories this year which now show £nil values. This is due to the responsibility for these activities moving to Business services.
- (6) Finance – costs are higher than the previous year due to a transfer of some planning & regulation staff from Group strategy to Finance to reflect organisational structure changes.
- (7) Business change – the decrease in costs compared to 2015/16 is the result of responsibility for this area being transferred to the Legal and inquiry department.
- (8) Planning & development – the costs in this area are lower than the previous year. As noted above, this is due to the transfer of some of the team to the Finance department to reflect the latest organisational structure and reporting lines.

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales – continued

in £m 2016-17 prices unless stated

- (9) Commercial property – costs are broadly in line with the previous year. This consists of savings made from transferring management of the Westwood training centre to Business services (to give accountability for all of the training and front line engineering apprenticeship to a single function) offset by some favourable one-off settlements of commercial claim that were experienced in 2015/16.
- (10) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Also, the previous year included some one-off benefits which helped suppress the prior year comparative.
- (11) Telecoms – costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (12) Digital railway – costs are lower than the previous year. As noted in the prior year's Regulatory financial statements, expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16.
- (13) Safety, Technical & Engineering - costs are lower than the previous year which included investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period.
- (14) Government & corporate affairs - costs are lower than the previous year due to further devolution of communications staff to the routes so they can better understand and support the local route teams and associated communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (15) Business services - costs in the year are noticeably higher than the previous year mainly arising from transfers of responsibility from Human resources, including professional training and development as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. These extra costs have been partly offset by a transfer of some contract & procurement staff to Route services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales – continued

in £m 2016-17 prices unless stated

- (16) Group – Insurance – costs are noticeably lower than last year which is due to two main factors. Firstly, Network Rail has altered its insurance strategy to fall more in line with the rest of government. As a result premiums are lower, but more risk is retained by the organisation. Secondly, as part of the year end actuarial review of liabilities, the level of provisions for outstanding claims was reduced. The increase in Insurance costs seen in the early years of the control period was mostly due to severe weather events towards the end of control period 4 which had a high profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result the business case for procuring a lower level of insurance cover became more compelling. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury or damage caused by Network Rail's road fleet) which are now more expensive.
- (17) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs in the last year of CP4. As part of this reorganisation initiative there was costs incurred in 2014/15 too. In the past two years, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least 2019.
- (18) Group – staff incentives – in 2014/15 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. The credit balance last year relates to lower expected payouts for long-term incentive plans to be made as a result of performance not meeting corporate targets. The planned costs of these schemes were included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets was recognised in Group. Changes in the method of calculating long-term incentives provides more certainty over the costs and so there is no such credit (or expense) this year.
- (19) Group – commercial claims settlements – as noted in the prior year's Regulatory financial statements Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties in 2015/16. The largest one of these was the recognition of amounts received for Crossrail Limited for agreeing to some contractual changes, largely around the method of financing charges. As this is likely to result in additional borrowing costs for Network Rail, no financial performance benefit (refer to Statement 5) was reported for this deal as borrowing costs are outside of the measure of financial performance. In the current year, there were further contractual refinements for which Network Rail were compensated. Again, this does not form part of the assessment of financial performance shown in Statement 5.

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales – continued

in £m 2016-17 prices unless stated

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

Statement 7c: Insurance reconciliation, England & Wales

in £m 2016-17 prices unless stated

A) Reconciliation of costs		Market based insurance			Self insurance Claims recognised			Total
Risk	Underlying cost	Claims paid	Market premiums	Underlying cost	by the captive	Captive premiums	Other	Total cost
			A					
Property	0	0	1	9	1	5	0	2
Business interruption	0	0	1	49	0	0	0	1
Terrorism	0	0	0	0	0	0	0	0
Employer's liability	0	0	0	1	0	0	0	0
Public & products liability	0	0	1	11	0	14	0	1
Motor	0	0	1	1	0	0	0	1
Construction all risks	3	0	1	4	2	1	0	3
Other cover	0	0	0	0	0	1	1	1
Investment return	0	0	0	0	0	0	2	2
Total	3	0	5	75	3	21	3	11

Total insurance recognised in:

Schedule 4 & 8	0	0	1	49	0	0	0	1
Operations	0	0	0	0	0	0	0	0
Support costs	3	0	4	26	3	21	3	10
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	3	0	5	75	3	21	3	11

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2016-17	2015-16	2014-15	Cumulative
Operations	51	(47)	(24)	(20)
Investment revenues	2	2	1	5
Finance costs	0	0	0	0
Profit/(loss) before tax	53	(45)	(23)	(15)
Tax	0	0	0	0
Profit/(loss) attributable to shareholders	53	(45)	(23)	(15)

Statement 7c: Insurance reconciliation, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Total insurance cost: $A+B+C=D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax, the rate of which increased once again this year following legislative changes.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.
- (2) This year Network Rail Insurance Limited has made a profit (unaudited) compared to losses made in the previous years of the control period. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. This year, the actuarial reassessment of liabilities resulted in reduced expected future pay-outs which helped to generate the profit.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales

in £m 2016-17 prices unless stated

Actual spend in year

	2016-17				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	244	0	0	244	203	0	0	203	(41)	0	0	(41)
Signalling shift managers	12	0	0	12	13	0	0	13	1	0	0	1
Local operations managers	18	(1)	0	17	14	0	0	14	(4)	1	0	(3)
Controllers	36	(2)	0	34	30	0	0	30	(6)	2	0	(4)
Electrical control room operators	14	(1)	0	13	10	0	0	10	(4)	1	0	(3)
Total signaller expenditure	324	(4)	0	320	270	0	0	270	(54)	4	0	(50)
Non-signaller expenditure												
Mobile operations managers	36	(1)	0	35	29	0	0	29	(7)	1	0	(6)
Managed stations	56	1	0	57	34	0	0	34	(22)	(1)	0	(23)
Performance	13	0	0	13	13	0	0	13	0	0	0	0
Customer relationship executives	6	(1)	0	5	6	0	0	6	0	1	0	1
Route enhancement managers	8	(8)	0	0	0	0	0	0	(8)	8	0	0
Weather	12	0	0	12	17	0	0	17	5	0	0	5
Other	51	(13)	0	38	11	0	0	11	(40)	13	0	(27)
Operations delivery	48	(43)	0	5	0	0	0	0	(48)	43	0	(5)
HQ - Operations services	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Performance and planning	24	(11)	0	13	0	0	0	0	(24)	11	0	(13)
HQ - Stations and customer	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Other	55	(18)	0	37	25	0	0	25	(30)	18	0	(12)
Other operating income	0	0	(27)	(27)	0	0	(18)	(18)	0	0	9	9
Total non-signaller expenditure	311	(94)	(27)	190	135	0	(18)	117	(176)	94	9	(73)
Total network operations	635	(98)	(27)	510	405	0	(18)	387	(230)	98	9	(123)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales - continued

in £m 2016-17 prices unless stated

Actual spend in year

	2016-17				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	15	0	0	15	54	0	(2)	52	39	0	(2)	37
Information management	78	(20)	(3)	55	59	0	(4)	55	(19)	20	(1)	0
Government and corporate affairs	12	(3)	0	9	16	0	0	16	4	3	0	7
Group strategy	18	(14)	(1)	3	11	0	0	11	(7)	14	1	8
Finance	19	3	0	22	24	0	0	24	5	(3)	0	2
Business services	31	(3)	(5)	23	14	0	(1)	13	(17)	3	4	(10)
Accommodation	71	0	0	71	65	0	0	65	(6)	0	0	(6)
Utilities	57	0	(11)	46	40	0	0	40	(17)	0	11	(6)
Insurance	(8)	0	0	(8)	43	0	0	43	51	0	0	51
Legal and inquiry	8	(1)	0	7	5	0	0	5	(3)	1	0	(2)
Safety and sustainable development	24	(6)	(1)	17	7	0	0	7	(17)	6	1	(10)
Strategic sourcing	6	0	0	6	20	0	(12)	8	14	0	(12)	2
Business change	0	0	0	0	4	0	0	4	4	0	0	4
Other corporate functions	77	(2)	(44)	31	3	0	0	3	(74)	2	44	(28)
Core support costs	408	(46)	(65)	297	365	0	(19)	346	(43)	46	46	49
Other support costs												
Asset management services	69	(34)	(6)	29	57	0	(19)	38	(12)	34	(13)	9
Network Rail telecoms	56	(21)	(8)	27	30	0	0	30	(26)	21	8	3
National delivery service	0	0	0	0	23	0	(22)	1	23	0	(22)	1
Infrastructure projects	424	(441)	(6)	(23)	0	0	0	0	(424)	441	6	23
Commercial property	46	(14)	(37)	(5)	26	0	(30)	(4)	(20)	14	7	1
Group costs	(6)	(5)	(13)	(24)	1	0	(6)	(5)	7	5	7	19
Total other support costs	589	(515)	(70)	4	137	0	(77)	60	(452)	515	(7)	56
Total support costs	997	(561)	(135)	301	502	0	(96)	406	(495)	561	39	105

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales - continued

in £m 2016-17 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	723	(3)	0	720	640	0	0	640	(83)	3	0	(80)
Signalling shift managers	47	(1)	0	46	39	0	0	39	(8)	1	0	(7)
Local operations managers	58	(3)	0	55	44	0	0	44	(14)	3	0	(11)
Controllers	105	(5)	0	100	89	0	0	89	(16)	5	0	(11)
Electrical control room operators	40	(3)	0	37	30	0	0	30	(10)	3	0	(7)
Total signaller expenditure	973	(15)	0	958	842	0	0	842	(131)	15	0	(116)
Non-signaller expenditure												
Mobile operations managers	103	(3)	0	100	89	0	0	89	(14)	3	0	(11)
Managed stations	155	2	0	157	107	0	0	107	(48)	(2)	0	(50)
Performance	43	(1)	0	42	40	0	0	40	(3)	1	0	(2)
Customer relationship executives	20	(3)	0	17	20	0	0	20	0	3	0	3
Route enhancement managers	30	(25)	0	5	0	0	0	0	(30)	25	0	(5)
Weather	47	(8)	0	39	54	0	0	54	7	8	0	15
Other	178	(80)	0	98	34	0	0	34	(144)	80	0	(64)
Operations delivery	96	(83)	0	13	0	0	0	0	(96)	83	0	(13)
HQ - Operations services	3	0	0	3	0	0	0	0	(3)	0	0	(3)
HQ - Performance and planning	42	(24)	0	18	0	0	0	0	(42)	24	0	(18)
HQ - Stations and customer	2	0	0	2	0	0	0	0	(2)	0	0	(2)
HQ - Other	149	(38)	0	111	80	0	0	80	(69)	38	0	(31)
Other operating income	1	0	(96)	(95)	0	0	(58)	(58)	(1)	0	38	37
Total non-signaller expenditure	869	(263)	(96)	510	424	0	(58)	366	(445)	263	38	(144)
Total network operations	1,842	(278)	(96)	1,468	1,266	0	(58)	1,208	(576)	278	38	(260)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales - continued

in £m 2016-17 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	102	(9)	(5)	88	174	0	(6)	168	72	9	(1)	80
Information management Government and corporate affairs	254	(70)	(9)	175	185	0	(13)	172	(69)	70	(4)	(3)
Group strategy	40	(6)	0	34	52	0	0	52	12	6	0	18
Finance	49	(28)	(3)	18	32	0	0	32	(17)	28	3	14
Business services	53	3	0	56	78	0	0	78	25	(3)	0	22
Accommodation	60	(5)	(6)	49	41	0	(2)	39	(19)	5	4	(10)
Utilities	220	(3)	0	217	205	0	0	205	(15)	3	0	(12)
Insurance	165	(2)	(42)	121	119	0	0	119	(46)	2	42	(2)
Legal and inquiry	90	0	0	90	135	0	0	135	45	0	0	45
Safety and sustainable development	21	(1)	0	20	17	0	0	17	(4)	1	0	(3)
Strategic sourcing	90	(23)	(5)	62	24	0	0	24	(66)	23	5	(38)
Business change	19	0	0	19	63	0	(36)	27	44	0	(36)	8
Other corporate functions	4	0	0	4	10	0	0	10	6	0	0	6
Other corporate functions	428	(196)	(138)	94	10	0	0	10	(418)	196	138	(84)
Core support costs	1,595	(340)	(208)	1,047	1,145	0	(57)	1,088	(450)	340	151	41
Other support costs												
Asset management services	203	(91)	(16)	96	171	0	(56)	115	(32)	91	(40)	19
Network Rail telecoms	190	(57)	(20)	113	109	0	0	109	(81)	57	20	(4)
National delivery service	(5)	1	4	0	75	0	(66)	9	80	(1)	(70)	9
Infrastructure projects	1,142	(1,187)	(22)	(67)	0	0	0	0	(1,142)	1,187	22	67
Commercial property	131	(44)	(106)	(19)	77	0	(87)	(10)	(54)	44	19	9
Group costs	(19)	(5)	(108)	(132)	(2)	0	(16)	(18)	17	5	92	114
Total other support costs	1,642	(1,383)	(268)	(9)	430	0	(225)	205	(1,212)	1,383	43	214
Total support costs	3,237	(1,723)	(476)	1,038	1,575	0	(282)	1,293	(1,662)	1,723	194	255

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (3) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year. Changes in pension legislation have increased staff costs, the development of London Bridge has resulted in extra running costs, performance improvement schemes have increased compared to last year. These extra headwinds have been largely absorbed through generating some minor efficiencies and a reduction of one-off costs compared to 2015/16.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (5) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (6) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are lower than the previous year due to further devolution of communications staff to the routes so they can better understand and support the local route teams and communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (7) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy costs as many discretionary projects have been cancelled and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. The restructuring of the team and the transfer to Finance occurred in the current year which has driven the noticeable reduction in costs compared to 2015/16, whilst increasing the costs in Finance.
- (8) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year. Costs are higher than the previous year due to this transfer from Group strategy.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (9) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (10) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be much lower than the CP4 exit position by 2016/17, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. This was mostly due to new office space acquired in London in 2014/15 for the Kent and Sussex routes. The cost reduction compared to the previous year is mainly due to the transfer of property costs relating to Network Rail's central development and training centre in Westwood. This facility houses the front line engineering apprentices Network Rail recruit every year to be the next generation of staff in the rail industry. Responsibility for apprentices now resides within Business services and so the costs of the Westwood facility have also been moved to this heading to offer greater transparency over the costs of apprentice activity.
- (11) Utilities – costs are higher than the determination this year which has largely negated the savings made in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year when some one-off benefits contributed to the result.
- (12) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (13) Legal and inquiry – costs for the current year are slightly higher than the regulator assumed. This is mainly due to the transfer of some of the Business change responsibilities to Legal and inquiry and also to extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. These extra items have been offset by some efficiencies over and above the regulatory expectation. The extra expenditure in the control period to date compared to the ORR assumption is due to the same factors. Expenses in the current year are higher than the previous year reflecting the transfer of responsibilities from Business change.
- (14) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area. Costs are in lower than the previous year which included investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included largely in Safety and sustainability development (with some costs also recognised under the Asset management services heading).
- (15) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (16) Business change – no costs have been reported against this category in the current year. Responsibilities for Business change activities resides with various other functions whereas the determination assumed that this would be managed by a single department. Costs are lower than the previous year as the teams previously reported under this heading have been moved to Legal and inquiry to mirror organisational reporting changes.
- (17) Other corporate functions – costs are significantly higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are slightly lower than the previous year following some efficiencies realised by the route management teams in the current year.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (18) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are lower than the previous year. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. This year, activity on this project was substantially reduced although some extra programme costs are anticipated in the final two years of the control period. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (19) Network Rail telecoms – costs for the year are lower than the determination largely due to successful implementation of efficiency plans, particularly around reducing landline, cloud and data usage acquired from suppliers. In addition, extra income has been earned through utilising the spare capacity on the network by selling additional services to third parties. Despite the savings made in the current year, costs for the control period to date are higher than the determination assumed. This was mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (20) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position would be achieved by 2017/18.
- (21) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (22) Commercial Property – net costs in the year are broadly in line with the regulatory assumption. In the control period to date, net costs have been lower than the PR13 target mainly due to additional car park income generated at multiple sites, including new facilities (such as Haywards Heath) as well as overall price increases (reflecting market demand) and favourable settlement of a commercial claim in 2015/16. Net costs in the current year are higher than the previous year due to the aforementioned claim settlement flattening the results in that year
- (23) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower re-organisation costs in the current year than the regulator expected as well as receipt of compensation from Crossrail Limited for agreeing to contractual changes. The determination assumed that Group would receive credits relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by costs relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	503	380	(123)	1,469	1,185	(284)	493
Signalling	182	142	(40)	536	439	(97)	175
Civils	165	121	(44)	417	375	(42)	149
Buildings	64	48	(16)	130	146	16	31
Electrical power and fixed plant	86	93	7	259	281	22	84
Telecoms	23	18	(5)	63	56	(7)	21
Other network operations	139	142	3	507	444	(63)	176
Asset management services	58	31	(27)	144	98	(46)	50
National Delivery Service	(9)	41	50	(21)	124	145	(8)
Property	8	5	(3)	28	15	(13)	8
Group	(18)	(16)	2	(57)	(49)	8	(21)
Total maintenance expenditure	1,201	1,005	(196)	3,475	3,114	(361)	1,158

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to extra reactive maintenance works and civils inspection costs, increases in network traffic (this was assumed in the regulator's determination), changes in government legislation affecting pension arrangements, partly offset by reductions in project expenditure on initiatives that are now complete (vegetation management and tidy railway).
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16 with some extra expenses resulting from changes in government legislation affecting pensions and the transfer of certain activities from Other network operations to Track to improve local accountability and cost control.

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting pension legislation changes and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The increase in costs compared to the previous year are also due to a combination of increased reactive maintenance and inspection costs.

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reversing the trend witnessed in earlier years of the control period. Despite the higher costs this year, the overall cost in the control period to date is still lower than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – some efficiencies have been made in this category, with the savings generated across almost all of Network Rail's operational routes, continuing the trend of the earlier years of the control period. This has been achieved through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. In addition, certain responsibilities have been moved to Other network operations which has increased costs in that category. Costs are broadly in line with the previous year.
- (7) Telecoms – costs are higher than the regulatory assumption this year. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. The control period to date position is higher than the regulator's assumption mostly due to the adverse variance in the current year.
- (8) Other network operations – costs for the current year are largely in line with the regulator's expectation. For the control period to date, however, costs are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. Substantial investment was undertaken in 2014/15 and 2015/16 on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower than the previous year as a result of the completion of the aforementioned projects and the transfer of activity from this category to other headings within this statement (notably Asset management services, Track and Signalling) as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (9) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant (which has contributed to the saving in that category), additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. The same factors are responsible for the extra spend in the control period to date. Costs have increased compared to the previous year mainly due to a transfer of certain responsibilities from Other network operations to the Asset management services teams within the routes as part of Network Rail's commitment to devolution to enable more tactical decisions to be made closer to the passenger.

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (11) Property – costs in the control period to date are higher than the regulatory assumption mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail's rental estate following tenant's bankruptcy which left Network Rail to bear the costs of site clearance. In addition, in the current year some extra costs for commercial property waste clearance were incurred.
- (12) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period to date due to additional vehicle purchases completed towards the end of the previous control period. Future plans for sourcing the company's vehicle requirements (leasing from a third party as opposed to outright capital purchase) may mean that the level of notional income recognised will decrease in the latter years of the control period.

Statement 8b: Summary analysis of network maintenance headcount, England & Wales

	2014-15	2015-16	2016-17
Track	7,341	7,394	7,712
Signalling	2,927	2,913	3,421
Civils	261	247	243
Buildings	155	169	208
Electrical power and fixed plant	1,381	1,375	1,593
Telecoms	432	468	461
Other network operations	1,492	1,614	1,884
Asset management services	-	-	-
National delivery service	669	973	1,007
Property	-	-	-
Group	-	-	-
Other maintenance	-	-	-
Total network maintenance headcount	14,658	15,153	16,529

Statement 8b: Summary analysis of network maintenance headcount, England & Wales – continued

Notes:

- (1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not directly comparable.
- (2) This statement refers to the average heading during the year.
- (3) This statement records the full time equivalent staff rather than the total number of employees.
- (4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount reported in this statement has increased compared to the previous year. This is a combination of extra resource recruited to deal with the expanding network (such as extra electrification assets), attempts to reduce the unfilled vacancies in the organisation to increase the level of maintenance work that can be performed and reduce reliance on overtime and a reclassification of certain local capital delivery teams to reflect organisational hierarchy changes.
- (2) Maintenance headcount attributed to network operations has increased compared with the previous year. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisation to improve responsiveness and reduce reliance on overtime or external contractors. In addition, a number of teams responsible for delivering some of the more straight forward renewals activities have moved from the Support part of the organisation to the Maintenance part to reflect organisational hierarchy movements. This has minimal impact on Maintenance expenses as the vast majority of these costs are capitalised. Resource has also grown in Electrical power and fixed plant as the network expands its proportion of electrified train lines. As a result, extra resource is required to ensure the smooth running of these assets.

Statement 8c: Analysis of network maintenance expenditure by MDU, England & Wales

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Ashford	24	22	23	69
Bedford	18	18	18	54
Bletchley	29	29	30	88
Bristol	19	18	20	57
Brighton	25	26	24	75
Carlisle	24	24	25	73
Clapham	26	25	27	78
Cardiff	31	31	31	93
Croydon	24	25	26	75
Derby	22	22	25	69
Doncaster	18	17	19	54
Eastleigh	22	21	21	64
Hitchin	23	24	25	72
Ipswich	27	26	26	79
Leeds	17	18	19	54
Liverpool	22	24	25	71
London Bridge	23	24	24	71
London Euston	28	25	25	78
Manchester	30	29	30	89
Newcastle	21	25	26	72
Orpington	19	20	20	59
Plymouth	15	15	16	46
Preston	16	15	16	47
Reading	16	17	19	52
Romford	34	31	33	98
Saltley	24	26	28	78
Sandwell & Dudley	19	21	23	63
Sheffield	15	15	18	48
Shrewsbury	15	16	17	48
Stafford	20	21	22	63
Swindon	15	17	20	52
Tottenham	33	31	32	96
Warrington	20	19	19	58
Woking	29	25	24	78
York	19	21	24	64
Centrally managed				
Structures examinations	60	75	91	226
Major items of maintenance plant	6	5	4	15
HQ managed activities	62	32	25	119
Other	205	264	261	730
Total network maintenance	1,115	1,159	1,201	3,475

Statement 8c: Analysis of network maintenance expenditure by MDU, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule
- (3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

- (1) Costs are higher than the previous year due to extra reactive maintenance works and asset inspection costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases), changes in government legislation effecting pension arrangements partly offset by reduced project expenditure (vegetation management and tidy railway).
- (2) Overall depots costs are higher than the previous year which largely reflects transfers of responsibilities and costs away from central functions to front line in order to promote better decision making by those closer to the passenger. In addition, staff costs increased following changes in government legislation surrounding pensions. Movements in the costs incurred by each depot are expected to fluctuate each year due to the individual circumstances of that depot and the challenges faced in any given year.
- (3) Structures examinations – costs are higher than the previous year largely due to extra contractor claims and disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion.
- (4) HQ managed activities – costs are lower than the previous year. In 2014/15, Network Rail's Board took the decision to long-term incentive payments to senior staff. These savings, and more, were instead reinvested into two major maintenance programmes, Tidy Railway and Vegetation Management, which were designed to generate long-term improvements in train performance. The costs of these initiatives were largely born in 2014/15 although some continued into 2015/16. As these programmes are now complete there is no such spend in the current year and so costs are lower than 2015/16.

Statement 8c: Analysis of network maintenance expenditure by MDU, England & Wales – continued

in £m 2016-17 prices unless stated

- (5) Other – whilst costs in this category appear consistent with the previous year, this is made up of increases in reactive maintenance costs offset by the transfer of responsibilities from central functions to the front line, leading to increases in the costs reported by the depots. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR

Statement 8d: Analysis of network maintenance headcount by MDU, England & Wales

	2014-15			2015-16			2016-17		
	Agency		Total	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305	306	-	306
Bedford	300	-	300	301	-	301	284	-	284
Bletchley	364	1	365	390	1	391	365	-	365
Bristol	366	1	367	378	1	379	326	-	326
Brighton	358	1	359	329	-	329	324	-	324
Carlisle	373	-	373	378	-	378	374	-	374
Clapham	300	-	300	317	-	317	335	1	336
Cardiff	416	1	417	423	1	424	444	1	445
Croydon	295	-	295	275	2	277	287	-	287
Derby	460	1	461	495	-	495	400	-	400
Doncaster	292	-	292	291	-	291	294	-	294
Eastleigh	298	2	300	315	1	316	341	-	341
Hitchin	342	1	343	358	1	359	363	-	363
Ipswich	405	-	405	420	-	420	424	-	424
Leeds	309	2	311	309	1	310	305	-	305
Liverpool	346	-	346	353	-	353	348	1	349
London Bridge	294	1	295	285	-	285	290	1	291
London Euston	322	-	322	315	-	315	292	-	292
Manchester	447	3	450	447	1	448	455	-	455
Newcastle	383	-	383	382	-	382	380	-	380
Orpington	260	-	260	247	-	247	248	-	248
Plymouth	314	1	315	333	-	333	273	-	273
Preston	271	2	273	273	-	273	278	-	278
Reading	331	5	336	350	6	356	328	4	332
Romford	426	4	430	448	2	450	453	1	454
Saltley	328	-	328	348	-	348	348	-	348
Sandwell & Dudley	304	3	307	312	4	316	322	1	323
Sheffield	317	1	318	312	-	312	300	1	301
Shrewsbury	259	-	259	270	-	270	291	-	291
Stafford	325	2	327	322	1	323	326	1	327
Swindon	256	2	258	306	1	307	298	-	298
Tottenham	428	1	429	452	1	453	459	3	462
Warrington	343	-	343	341	-	341	343	-	343
Woking	380	2	382	390	6	396	359	-	359
York	372	2	374	381	2	383	385	1	386
Centrally managed									
Route HQ	1,906	140	2,046	1,857	139	1,996	3,410	149	3,559
Other HQ	561	107	668	863	110	973	929	77	1,006
Total network maintenance	14,371	287	14,658	14,870	282	15,152	16,287	242	16,529

Statement 8d: Analysis of network maintenance headcount by MDU, England & Wales – continued

Notes:

- (1) This statement refers to the average heading during the year.
- (2) This statement records the full time equivalent staff rather than the total number of employees.
- (3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Headcount in the depots has increased compared to the previous year which is partly the result of a change in responsibilities between Route HQ and individual depots. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduced reliance on overtime and external contractors. In addition, extra resource has been recruited to deal with the expansion of the network and the increased enhanced assets on the network. This has been more than offset by a transfer of capital delivery teams to route centres to allow better planning and delivery of works.
- (3) Route HQ – the increase in headcount is largely due to the transfer of responsibilities from local depots and other parts of the organisation to consolidate local capital delivery teams in one place. This has minimal impact on total Maintenance costs as the expenses relating to these individuals and the work they are undertaken is included within renewals. Undertaking those renewals jobs which are simpler or more routine allow greater flexibility for local route teams to determine the timing of the delivery.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	cumulative	Cumulative PR13	Difference	2015-16 Actual
Track	801	665	(136)	2,517	1,964	(553)	888
Signalling	498	638	140	1,766	2,077	311	629
Civils	476	371	(105)	1,495	1,216	(279)	544
Buildings	121	149	28	505	484	(21)	211
Electrical power and fixed plant	185	190	5	444	649	205	137
Telecoms	61	78	17	177	244	67	40
Wheeled plant and machinery	62	105	43	212	365	153	84
Information Technology	82	76	(6)	348	238	(110)	118
Property	19	20	1	48	72	24	12
Other renewals	110	86	(24)	500	(78)	(578)	168
Total renewals expenditure	2,415	2,378	(37)	8,012	7,231	(781)	2,831

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes investment in projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was broadly in line with the previous year. Non-volume work was higher due to extra slab track projects (notably at Kentish Town) whilst S&C renewal costs were lower (due to lower volumes delivered this year and some marginal improvements in unit costs this year) and High output expenditure reduced (volumes decreased by about one-fifth arising from aforementioned plant and access issues).

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was much lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, in 2015/16, over £50m was invested in the North Lincolnshire programme but, as this programme was substantially complete in that year, expenditure in the current year was only around £5m.

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

in £m 2016-17 prices unless stated

- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout England & Wales. This year included significant costs for the repair of Dover sea wall and repair of a bridge on the Settle-Carlisle line. Whilst the remediation works were a success and the assets' capability restored the incidents accounted for more than £40m of the overspend in the current year alone. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. As noted in the prior year's regulatory financial statements the level of activity in 2015/16 was artificially high as it included works deferred from the first year of the control period when delays in awarding framework contracts to suppliers resulted in a lower than planned level of delivery.

Statement 9a: Detailed analysis of renewals expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year mainly due to lower investment at Franchised stations (the largest project in the prior year was Liverpool Moorfields station development). In addition, a higher proportion of minor works undertaken this year were classified as maintenance in line with Network Rail's cost and volume reporting policies. This meant lower Buildings renewals, but higher Buildings maintenance (as shown in Statement 8a). Also, as noted in the prior year's Regulatory financial statements the high costs in 2015/16 were partly due to additional scope and partly due to delays in introducing contractor framework agreements at the start of CP5. The original plan for the control period was for expenditure to be weighted towards the earlier years with reductions as time progressed so the decrease in the current year is in line with this expectation.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional costs for Overhead line, SCADA and Fixed plant. Overhead line mostly relates to additional works on East Coast Main Line resilience and Great Eastern OLE programmes. Activity on the SCADA programme in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals). As noted in the previous year's Regulatory financial statements, Fixed plant expenditure in 2015/16 was suppressed by delays in purchasing equipment arising from commercial considerations.

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

in £m 2016-17 prices unless stated

- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Most of the underspend in the control period to date is expected to be caught up in the remaining years of the control period as further programmes are designed and delivered. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is around a quarter less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is higher than the previous year which was impacted by delays in delivery of key projects as noted in last year's Regulatory financial statements and from increased activity on GSMR activities.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is higher than the determination assumed continuing the trend of the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.

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

in £m 2016-17 prices unless stated

(10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are higher in the current year compared to 2015/16 as this year included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings.

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN, buildings and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.
- g. Other – costs reported in this category mainly relate to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	294	206	(88)	847	632	(215)
High output renewal	152	130	(22)	573	346	(227)
Plain line refurbishment	51	22	(29)	158	68	(90)
S&C renewal	144	161	17	498	477	(21)
S&C refurbishment	45	43	(2)	121	117	(4)
Track non-volume	32	45	13	90	144	54
Off track	83	58	(25)	230	180	(50)
Total track	801	665	(136)	2,517	1,964	(553)
Signalling						
Full conventional resignalling	211	158	(53)	781	577	(204)
Modular resignalling	8	23	15	35	105	70
ERTMS resignalling	8	58	50	34	79	45
Partial conventional resignalling	88	145	57	268	491	223
Targeted component renewal	8	13	5	13	70	57
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	14	11	(3)	54	33	(21)
Operating strategy other capital expenditure	23	15	(8)	144	133	(11)
Level crossings	35	114	79	127	270	143
Minor works	84	68	(16)	273	216	(57)
Centrally managed costs	20	33	13	37	103	66
Other	(1)	-	1	-	-	-
Total signalling	498	638	140	1,766	2,077	311
Civils						
Underbridges	215	164	(51)	561	548	(13)
Overbridges	52	28	(24)	169	91	(78)
Bridgeguard 3	5	-	(5)	18	-	(18)
Major structures	9	9	-	57	29	(28)
Tunnels	18	26	8	66	83	17
Other assets	46	36	(10)	165	113	(52)
Structures other	(2)	27	29	34	86	52
Earthworks	133	81	(52)	424	266	(158)
Other	-	-	-	1	-	(1)
Total civils	476	371	(105)	1,495	1,216	(279)
Buildings						
Managed stations	12	32	20	59	115	56
Franchised stations	81	91	10	328	287	(41)
Light maint depots	11	7	(4)	44	22	(22)
Depot plant	1	7	6	8	24	16
Lineside buildings	8	5	(3)	38	13	(25)
MDU buildings	7	6	(1)	25	18	(7)
NDS depots	1	1	-	3	5	2
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	121	149	28	505	484	(21)

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	2	6	4	5	30	25
Overhead Line	62	53	(9)	125	129	4
DC distribution	38	36	(2)	102	134	32
Conductor rail	11	12	1	32	39	7
SCADA	9	7	(2)	9	43	34
Energy efficiency	-	2	2	4	6	2
System capability / capacity	1	3	2	9	26	17
Other electrical power	7	15	8	27	44	17
Fixed plant	55	56	1	131	198	67
Total electrical power and plant	185	190	5	444	649	205
Telecoms						
Operational communications	6	8	2	16	23	7
Network	7	19	12	17	42	25
SISS	8	26	18	18	84	66
Projects and other	2	17	15	7	45	38
Non-route capital expenditure	38	8	(30)	119	50	(69)
Total telecoms	61	78	17	177	244	67
Wheeled plant and machinery						
High output	24	13	(11)	83	100	17
Incident response	-	-	-	-	5	5
Infrastructure monitoring	2	3	1	9	10	1
Intervention	14	14	-	30	91	61
Materials delivery	3	5	2	37	9	(28)
On track plant	8	22	14	22	47	25
Seasonal	-	2	2	4	34	30
Locomotives	-	-	-	-	-	-
Fleet support plant	-	5	5	-	16	16
Road vehicles	-	41	41	16	53	37
S&C delivery	11	-	(11)	11	-	(11)
Total wheeled plant and machinery	62	105	43	212	365	153
Information Technology						
IM delivered renewals	77	68	(9)	319	213	(106)
Traffic management	5	8	3	29	25	(4)
Total information technology	82	76	(6)	348	238	(110)
Property						
MDUs/offices	14	14	-	31	52	21
Commercial estate	5	6	1	17	20	3
Corporate services	-	-	-	-	-	-
Total property	19	20	1	48	72	24
Other renewals						
Asset information strategy	43	32	(11)	114	135	21
Intelligent infrastructure	6	23	17	25	50	25
Faster isolations	10	33	23	28	104	76
LOWS	2	2	-	4	6	2
Small plant	3	10	7	8	30	22
Research and development	-	-	-	-	-	-
Phasing overlay	-	(14)	(14)	-	(403)	(403)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	34	-	(34)	306	-	(306)
Other	12	-	(12)	15	-	(15)
West Coast	-	-	-	-	-	-
Total other renewals	110	86	(24)	500	(78)	(578)
Total renewals	2,415	2,378	(37)	8,012	7,231	(781)

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

in £m 2016-17 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes investment in projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.

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

in £m 2016-17 prices unless stated

- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was broadly in line with the previous year. Non-volume work was higher due to extra slab track projects (notably at Kentish Town) whilst S&C renewal costs were lower (due to lower volumes delivered this year and some marginal improvements in unit costs this year) and High output expenditure reduced (volumes decreased by about one-fifth arising from aforementioned plant and access issues).

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- (3) Signalling – expenditure was much lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, in 2015/16, over £50m was invested in the North Lincolnshire programme but, as this programme was substantially complete in that year, expenditure in the current year was only around £5m.

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

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- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout England & Wales. This year included significant costs for the repair of Dover sea wall and repair of a bridge on the Settle-Carlisle line. Whilst the remediation works were a success and the assets' capability restored the incidents accounted for more than £40m of the overspend in the current year alone. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. As noted in the prior year's regulatory financial statements the level of activity in 2015/16 was artificially high as it included works deferred from the first year of the control period when delays in awarding framework contracts to suppliers resulted in a lower than planned level of delivery.

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

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year mainly due to lower investment at Franchised stations (the largest project in the prior year was Liverpool Moorfields station development). In addition, a higher proportion of minor works undertaken this year were classified as maintenance in line with Network Rail's cost and volume reporting policies. This meant lower Buildings renewals, but higher Buildings maintenance (as shown in Statement 8a). Also, as noted in the prior year's Regulatory financial statements the high costs in 2015/16 were partly due to additional scope and partly due to delays in introducing contractor framework agreements at the start of CP5. The original plan for the control period was for expenditure to be weighted towards the earlier years with reductions as time progressed so the decrease in the current year is in line with this expectation.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional costs for Overhead line, SCADA and Fixed plant. Overhead line mostly relates to additional works on East Coast Main Line resilience and Great Eastern OLE programmes. Activity on the SCADA programme in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals). As noted in the previous year's Regulatory financial statements, Fixed plant expenditure in 2015/16 was suppressed by delays in purchasing equipment arising from commercial considerations.

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

in £m 2016-17 prices unless stated

- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Most of the underspend in the control period to date is expected to be caught up in the remaining years of the control period as further programmes are designed and delivered. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is around a quarter less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is higher than the previous year which was impacted by delays in delivery of key projects as noted in last year's Regulatory financial statements and from increased activity on GSMR activities.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is higher than the determination assumed continuing the trend of the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.

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

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(10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are higher in the current year compared to 2015/16 as this year included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings.

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN, buildings and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.
- g. Other – costs reported in this category mainly relate to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

Statement 10: Other information, England & Wales

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	178	207	29	606	611	5	234
Access charge supplement Income	(194)	(194)	-	(579)	(575)	4	(197)
Net (income)/cost	(16)	13	29	27	36	9	37
Schedule 8							
Performance element income	(18)	-	18	(46)	-	46	(5)
Performance element costs	205	4	(201)	450	12	(438)	112
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	187	4	(183)	404	12	(392)	107

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	(6)	13	10
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	1	5	3
RSSB Costs	(2)	-	-
ORR licence fee and railway safety levy	(2)	(2)	-
Reporters fees	(2)	(4)	-
Other industry costs	3	2	-
Network Rail HS1	4	8	4
Difference in CP4 opex memo allowance	-	(8)	-
Total logged up items	(4)	14	17

D) Net income / (costs) from alliances:

	2016-17	Cumulative	2015-16
Payment from South West Trains	-	2	1
Total alliance income	-	2	1
Payment to South West Trains	-	(2)	-
Total alliance costs	-	(2)	-
Net alliance income / (cost)	-	-	1

Statement 10: Other information, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

Statement 10: Other information, England & Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This is the case in the current year. The minor control period to date variance is a factor of the difference between the inflation rates used to uplift the contractual payments and the inflation rates used to uplift the regulator's PR13 targets. Performance element costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Track - Plain line and Signalling - Full and partial conventional resignalling), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with agreed accounting policies the costs of such incidents are shared across all routes so that risk is shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.

Statement 10: Other information, England & Wales – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident being higher than ever. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016), excessive rainfall causing a train derailment near Watford (September 2016) and storm Doris (February 2017) as well as the collapse of a sewer under the train line in South London (July 2016), collapse of a wall outside Liverpool Lime Street station after it was hit by a van (February 2017) and damage to overhead line electrification equipment (Luton, Ranskill Loop and Eves Lane). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum currently shows a net loss for this year which is primarily due to the Volume Incentive (see Statement 12) partly offset by differences in income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 will be added to the Opex memorandum. The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6. For the control period to date, gains made on the volume incentive and High Speed 1 compensation have been partly offset by the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

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

in £m 2016-17 prices unless stated

Service	Staff	Agency	Contractors & consultants	2016-17			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	22	1	-	-	-	6	29
Renewals	-	-	-	-	-	-	-
Total	22	1	-	-	-	6	29

Service	Staff	Agency	Contractors & consultants	Cumulative			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	65	1	-	-	-	20	86
Renewals	-	-	-	-	-	-	-
Total	65	1	-	-	-	20	86

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

in £m 2016-17 prices unless stated

Notes:

- (1) The balance on the outstanding loan from Network Rail Infrastructure Limited to Network Rail (High Speed) Limited is £nil. This has been the case since 2010/11 when Network Rail (High Speed) Limited repaid its' loan from Network Rail Infrastructure Limited.
- (2) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Charges levied by Network Rail are broadly in line with the prior year. This reflects the agreement introduced at the start of HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, England & Wales

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(12)	(2)	275	274	0.9%	1.50	pence per passenger train mile
Passenger farebox (millions)	14	3	9,045	8,656	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(19)	(4)	19	19	4.0%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(12)	(3)	21,104	20,919	5.4%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(29)	(6)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Statement 12: Volume incentives, England & Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, reversing some of the gains made in earlier in the control period (as shown in the below table). This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. For the control period to date, Network Rail has outperformed growth targets. As the below table illustrates, this is a combination of better than expected passenger growth partly offset by slower freight growth. Whilst the freight metrics have improved slightly this control period compared to the CP4 exit position, the regulator assumed c. 4% growth per year which, in the light of structural issues facing the industry, has not been possible to achieve.

	Passenger train miles	Passenger farebox	Freight train miles	Freight gross tonne miles	Total
2014/15	3	6	-	-	9
2015/16	4	9	(2)	(1)	10
2016/17	(2)	3	(4)	(3)	(6)
Total	5	18	(6)	(4)	13

- (2) Passenger train mile growth in the current year has been slightly lower than the ORR's expectation. In fact, passenger train miles was lower than the previous year. This was mostly due to well-publicised industrial relations issues between trade unions and Southern trains, which contributed to a drop in traffic this year in that area. Despite these issues in the current year, growth over the control period as a whole has exceeded expectation as Network Rail and operators have worked together to respond to increased passenger demand resulting in financial outperformance being recognised in the control period to date (refer to Statement 5a).
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (4) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected and this leaves Network Rail facing a payout under this mechanism. The determination assumed substantial growth during the control period to date. However, the deterioration in demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media in recent years has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism implies. The largest shortfall is in the London North East route where the baseline assumed large increases in the quantity of biomass fuel transported to the Drax power station which proved to be overoptimistic.
- (5) Freight gross tonne miles has increased compared to the prior year, but this is lower than the regulatory growth expectation. In addition, in 2015/16 freight gross tonne miles was lower than the regulator's baseline. The slower rates of growth are similar to the reasons noted above. Again, The London North East route has the largest gap to target due to growth assumptions for biomass transport to the Drax power station made at the time of the determination which have proved to be overoptimistic.

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales

in £m 2016-17 prices unless stated

		2016-17		Full Project			
				A	B	C = A ÷ B	
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	461	284	510	958	532
	High Output Renewal	km	232	152	198	330	600
	Plain line Refurbishment	km	246	45	86	522	165
	S&C Renewal/Refurbishment	point ends	916	145	279	1,720	162
	Track Drainage	lm	123,841	29	69	272,608	0
	Fencing	km	471	22	77	1,751	44
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	565	15	35	993	35
	Other	-	-	-	-	-	-
Total			126,732	692	1,254	278,882	-
Signalling	Full Conventional Resignalling	SEU	585	74	380	1,022	372
	Modular Resignalling	SEU	38	-	32	57	561
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	361	71	284	663	428
	Targeted Component Renewal	SEU	27	5	7	41	171
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	19	8	24	26	923
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			1,030	158	727	1,809	-
Civils	Underbridges	m ²	90,648	165	385	143,930	3
	Overbridges (incl BG3)	m ²	15,262	36	69	16,122	4
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	16,331	11	29	39,082	1
	Culverts	m ²	3,448	8	18	4,145	4
	Footbridges	m ²	2,186	6	16	2,926	5
	Coastal & Estuarial Defences	m	2,563	4	13	2,563	5
	Retaining Walls	m ²	13,099	8	10	13,169	1
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	2,646	70	195	5,849	33
	EW Drainage	m	82,880	11	25	125,755	0
	Other	-	-	-	-	-	-
Total			229,063	319	760	353,541	-
Buildings	Buildings (MS)	m ²	8,214	-	2	8,214	0
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	1,581	-	1	2,108	0
	Train sheds (MS)	m ²	11,321	1	4	14,929	0
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	11,169	2	6	16,624	0
	Buildings (FS)	m ²	13,473	4	11	16,577	1
	Platforms (FS)	m ²	31,630	9	20	39,611	1
	Canopies (FS)	m ²	30,700	7	25	74,388	0
	Train sheds (FS)	m ²	1,500	-	-	1,500	-
	Footbridges (FS)	m ²	1,763	9	21	3,852	5
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	-	94,615	5	12	163,466	0
	Light Maintenance Depots	m ²	78,621	5	20	106,612	0
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	13,967	3	12	27,926	0
	MDU Buildings	m ²	8,529	1	4	10,607	0
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			307,083	46	138	486,414	-

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	26	16	62	71	873
	Mid-life refurbishment	Wire runs	5	1	9	5	1,800
	Structure renewals	No.	285	9	39	817	48
	Other OLE	-	-	-	-	-	-
	OLE abandonments	-	-	-	-	-	-
	Conductor rail	km	41	9	43	168	256
	HV Switchgear Renewal AC	No.	7	-	1	18	56
	HV Cables AC	-	-	-	-	-	-
	Protection Relays AC	No.	12	-	2	24	83
	Booster Transformers AC	-	-	-	-	-	-
	Other AC	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	1	5	28	179
	HV cables DC	km	12	3	12	18	667
	LV cables DC	km	33	13	40	77	519
	Transformer Rectifiers DC	-	-	-	-	-	-
	LV switchgear renewal DC	No.	37	5	18	96	188
	Protection Relays DC	No.	61	2	5	197	25
	Other DC	-	-	-	-	-	-
	SCADA	RTU	1	-	2	2	1,000
	Energy efficiency	-	-	-	-	-	-
	System Capability/Capacity	-	-	-	-	-	-
	Other Electrical Power	-	-	-	-	-	-
	Points Heaters	point end	76	1	8	92	87
	Signalling Power Cables	km	45	5	6	45	133
	Signalling Supply Points	No.	11	2	20	43	465
	Other Fixed Plant	-	-	-	-	-	-
Total			674	67	272	1,701	-
Telecoms	Customer Information Systems	No.	23	-	1	23	43
	Public Address	No.	90	-	-	105	-
	CCTV	No.	339	2	2	365	5
	Other Surveillance	No.	27	-	-	560	-
	PABX Concentrator	No. lines	6,116	1	1	7,204	0
	Processor Controlled Concentrator	No. lines	14	-	-	30	-
	DOO CCTV	No.	33	2	7	88	80
	DOO Mirrors	-	-	-	-	-	-
	PETS	No.	11	-	1	34	29
	HMI Small	-	-	-	-	-	-
	HMI Large	No.	60	-	-	695	-
	Radio	-	-	-	-	-	-
	Power	-	-	-	-	-	-
	Other comms	-	-	-	-	-	-
	Network	No.	29	2	12	37	324
	Projects and Other	-	-	-	-	-	-
	Non Route capex	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			6,742	7	24	9,141	-

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Scotland

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	464	461	3	1,360	1,349	11	457
Fixed Income	93	93	-	280	279	1	92
Variable Income	87	89	(2)	241	239	2	81
Other Single Till Income	47	60	(13)	154	175	(21)	51
Opex memorandum account	2	-	2	3	-	3	1
Total Income	693	703	(10)	2,038	2,042	(4)	682
Operating expenditure							
Network operations	44	40	(4)	140	123	(17)	50
Support costs	36	45	9	132	144	12	50
Traction electricity, industry costs and rates	51	53	2	147	149	2	50
Network maintenance	118	112	(6)	344	344	-	117
Schedule 4	39	32	(7)	79	80	1	29
Schedule 8	-	-	-	4	1	(3)	1
Total operating expenditure	288	282	(6)	846	841	(5)	297
Capital expenditure							
Renewals	359	300	(59)	952	942	(10)	314
PR13 enhancement expenditure	305	150	(155)	888	1,029	141	260
Non PR13 enhancement expenditure	(2)	-	2	15	-	(15)	9
Total capital expenditure	662	450	(212)	1,855	1,971	116	583
Other expenditure							
Financing costs	162	202	40	423	541	118	129
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	162	202	40	423	541	118	129
Total expenditure	1,112	934	(178)	3,124	3,353	229	1,009

Statement 1: Summary regulatory financial performance, Scotland – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity income partly offset by incremental revenue from offering more train paths to operators to help meet passenger demand for train travel. Income is higher than the previous year reflecting changes in Schedule 4 Access charge supplement funding. These variances are set out in more detail in Statement 6a.
- (4) Income – Other single till income is lower the regulatory assumption mainly due to lower freight income and lower property income. Substantial decreases in the freight traffic have occurred this control period (largely driven by demand for coal transportation reducing following legislative changes) whilst property sales and rental yield growth have been lower than the regulator expected. The control period to date variance is largely due to the same factors. These variances are set out in more detail in Statement 6a.
- (5) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This is disclosed in more detail in Statement 10.
- (6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are lower than the previous year which included some non-recurring costs. Network Operations costs are discussed in more detail in Statement 7a.
- (7) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Scotland – continued

in £m 2016-17 prices unless stated

- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The savings made in the control period to date are also due to these two factors. Costs are lower than the previous year as a result of lower market electricity prices (although this is offset by reductions in income earned by network Rail) and higher British Transport Police costs as Network Rail now bears a greater proportion of these industry costs. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (9) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity has contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are higher than the determination which included the delivery of slab tracks works at Glasgow Queen Street. The nature of these complex works necessitates closing the railway for a time, resulting in Schedule 4 costs. The determination assumed that this work would occur in 2015/16. Costs for the control period to date are broadly in line with the regulator's expectation which is due to lower than expected renewals activity offset by higher underlying costs. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Costs are higher than the previous year mainly due to aforementioned Glasgow Queen Street engineering works. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) Operating expenditure – Schedule 8 costs are in line with the determination this year. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is mainly due to higher underlying costs (notably in Track and Signalling). Expenditure in the control period to date is broadly in line with the determination as higher like-for-like costs have been offset by deferral of activity. Investment is higher than the previous year due to a ramp up of track and signalling volumes delivered in the year. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes but with notable contributions from Edinburgh Glasgow Improvement Programme and Aberdeen to Inverness journey time improvements which were mostly a catch up from underspends earlier in the control period. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Scotland – continued

in £m 2016-17 prices unless stated

- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Scotland

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	5,336	5,785	(449)
Indexation to 2015-16 prices	308	334	(26)
Opening RAB for the year (2015-16 prices)	5,644	6,119	(475)
Indexation for the year	124	134	(10)
Opening RAB (2016-17 prices)	5,768	6,253	(485)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	344	300	44
PR13 enhancements	264	286	(22)
Non-PR13 enhancements	(1)	-	(1)
Total enhancements	263	286	(23)
Amortisation	(276)	(276)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2017	6,099	6,563	(464)

RAB Regulatory financial position - cumulative, Scotland

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	5,218	5,491	5,768	5,218
Adjustments for the actual capital expenditure outturn in CP4	(54)	-	-	(54)
Renewals	267	297	344	908
PR13 enhancements	321	236	264	821
Non-PR13 enhancements	6	9	(1)	14
Total enhancements	327	245	263	835
Amortisation	(266)	(265)	(276)	(807)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	(1)
Closing RAB	5,491	5,768	6,099	6,099

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is noticeably lower than the regulator anticipated in its' determination. This is mostly due to lower enhancement investment undertaken by Network Rail in the opening two years of the control period (as outlined in the previous years' Regulatory financial statements) and also from lower investment towards the end of CP4, after the ORR had published PR13.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This is due to slower delivery on schemes than the regulator assumed.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The credit balance in the current year was due to agreed changes in the funding of certain projects with Transport Scotland and the project is now categorised as a PAYGO project (refer to Statement 3) and so not eligible for RAB addition.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

in £m 2016-17 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
 - a. Lower project expenditure – during the final year of control period 4 Network Rail undertook less capital expenditure compared to the assumption in the regulator's determination. This resulted in lower expenditure being logged up to the RAB.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Scotland

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	288	354	300	942
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	7	-	-	7
Capitalised financing on CP4 deferrals	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	295	354	300	949
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(68)	(97)	3	(162)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(7)	(13)
Adjustments for efficient overspend	45	53	55	153
Capitalised financing on efficient overspend	1	3	6	10
25% retention of efficient overspend	(11)	(13)	(13)	(37)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	6	4	1	11
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	(1)	-	(2)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	1	-	-	1
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	267	297	344	908
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	3	2	5
Adjustment for 25% retention of efficient overspend	12	14	13	39
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	-	-
Total actual renewals expenditure (see statement 9)	279	314	359	952

Statement 2b: RAB - reconciliation of expenditure, Scotland - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	506	420	286	1,212
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	2	-	-	2
Capitalised financing on CP4 deferrals	-	-	-	-
Baseline adjustments	-	(49)	(136)	(185)
Capitalised financing on Baseline adjustments	-	(1)	(5)	(6)
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	508	370	145	1,023
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(183)	(161)	56	(288)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(11)	(14)	(29)
Adjustments for efficient overspend	-	49	99	148
Capitalised financing on efficient overspend	-	1	4	5
25% retention of efficient overspend	-	(12)	(25)	(37)
Capitalised financing of 25% efficient overspend	-	-	(1)	(1)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-
agreements - retention of efficient overspend	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	321	236	264	821
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	9	(2)	13
overspend	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	1	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	9	(1)	14
Total enhancements (added to the RAB - see statement 2a)	327	245	263	835
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	4	11	15	30
Adjustment for 25% retention of efficient overspend	-	12	25	37
Other adjustments	2	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	6	18	21	45
Other adjustments	-	-	-	-
Total actual enhancement expenditure (see statement 3)	339	286	324	949

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. This year there is minimal variance but there was in the opening two years of the control period which results in lower renewals being logged by to the RAB in the control period to date compared to the ORR expectation.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Signalling projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

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

in £m 2016-17 prices unless stated

- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – there were some projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the ECAM process and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Edinburgh Glasgow Improvements Programme (EGIP) and Rolling Programme of Electrification projects. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Scotland

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
Scottish stations fund	2	7	5	5	22	17
Scottish strategic rail freight investment fund	2	7	5	4	20	16
Scottish network improvement fund	12	13	1	25	40	15
Future network development fund	2	3	1	5	7	2
Level crossings fund	2	3	1	5	9	4
Total funds	20	33	13	44	98	54
Committed projects						
Edinburgh Glasgow Improvements Programme (EGIP)	1	-	(1)	9	17	8
Electrification of Springburn to Cumbernauld						
Edinburgh Glasgow Improvements Programme (EGIP)	167	55	(112)	389	192	(197)
Edinburgh to Glasgow Electrification						
Edinburgh Glasgow Improvements Programme (EGIP)	-	-	-	7	40	33
Edinburgh Gateway Station						
Edinburgh Glasgow Improvements Programme (EGIP)	16	53	37	47	216	169
Infrastructure Projects						
IEP Programme	-	-	-	-	-	-
Border Railway Project	(1)	3	4	187	185	(2)
Total committed projects	183	111	(72)	639	650	11
Named Schemes						
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	27	(72)	(99)	45	44	(1)
Rolling programme of electrification (Scotland)	71	47	(24)	127	98	(29)
Carstairs journey time improvements	-	-	-	1	1	-
Highland main line journey time improvements (phase 2)	2	17	15	5	88	83
Motherwell area stabling	-	3	3	-	8	8
Motherwell resignalling enhancements	-	1	1	-	3	3
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland:	100	(4)	(104)	178	242	64
Other projects						
Seven day railway projects	-	-	-	6	9	3
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	1	1	1	3	2
Income generating property schemes	2	5	3	20	15	(5)
Other income generating investment framework schemes	-	4	4	-	12	12
Total other projects	2	10	8	27	39	12
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	305	150	(155)	888	1,029	141
B) Investments not included in PR13						
Government sponsored schemes						
Borders New Railway	(2)	-	2	8	-	(8)
Other government sponsored schemes	-	-	-	4	-	(4)
Total Government sponsored schemes	(2)	-	2	12	-	(12)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	1	-	(1)
Total Network Rail spend to save schemes	-	-	-	1	-	(1)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	2	-	(2)
Total non PR13 enhancement expenditure	(2)	-	2	15	-	(15)
Total Network Rail funded enhancements (see Statement 1)	303	150	(153)	903	1,029	126
Third Party PAYG	21	-	(21)	46	-	(46)
Total enhancements (see statement 2b)	324	150	(174)	949	1,029	80

Statement 3: Analysis of enhancement capital expenditure, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The adjusted PR13 values in the table represent the regulator's latest expected cost by programme, incorporating changes arising through the ECAM (Enhancements Cost Adjustment Mechanism) process or from other agreed funding alterations.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £303m (as shown in Statement 1). This comprises the total enhancement figure in the table above £324m less the PAYG schemes funded by third parties (£21m).
- (5) Investment expenditure this year was higher than the previous year. This is a combination of increases and decreases across a wide range of programmes and reflects ramping up of activity to meet milestones contained in the overall enhancement portfolio, with the largest individual contribution from Rolling Programme of Electrification.
- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:
 - (a) Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. Delivery in the current year has been lower than planned as fewer suitable projects have been identified. Most of the variance in the control period to date relates to reduced expenditure in the first two years of the control period. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.

Statement 3: Analysis of enhancement capital expenditure, Scotland – continued

in £m 2016-17 prices unless stated

- (b) Scottish strategic Rail Freight Investment Fund - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year is lower than the baseline planned which includes deferral of the Edinburgh suburban electrification project into CP6 and changes in the remit of other projects from Transport Scotland. Most of the variance in the control period to date relates to reduced expenditure in the first two years of the control period. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.
 - (c) Scottish network improvement fund - The purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year was broadly in line with the determination but is below target for the control period to date largely due to lower investment in 2014/15. The determination weighted activity on this fund towards the earlier years of the control period but Network Rail's plans assume later delivery.
 - (d) Future network development fund – this fund is to finance or support the development of proposals for strategic interventions to improve the capacity and capability of the Scottish network in CP6 and beyond. Expenditure in the year and the control period to date is broadly in line with the baselines.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year is higher than the baseline which reflects a catch up of underspends from previous years of the control period and so control period to date in this category is now line with the baseline. The following notable variances between expenditure and the baseline are set out below:
- (a) Edinburgh Glasgow Improvements Programme - The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. This programme should be considered in totality across the various sub-projects. Network Rail's internal targets assumed a different profile of programme delivery to that in the PR13. Although the control period to date expenditure is broadly consistent with the determination assumption, this is a combination of financial underperformance (refer to Statement 5c) largely offset by project deferrals. In the current year the extra expenditure is due to financial underperformance and an acceleration of activity to meet milestones targets in early 2017/18.
 - (b) Border Railway Project - This project will provide a new rail route between Newcraighall and Tweedbank with 7 new stations to permit operation of a half hourly passenger service. The credit in the current year relates to agreed changes in the funding of the project with an element being paid for directly by the Scottish government (and so appearing in the PAYGO section of this statement).
- (8) PR13 funded schemes – named schemes – overall expenditure in the year is higher than the regulator's assumption. This is mostly due to agreed changes in the phasing of Aberdeen to Inverness journey time improvements. The following notable variances between expenditure and baselines are set out below:

Statement 3: Analysis of enhancement capital expenditure, Scotland – continued

in £m 2016-17 prices unless stated

- (a) Aberdeen to Inverness journey time improvements and other enhancements - This project will provide infrastructure to permit trains to call at potential new stations at Kintore and Dalcross without extending average journey times and permit more frequent commuter services to Aberdeen and Inverness. Expenditure in the year was significantly higher than the baseline assumed. The total programme expenditure for the control period to date is now broadly similar to the baseline. Some financial underperformance has been recognised on the project (refer to Statement 5c) due to higher expected programme costs.
- (b) Rolling programme of electrification (Scotland) - This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been higher than the regulator assumed for the year and control period to date mostly due to escalating programme costs. The estimates of contractor costs included in the ECAM target appear over-optimistic. This is consistent with the experiences of a number of other electrification enhancement programmes throughout the network in CP6. Following discussions with ORR, further work is being undertaken with independent reporter to understand the nature of these increases. In the meantime, financial underperformance has been recognised in the year, augmenting the financial underperformance reported last year (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). The variance in the current year is the main driver behind the control period to date overspend.
- (c) Highland main line journey time improvements (phase 2) - This project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. Expenditure in the current year is lower than the baseline as project delivery has been reprofiled into later years. In addition, delays in awarding contracts (to allow additional scope challenge and negotiations) have postponed some works this year. Whilst activity on this programme is expected to ramp up later in the control period (notably 2018/19) total spend in CP5 is envisaged to be lower than the determination assumed.
- (d) Motherwell area stabling - this project will electrify the remaining 'back of Shops' sidings to permit the stabling of additional EMUs at Motherwell required by the electrification with a longer term target to consolidate all stabling at Motherwell on one site with appropriate cleaning and servicing facilities. In line with Network Rail's own internal plan, there has been limited activity on this project in the early years of the control period compared to the regulatory assumption. Furthermore, the scope of this project has been substantially reduced following agreement between Network Rail, Transport Scotland, train operators and ORR so expenditure is expected to remain minimal throughout the remainder of the control period.
- (9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline this year and for the control period to date mainly due to fewer Income generating schemes being identified and delivered. Notable variances to the baseline include:

Statement 3: Analysis of enhancement capital expenditure, Scotland – continued

in £m 2016-17 prices unless stated

- (a) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year is lower than the baseline but is higher for the control period to date as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Major investment this year was undertaken at Glasgow Central to improve retail offerings to passengers.
 - (b) Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements.
- (a) Government sponsored – this year a credit balance has been recognised in relation to the Borders railway project as part of this programme has now been funded directly by grants and so now appears within the PAYGO category.
 - (b) Discretionary investment – expenditure in previous years relates to the CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (c) PAYGO – as noted above, investment this year includes amounts relating to Borders railway project. There are also notable contributions for Polmadie & Rutherglen and train depots. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Scotland

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	3,606	4,131	525	2,965	3,025	60
Income						
Grant income	(464)	(461)	3	(1,337)	(1,325)	12
Fixed charges	(93)	(93)	-	(275)	(273)	2
Variable charges	(87)	(89)	(2)	(237)	(236)	1
Other single till income	(47)	(60)	(13)	(151)	(171)	(20)
Total income	(691)	(703)	(12)	(2,000)	(2,005)	(5)
Expenditure						
Network operations	44	40	(4)	138	122	(16)
Support costs	36	45	9	129	141	12
Traction electricity, industry costs and rates	51	53	2	146	146	-
Network maintenance	118	112	(6)	338	338	-
Schedule 4	39	32	(7)	78	79	1
Schedule 8	-	-	-	4	-	(4)
Renewals	359	300	(59)	937	924	(13)
PR13 enhancement	305	286	(19)	874	1,187	313
Non-PR13 enhancement	(2)	-	2	14	-	(14)
Total expenditure	950	868	(82)	2,658	2,937	279
Financing						
Interest expenditure on nominal debt - FIM covered	36	71	35	113	182	69
Interest expenditure on index linked debt - FIM covered	22	27	5	66	77	11
Expenditure on the FIM	27	47	20	89	126	37
Interest expenditure on government borrowing	37	-	(37)	70	-	(70)
Interest on cash balances held by Network Rail	-	(2)	(2)	(2)	(5)	(3)
Total interest costs	122	143	21	336	380	44
Accretion on index linked debt - FIM covered	40	59	19	80	161	81
Total financing costs	162	202	40	416	541	125
Corporation tax	-	-	-	-	-	-
Other	17	-	(17)	5	-	(5)
Movement in net debt	438	367	(71)	1,079	1,473	394
Closing net debt	4,044	4,498	454	4,044	4,498	454

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

(£m, nominal prices)	2016-17 £m	2015-16 £m	2014-15 £m
Increase in net debt	438	270	371
Represented by:			
New debt issued			
Market issued debt	-	-	-
Borrowing from government	549	679	591
Accretion on index linked debt	40	20	20
Debt repaid	(215)	(279)	(218)
Decrease in net cash balances	73	(87)	23
Other	(9)	(63)	(45)
Increase in net debt	438	270	371

Statement 4: Net debt and financial ratios, Scotland - continued

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	March 2017		March 2016		March 2015	
	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
Market issued debt						
Nominal borrowings (GBP)	463	11%	511	13%	687	20%
Nominal borrowings (Foreign currency)	256	6%	428	11%	544	16%
Total nominal borrowings	719	17%	939	24%	1,231	36%
Index linked borrowings (GBP)	1,632	39%	1,594	42%	1,594	47%
Borrowing from government	1,810	44%	1,263	34%	591	17%
Total regulatory borrowings	4,161	100%	3,796	100%	3,416	100%
Uncleared cash items	-		-			
Obligations under finance lease	-		-			
Net cash balances	(117)		(190)		(80)	
Regulatory net debt as at 31 March 2017	4,044		3,606		3,336	

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	1.23	1.09	1.01	1.02
FFO/interest	3.61	3.53	3.28	2.96
Net debt/RAB (gearing)	62.7%	63.9%	66.4%	68.5%
FFO/debt	11.7%	10.4%	9.9%	9.4%
RCF/debt	8.5%	7.5%	6.9%	6.2%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Scotland has increased by £0.4bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt attributable to Scotland at 31 March 2017 is £0.5bn lower than the regulator assumed mainly due to slower delivery of enhancement programmes, favourable financing costs (mostly due to lower inflation rates earlier in the control period) and lower opening net debt at the start of the control period.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of some of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2a) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.
- (14) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as over 40 per cent of the value of Network Rail's gross debt at the year end is payable to government. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year have been replaced by drawdowns against the DfT loan facility. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that most of the interest costs associated with such instrument are added to the principle. The proportion of this index-linked debt has decreased this year as the rate of overall gross debt has increased at a quicker rate than RPI.

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

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

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

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

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

(17) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The ratio in the year was in line with the regulator's expectation although this was a consequence of lower than expected trading profits (owing to lower freight and property income and higher maintenance costs) being mitigated by lower than expected financing costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are about higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(18) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. The favourable position to the target is mainly due to lower financing costs (as noted above). The decline in the ratio compared to the previous year is mainly due to a lower proportion of financing costs associated with accreting debt items following reclassification of Network Rail to be a Central Government Body (as discussed above).

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

- (19) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is lower than the regulatory comparative which is mainly due to lower enhancement expenditure in the control period to date. Every time Network Rail undertakes activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, slower increases in both elements of the equation by the same absolute amount will result in a lower ratio. The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (20) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. The main reason for the favourable variance to the regulator’s assumption is due to lower debt compared to the regulatory assumption which mainly arises from slower delivery of enhancement programmes. The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant.
- (21) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.
- (22) Debt maturity – section E) shows that most of Network Rail’s debt is repayable in more than five years. As an infrastructure entity it makes sense to have a stable view of cashflows and so such long-dated arrangements significantly reduce exposure to short-term financial markets, which are subject to greater turbulence and liquidity risk. The proportion of debt items with a maturity of more than five years has decreased compared to the previous year. This is because the DfT borrowings (which will come to represent a higher percentage of debt as the control period progresses) are all repayable within the control period, thus increasing the weighting of short-term debt. This accounts for the noticeable increase in the debt due within one year this year. In addition, Network Rail is holding less cash assets at the end of this year compared to the previous year (as shown in section C) of this statement).

Statement 5a: Total financial performance, Scotland

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	464	461	3	3	-	-	-	-
Fixed Income	93	93	-	-	-	-	-	-
Variable Income	67	63	4	-	-	-	4	4
Other Single Till Income	47	60	(13)	-	-	-	(13)	(13)
Opex memorandum account	2	-	2	1	-	-	1	1
Total Income	673	677	(4)	4	-	-	(8)	(8)
Expenditure								
Network operations	44	40	(4)	-	-	-	(4)	(4)
Support costs	36	45	9	1	-	-	8	8
Industry costs and rates	31	27	(4)	(1)	-	-	(3)	(3)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	118	112	(6)	-	(5)	-	(1)	(1)
Schedule 4 costs	39	32	(7)	-	7	-	(14)	(14)
Schedule 8 costs	-	-	-	-	-	-	-	-
Renewals	359	300	(59)	-	(4)	-	(55)	(13)
PR13 Enhancements	305	150	(155)	-	(56)	-	(99)	(25)
Non PR13 Enhancements	(2)	-	2	-	2	-	-	-
Financing Costs	162	202	40	40	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,092	908	(184)	40	(56)	-	(168)	(52)
Total:			(188)	44	(56)	-	(176)	(60)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(60)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								-
Under-delivery of train performance requirements (CaSL)								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(4)
Total financial out / (under) performance to be recognised								(64)

in £m 2016-17 prices unless stated

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Statement 5a: Total financial performance, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen in are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Fixed income – variances that have arisen in are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (3) Variable income – financial outperformance for the control period to date has been delivered mostly as a result of increased capacity charges as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Scotland – continued

in £m 2016-17 prices unless stated

- (4) Other single till income – the adverse performance in the current year is mainly due to lower freight income and lower property income. Substantial decreases in the freight traffic have occurred this control period (largely driven by demand for coal transportation reducing following legislative changes) whilst property sales and rental yield growth have been lower than the regulator expected. The control period to date variance is largely due to the same factors. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Amounts earned under the Volume incentive have largely arisen from increasing the number of train paths available to operators in response to customer demand. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs in 2016/17 are approximately 10 per cent higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be a challenge. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are lower than the previous year mainly due to some efficiencies that have been realised and some non-recurring items claims in the previous year.

Statement 5a: Total financial performance, Scotland – continued

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7a. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of CP5. Therefore, none of the variance has been included as FPM.

Statement 5a: Total financial performance, Scotland – continued

in £m 2016-17 prices unless stated

- (11) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. There were also some extra costs incurred as part of the successful delivery of the Glasgow Queen Street works early in 2016/17. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Costs were higher this year than the determination assumed. This included the delivery of slab tracks works at Glasgow Queen Street. The nature of these complex works necessitates closing the railway for a time, resulting in Schedule 4 costs. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

Statement 5a: Total financial performance, Scotland – continued

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- (13) Schedule 8 costs – costs are in line with the regulator's expectation this year which compares favourably to the experiences for the network as a whole. Performance for the control period to date is adverse to the regulator's targets mainly due to extra network congestion (such as the extra traffic in 2014/15 owing to the Glasgow Commonwealth Games) and infrastructure failures.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with Transport Scotland to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Edinburgh Glasgow Improvements Programme (EGIP) and Rolling programme of electrification. The control period to date position is due to largely due to these same programmes. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Scotland – continued

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- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which give rise to financial outperformance or underperformance this year or in the control period to date.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – there have been no missed targets for Scotland in the current year. However, as targets were missed earlier in the control period a value is included in the Cumulative table.
- (3) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(81)	(48)	(33)	(8)		(8)	-	-
Signalling	30	44	(14)	(3)		(3)	-	-
Civils	(18)	(14)	(4)	(1)		-	(1)	-
Buildings	8	12	(4)	(1)		-	(1)	-
Electrical power and fixed plant	2	3	(1)	-		-	-	-
Telecoms	(4)	(3)	(1)	-		-	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	(1)	(1)	-	-		-	-	-
Property	(1)	(2)	1	-		-	-	-
Other renewals	1	-	1	-		-	-	-
Total	(59)	(4)	(55)	(13)		(11)	(2)	-

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(87)	3	(90)	(22)		(20)	(2)	-
Signalling	142	168	(26)	(7)		(7)	-	-
Civils	(50)	(29)	(21)	(5)		3	(8)	-
Buildings	8	12	(4)	(1)		(2)	1	-
Electrical power and fixed plant	12	17	(5)	(1)		-	(1)	-
Telecoms	6	11	(5)	(1)		-	(1)	-
Wheeled plant and machinery	19	19	-	-		-	-	-
IT	(12)	(12)	-	-		-	-	-
Property	(10)	(7)	(3)	(1)		-	(1)	-
Other renewals	(38)	(39)	1	-		1	(1)	-
Total	(10)	143	(153)	(38)		(25)	(13)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly two-thirds of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the high level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. This year was affected by Lochailort and Ballieston landslip. The underperformance in the control period to date is largely due to the same factors, with a notable contribution from the remediation costs required following damage to Lamington viaduct as a result of extreme weather.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, emergency works at Wenyss Bay following weather related damage necessitated unplanned expenditure.
- (6) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished.

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

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	(76)	(10)	-	(66)	(17)
Rolling programme of electrification (Scotland)	(24)	5	-	(29)	(7)
Aberdeen to Inverness journey time improvements and other enhancements	(99)	(95)	-	(4)	(1)
Seven day railway	-	-	-	-	-
Other Enhancements	46	46	-	-	-
Total	(153)	(54)	-	(99)	(25)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	13	112	-	(99)	(25)
Rolling programme of electrification (Scotland)	(29)	16	-	(45)	(11)
Aberdeen to Inverness journey time improvements and other enhancements	(1)	3	-	(4)	(1)
Seven day railway	3	3	-	-	-
Other Enhancements	140	140	-	-	-
Total	126	274	-	(148)	(37)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Edinburgh-Glasgow Improvements Programme (EGIP) – total programme costs have increased resulting in a portion of this financial underperformance being recognised this year. The extra programme costs include a re-assessment of contractor costs following variation orders and higher than expected tenders from suppliers, additional costs increasing the heights of parapets to accommodate modern overhead line electrification equipment, extra legislation compliance costs and supplementary design costs. In addition, planned access has been difficult to achieve and late running trains has reduced productivity of possessions. Delays in obtaining compulsory purchase orders for required works at Glasgow Queen Street has also resulted in delays to the programme.
- (2) Rolling programme of electrification (Scotland) – underperformance has been recognised in the year and the control period to date due to higher programme costs. The assessment of the baseline included in the ECAM process has proven to be over-optimistic, which mirrors the experience of many of the electrification enhancement programmes being delivered throughout the network. The extra costs includes higher contractor prices as well as costs to accommodate several structures originally proposed for demolition and removal that have now had to be retained due to beneficiary rights and rights of way. This was augmented by unplanned changes in wire heights in stations which had to be increased to meet interoperability regulation requirements
- (3) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Performance, Scotland

in £m 2016-17 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2016-17 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	57	59	(2)	-	-	-	(2)
Capacity charge	60	56	4	-	-	-	4
Electricity asset utilisation charge	3	4	(1)	-	-	-	(1)
Property income	43	52	(9)	-	-	-	(9)
Expenditure							
Network operations	140	123	(17)	-	-	-	(17)
Support costs	132	143	11	-	2	-	9
RSSB and BT Police	31	25	(6)	-	-	-	(6)
Network maintenance	344	344	-	(1)	-	-	1
Schedule 4 costs	79	81	2	16	-	-	(14)
Schedule 8 costs	4	-	(4)	-	-	-	(4)
Renewals	952	916	(36)	117	-	(115)	(38)
Total REBS performance			(58)	132	2	(115)	(77)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(4)
Under-delivery of train performance requirements (CaSL)							-
Missed ORBIS milestones							(4)
Total adjustment for under delivery of outputs and reduced sustainability							(8)
Cumulative performance to end of 2016-17							(85)
Less cumulative outperformance recognised up to the end of 2015-16							(45)
Net REBS performance for 2016-17							(40)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

only applies to renewals

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance

Statement 6a: Analysis of income, Scotland

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	464	461	3	1,360	1,349	11	457
Franchised track access income							
Fixed charges	93	93	-	280	279	1	92
Variable charges							
Variable usage charge	15	14	1	45	41	4	15
Traction electricity charges	20	26	(6)	58	65	(7)	20
Electrification asset usage charge	1	1	-	3	3	-	1
Capacity charge	21	18	3	60	55	5	20
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	30	30	-	75	75	-	25
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	87	89	(2)	241	239	2	81
Total franchised track access income	180	182	(2)	521	518	3	173
Total franchised track access and grant income	644	643	1	1,881	1,867	14	630
Other single till income							
Property income	14	20	(6)	46	58	(12)	15
Freight income	3	10	(7)	15	27	(12)	4
Open access income	-	-	-	-	-	-	-
Stations income	21	21	-	65	64	1	22
Facility and financing charges	1	1	-	3	3	-	1
Depots Income	8	8	-	25	22	3	9
Other income	-	-	-	-	1	(1)	-
Total other single till income	47	60	(13)	154	175	(21)	51
Total income	691	703	(12)	2,035	2,042	(7)	681

Statement 6a: Analysis of income, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower property income (fewer sales and less rental income) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators.
- (3) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Transport Scotland (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Scotland – continued

in £m 2016-17 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge – this is favourable to the determination in both the current year and the control period to date. This is because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 12).
- (6) Property income – this is lower than the determination assumed due to lower property rental income coupled with fewer property sales than the regulator expected. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. However, rental growth has not materialised at the rates expected by the regulator. Property income for the control period to date is lower than the regulator's targets as both rental income growth and sales assumptions have not been achieved. Income for the year is consistent with the previous year.
- (7) Freight income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable with a 2025 deadline for compliance with the new rules. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date. Income for the year is consistent with the previous year.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	14	20	(6)	44	57	(13)	15
Property sales	-	2	(2)	2	7	(5)	-
Adjustment for commercial opex	-	(2)	2	-	(6)	6	-
Total property income	14	20	(6)	46	58	(12)	15
Freight income							
Freight variable usage charge	2	6	(4)	12	18	(6)	3
Freight traction electricity charges	1	1	-	-	2	(2)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	-	1	(1)	-
Freight only line charge	-	1	(1)	2	3	(1)	1
Freight specific charge	-	-	-	-	1	(1)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	1	(1)	1	2	(1)	-
Total freight income	3	10	(7)	15	27	(12)	4
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	3	2	1	9	8	1	3
Qualifying expenditure	5	5	-	14	14	-	5
Total managed stations income	8	7	1	23	22	1	8
Franchised stations income							
Long term charge	11	12	(1)	37	35	2	12
Stations lease income	2	2	-	5	7	(2)	2
Total franchised stations income	13	14	(1)	42	42	-	14
Total stations income	21	21	-	65	64	1	22
Facility and financing charges							
Facility charges	1	1	-	3	3	-	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	1	-	3	3	-	1
Depots income	8	8	-	25	22	3	9
Other	-	-	-	-	1	(1)	-
Total other single till income	47	60	(13)	154	175	(21)	51

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

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) Overall, single till income is lower than the regulator expected this year mainly as a result of lower property income (lower rental income and sales) and lower freight income (as a result of structural declines in the coal transportation market).
- (2) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is below the regulatory expectation for both current year and the control period to date. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new opportunities. However, rental growth has not materialised at the rates expected by the regulator. Income for the year is consistent with the previous year.
- (3) Property sales – income is lower than the regulator's determination this year and the control period to date as very few properties have been sold. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (4) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable with a 2025 deadline for compliance with the new rules. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date. Income for the year is consistent with the previous year.

Statement 6c: Analysis of income by operator, Scotland

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Cross Country				
Variable Usage Charges	0.8	0.8	0.8	2.4
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	1.6	1.8	1.7	5.1
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	0.2	0.2	0.2	0.6
Station QX	0.3	0.3	0.3	0.9
Other Charges	-	-	-	-
Total income	2.9	3.1	3.0	9.0

	2014-15	2015-16	2016-17	CP5 Total
East Coast Main Line Rail				
Variable Usage Charges	2.0	-	-	2.0
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	0.1	-	-	0.1
Capacity Charges	3.4	-	-	3.4
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	0.3	-	-	0.3
Station QX	0.5	-	-	0.5
Other Charges	1.4	-	-	1.4
Total income	7.7	-	-	7.7

	2014-15	2015-16	2016-17	CP5 Total
Virgin East Coast				
Variable Usage Charges	0.2	2.2	2.3	4.7
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	0.1	0.1	0.2
Capacity Charges	0.4	3.6	3.9	7.9
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	0.3	0.3	0.6
Station QX	-	0.6	0.6	1.2
Other Charges	0.1	1.6	1.5	3.2
Total income	0.7	8.4	8.7	17.8

	2014-15	2015-16	2016-17	CP5 Total
Scotrail				
Variable Usage Charges	8.1	7.9	8.6	24.6
Traction Electricity Charges	12.2	13.1	14.0	39.3
Electrification Asset Usage Charges	0.8	0.8	1.0	2.6
Capacity Charges	9.7	10.0	10.5	30.2
Fixed Charges	95.4	88.4	89.2	273.0
Station Facility Charge	0.6	0.8	-	1.4
Station Long Term Charges	16.4	14.6	1.6	32.6
Station QX	3.6	0.8	3.5	7.9
Other Charges	6.5	6.2	0.3	13.0
Total income	153.3	142.6	128.7	424.6

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

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Serco Sleeper				
Variable Usage Charges	-	0.6	0.6	1.2
Traction Electricity Charges	-	0.1	0.7	0.8
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	-	0.1	0.3	0.4
Fixed Charges	-	1.0	2.0	3.0
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	-	0.1	0.1
Other Charges	-	-	-	-
Total income	-	1.8	3.7	5.5

	2014-15	2015-16	2016-17	CP5 Total
Transpennine				
Variable Usage Charges	0.4	0.4	0.4	1.2
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	0.1	0.1	0.1	0.3
Capacity Charges	0.4	0.3	0.5	1.2
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	0.1	-	0.1
Station QX	0.1	0.1	0.1	0.3
Other Charges	-	-	-	-
Total income	1.0	1.0	1.1	3.1

	2014-15	2015-16	2016-17	CP5 Total
Virgin West Coast				
Variable Usage Charges	2.9	2.5	2.8	8.2
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	0.3	0.2	0.3	0.8
Capacity Charges	4.4	3.9	4.3	12.6
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	0.3	0.3	0.3	0.9
Station QX	0.4	0.4	0.4	1.2
Other Charges	-	-	-	-
Total income	8.3	7.3	8.1	23.7

	2014-15	2015-16	2016-17	CP5 Total
Consolidated Freight Operating Companies				
Variable Usage Charges	6.4	-	-	6.4
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	0.3	-	-	0.3
Fixed Charges	-	-	-	-
Station Facility Charge	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Other Charges	1.7	-	-	1.7
Total Turnover	8.4	-	-	8.4

6c: Analysis of income by operator, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the tables do not include any payments made to or received from operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.
- (5) In 2015/16 Caledonian Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	26	22	(4)	74	69	(5)	25
Signalling shift managers	2	1	(1)	6	3	(3)	2
Local operations managers	2	1	(1)	6	3	(3)	2
Controllers	3	2	(1)	7	7	-	2
Electrical control room operators	-	1	1	2	2	-	1
Total signaller expenditure	33	27	(6)	95	84	(11)	32
Non-signaller expenditure							
Mobile operations managers	2	2	-	8	6	(2)	3
Managed stations	6	4	(2)	18	12	(6)	6
Performance	3	1	(2)	11	3	(8)	4
Customer relationship executives	-	1	1	1	2	1	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	3	3	-
Other	1	3	2	2	9	7	1
Operations delivery	(1)	-	1	(3)	-	3	(1)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	4	3	(1)	16	9	(7)	8
Other operating income	(4)	(2)	2	(8)	(5)	3	(3)
Total non-signaller expenditure	11	13	2	45	39	(6)	18
Total network operations expenditure	44	40	(4)	140	123	(17)	50
Support costs							
Core support costs							
Human resources	2	5	3	8	17	9	3
Information management	6	6	-	18	19	1	6
Government and corporate affairs	1	2	1	3	5	2	1
Group strategy	-	1	1	2	3	1	1
Finance	1	3	2	5	8	3	2
Business services	2	1	(1)	4	4	-	1
Accommodation	7	6	(1)	28	20	(8)	11
Utilities	5	4	(1)	15	14	(1)	4
Insurance	(1)	5	6	10	15	5	6
Legal and inquiry	1	1	-	3	2	(1)	1
Safety and sustainable development	2	1	(1)	6	3	(3)	3
Strategic sourcing	1	1	-	3	3	-	1
Business change	-	-	-	-	1	1	-
Other corporate functions	6	-	(6)	19	1	(18)	6
Core support costs	33	36	3	124	115	(9)	46
Other support costs							
Asset management services	3	6	3	12	18	6	4
Network Rail telecoms	3	3	-	13	12	(1)	5
National delivery service	-	1	1	-	2	2	-
Infrastructure Projects	(3)	-	3	(7)	-	7	(2)
Commercial property	-	-	-	(1)	(1)	-	-
Group costs	-	(1)	(1)	(9)	(2)	7	(3)
Total other support costs	3	9	6	8	29	21	4
Total support costs	36	45	9	132	144	12	50
Traction electricity, industry costs and rates							
Traction electricity	20	26	6	60	67	7	21
Business rates	17	17	-	50	50	-	17
British transport police costs	10	7	(3)	28	22	(6)	9
RSSB costs	1	1	-	3	3	-	1
ORR licence fee and railway safety levy	2	2	-	5	5	-	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	1	-	(1)	1	1	-	-
Total traction electricity, industry costs and rates	51	53	2	147	149	2	50
Total network operations expenditure, support costs, traction electricity, industry costs and rates	131	138	7	419	416	(3)	150

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are approximately 10 per cent higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be a challenge. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are lower than the previous year mainly due to some efficiencies that have been realised and some non-recurring items claims in the previous year.

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

in £m 2016-17 prices unless stated

- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Government and corporate affairs – costs are lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy costs as many discretionary projects have been cancelled and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. The restructuring of the team and the transfer to Finance occurred in the current year which has driven the noticeable reduction in costs compared to 2015/16, whilst increasing the costs in Finance.
- (9) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year.

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

in £m 2016-17 prices unless stated

- (10) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around a number of front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (11) Accommodation – these property expenses were broadly in line with the determination this year but are higher than the regulatory target for the control period to date. This is largely due to unforeseen costs connected with relocation of the route head office. Costs are lower than the previous year which included some transitional costs for the route head office move.
- (12) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (13) Legal and inquiry – costs for the current year are in line with the regulatory assumption. This is mainly due to the transfer of some of the Business change responsibilities to Legal and inquiry and also to extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. These extra items have been offset by some efficiencies over and above the regulatory expectation. Expenses in the current year are consistent with the previous year.
- (14) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.

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

in £m 2016-17 prices unless stated

- (15) Other corporate functions – costs are significantly higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.
- (16) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (17) Network Rail telecoms – costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (18) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.
- (19) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are broadly in line with the determination this year. Costs for the control period to date are favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.

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

in £m 2016-17 prices unless stated

- (20) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the determination assumed mainly due to lower traction electricity costs partly offset by extra British Transport Police costs. The same factors explain the variance to the regulator’s targets for the control period to date.
- (21) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are in line with the prior year, which is reflective of commodity prices.
- (22) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (23) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year’s costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	26	25	28	26
MOMS	3	3	3	2
Control	4	3	3	3
Planning & Performance Staff Costs	2	5	4	2
Managed Stations Staff Costs	1	2	2	2
Operations Management Staff Costs	3	2	2	2
Other	5	6	8	7
Total operations & customer services costs	44	46	50	44
Total Network Operations	44	46	50	44
Support				
Human resources				
Functional support	3	1	1	1
Training (inc Westwood)	2	1	1	-
Graduates	-	-	-	-
Apprenticeships	1	1	1	-
Other	-	-	-	1
Total human resources	6	3	3	2
Information management				
Support	1	-	-	-
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	5	6	6	5
Other	-	-	-	1
Total information management	6	6	6	6
Finance	2	2	2	1
Business Change	1	-	-	-
Contracts & Procurement	1	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	1
Planning & development	1	1	1	-
Safety & compliance	2	-	-	-
Other corporate services	5	2	2	2
Commercial property	6	10	11	7
Infrastructure Projects	(6)	(2)	(2)	(3)
Route Services	2	3	3	2
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	15	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	5	4	5
Network Rail Telecoms	-	5	6	3
Digital Railway	-	2	2	2
Safety Technical & Engineering	-	4	4	3
Government & Corporate Affairs	-	1	1	1
Business Services	-	1	1	2
Route Asset Management	-	1	1	2
Legal and inquiry	-	1	1	1
Group/central	-	-	-	-
Pensions	-	-	-	-
Insurance	4	5	6	(1)
Redundancy/reorganisation costs	7	2	1	1
Staff incentives/Bonus Reduction	1	(2)	(1)	-
Accommodation & Support Recharges	-	(3)	(2)	(3)
Commercial claims settlements	-	-	(1)	-
ORR financial penalty	8	(2)	-	-
Other	-	(1)	-	2
Total group/central costs	20	(1)	3	(1)
Total support	61	45	50	36
Total network operations and support costs	105	91	100	80

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (3) Network Operations – Network operations costs are lower than the previous year mainly due to some efficiencies that have been realised and some non-recurring items claims in the previous year.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are lower than the previous year mostly due to the Insurance savings arising from reduced premiums (as cover has been reduced) and non-recurring savings following the actuarial reassessment of liabilities.
- (5) Commercial property – property expenses were lower than the previous year which included some transitional costs relating to the relocation of the route head office. The relocation of the route head office has led to some unforeseen costs in the earlier years of the control period.
- (6) Telecoms – costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (7) Group – Insurance – costs are lower than last year which is due to two main factors. Firstly, Network Rail has altered its insurance strategy to fall more in line with the rest of government. As a result premiums are lower, but more risk is retained by the organisation. Secondly, as part of the year end actuarial review of liabilities, the level of provisions for outstanding claims was reduced. The increase in Insurance costs seen in the early years of the control period was mostly due to severe weather events towards the end of control period 4 which had a high profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result the business case for procuring a lower level of insurance cover became more compelling. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury or damage caused by Network Rail’s road fleet) which are now more expensive.

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

in £m 2016-17 prices unless stated

- (8) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs in the last year of CP4. As part of this reorganisation initiative there was costs incurred in 2014/15 too. In the past two years, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least 2019.
- (9) Group – staff incentives – in 2014/15 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. The credit balance last year relates to lower expected payouts for long-term incentive plans to be made as a result of performance not meeting corporate targets. The planned costs of these schemes were included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets was recognised in Group. Changes in the method of calculating long-term incentives provides more certainty over the costs and so there is no such credit (or expense) this year.
- (10) Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15, after the conclusion of the control period, the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

Statement 7c: Insurance reconciliation, Scotland

in £m 2016-17 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance Claims recognised				Total
	Underlying cost	Claims paid	Market premiums A	Underlying cost	by the captive B	Captive premiums	Other C	Total cost D
Risk								
Property	0	0	0	1	0	1	0	0
Business interruption	0	0	0	5	0	0	0	0
Terrorism	0	0	0	0	0	0	0	0
Employer's liability	0	0	0	0	0	0	0	0
Public & products liability	0	0	1	1	0	1	0	1
Motor	0	0	0	0	0	0	0	0
Construction all risks	0	0	0	1	0	0	0	0
Other cover	0	0	0	0	0	0	0	0
Investment return	0	0	0	0	0	0	0	0
Total	0	0	1	8	0	2	0	1

Total insurance recognised in:

Schedule 4 & 8	0	0	0	5	0	0	0	0
Operations	0	0	0	0	0	0	0	0
Support costs	0	0	1	3	0	2	0	1
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	0	0	1	8	0	2	0	1

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2016-17	2015-16	2014-15	Cumulative
Operations	6	(5)	(3)	(2)
Investment revenues	0	0	0	0
Finance costs	0	0	0	0
Profit/(loss) before tax	6	(5)	(3)	(2)
Tax	0	0	0	0
Profit/(loss) attributable to shareholders	6	(5)	(3)	(2)

Statement 7c: Insurance reconciliation, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Total insurance cost: $A+B+C=D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax, the rate of which increased once again this year following legislative changes.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.
- (2) This year Network Rail Insurance Limited has made a profit (unaudited) compared to losses made in the previous years of the control period. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. This year, the actuarial reassessment of liabilities resulted in reduced expected future pay-outs which helped to generate the profit.

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

in £m 2016-17 prices unless stated

Actual spend in year

	2016-17				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	26	0	0	26	22	0	0	22	(4)	0	0	(4)
Signalling shift managers	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Local operations managers	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Controllers	4	(1)	0	3	2	0	0	2	(2)	1	0	(1)
Electrical control room operators	1	(1)	0	0	1	0	0	1	0	1	0	1
Total signaller expenditure	35	(2)	0	33	27	0	0	27	(8)	2	0	(6)
Non-signaller expenditure												
Mobile operations managers	2	0	0	2	2	0	0	2	0	0	0	0
Managed stations	6	0	0	6	4	0	0	4	(2)	0	0	(2)
Performance	3	0	0	3	1	0	0	1	(2)	0	0	(2)
Customer relationship executives	0	0	0	0	1	0	0	1	1	0	0	1
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	1	0	0	1	1	0	0	1
Other	1	0	0	1	3	0	0	3	2	0	0	2
Operations delivery	7	(8)	0	(1)	0	0	0	0	(7)	8	0	1
HQ - Operations services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Performance and planning	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Stations and customer	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	7	(3)	0	4	3	0	0	3	(4)	3	0	(1)
Other operating income	0	0	(4)	(4)	0	0	(2)	(2)	0	0	2	2
Total non-signaller expenditure	26	(11)	(4)	11	15	0	(2)	13	(11)	11	2	2
Total network operations	61	(13)	(4)	44	42	0	(2)	40	(19)	13	2	(4)

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

in £m 2016-17 prices unless stated

Actual spend in year

	2016-17				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	2	0	0	2	5	0	0	5	3	0	0	3
Information management	8	(2)	0	6	6	0	0	6	(2)	2	0	0
Government and corporate affairs	1	0	0	1	2	0	0	2	1	0	0	1
Group strategy	1	(1)	0	0	1	0	0	1	0	1	0	1
Finance	1	0	0	1	3	0	0	3	2	0	0	2
Business services	3	0	(1)	2	1	0	0	1	(2)	0	1	(1)
Accommodation	7	0	0	7	6	0	0	6	(1)	0	0	(1)
Utilities	6	0	(1)	5	4	0	0	4	(2)	0	1	(1)
Insurance	(1)	0	0	(1)	5	0	0	5	6	0	0	6
Legal and inquiry	1	0	0	1	1	0	0	1	0	0	0	0
Safety and sustainable development	3	(1)	0	2	1	0	0	1	(2)	1	0	(1)
Strategic sourcing	1	0	0	1	2	0	(1)	1	1	0	(1)	0
Business change	0	0	0	0	0	0	0	0	0	0	0	0
Other corporate functions	8	0	(2)	6	0	0	0	0	(8)	0	2	(6)
Core support costs	41	(4)	(4)	33	37	0	(1)	36	(4)	4	3	3
Other support costs												
Asset management services	8	(4)	(1)	3	9	0	(3)	6	1	4	(2)	3
Network Rail telecoms	7	(3)	(1)	3	3	0	0	3	(4)	3	1	0
National delivery service	0	0	0	0	4	0	(3)	1	4	0	(3)	1
Infrastructure projects	53	(54)	(2)	(3)	0	0	0	0	(53)	54	2	3
Commercial property	1	0	(1)	0	3	0	(3)	0	2	0	(2)	0
Group costs	0	0	0	0	0	0	(1)	(1)	0	0	(1)	(1)
Total other support costs	69	(61)	(5)	3	19	0	(10)	9	(50)	61	(5)	6
Total support costs	110	(65)	(9)	36	56	0	(11)	45	(54)	65	(2)	9

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

in £m 2016-17 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	74	0	0	74	69	0	0	69	(5)	0	0	(5)
Signalling shift managers	6	0	0	6	3	0	0	3	(3)	0	0	(3)
Local operations managers	6	0	0	6	3	0	0	3	(3)	0	0	(3)
Controllers	11	(4)	0	7	7	0	0	7	(4)	4	0	0
Electrical control room operators	3	(1)	0	2	2	0	0	2	(1)	1	0	0
Total signaller expenditure	100	(5)	0	95	84	0	0	84	(16)	5	0	(11)
Non-signaller expenditure												
Mobile operations managers	8	0	0	8	6	0	0	6	(2)	0	0	(2)
Managed stations	19	(1)	0	18	12	0	0	12	(7)	1	0	(6)
Performance	11	0	0	11	3	0	0	3	(8)	0	0	(8)
Customer relationship executives	3	(2)	0	1	2	0	0	2	(1)	2	0	1
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	3	0	0	3	3	0	0	3
Other	2	0	0	2	9	0	0	9	7	0	0	7
Operations delivery	21	(24)	0	(3)	0	0	0	0	(21)	24	0	3
HQ - Operations services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Performance and planning	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Stations and customer	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	20	(4)	0	16	9	0	0	9	(11)	4	0	(7)
Other operating income	0	0	(8)	(8)	0	0	(5)	(5)	0	0	3	3
Total non-signaller expenditure	84	(31)	(8)	45	44	0	(5)	39	(40)	31	3	(6)
Total network operations	184	(36)	(8)	140	128	0	(5)	123	(56)	36	3	(17)

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

in £m 2016-17 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	11	(2)	(1)	8	18	0	(1)	17	7	2	0	9
Information management	25	(7)	0	18	20	0	(1)	19	(5)	7	(1)	1
Government and corporate affairs	3	0	0	3	5	0	0	5	2	0	0	2
Group strategy	5	(3)	0	2	3	0	0	3	(2)	3	0	1
Finance	5	0	0	5	8	0	0	8	3	0	0	3
Business services	5	0	(1)	4	4	0	0	4	(1)	0	1	0
Accommodation	28	0	0	28	20	0	0	20	(8)	0	0	(8)
Utilities	19	0	(4)	15	14	0	0	14	(5)	0	4	(1)
Insurance	10	0	0	10	15	0	0	15	5	0	0	5
Legal and inquiry	3	0	0	3	2	0	0	2	(1)	0	0	(1)
Safety and sustainable development	8	(2)	0	6	3	0	0	3	(5)	2	0	(3)
Strategic sourcing	3	0	0	3	7	0	(4)	3	4	0	(4)	0
Business change	0	0	0	0	1	0	0	1	1	0	0	1
Other corporate functions	26	0	(7)	19	1	0	0	1	(25)	0	7	(18)
Core support costs	151	(14)	(13)	124	121	0	(6)	115	(30)	14	7	(9)
Other support costs												
Asset management services	25	(11)	(2)	12	27	0	(9)	18	2	11	(7)	6
Network Rail telecoms	23	(7)	(3)	13	12	0	0	12	(11)	7	3	(1)
National delivery service	5	(1)	(4)	0	12	0	(10)	2	7	1	(6)	2
Infrastructure projects	88	(93)	(2)	(7)	0	0	0	0	(88)	93	2	7
Commercial property	4	(2)	(3)	(1)	9	0	(10)	(1)	5	2	(7)	0
Group costs	(1)	0	(8)	(9)	0	0	(2)	(2)	1	0	6	7
Total other support costs	144	(114)	(22)	8	60	0	(31)	29	(84)	114	(9)	21
Total support costs	295	(128)	(35)	132	181	0	(37)	144	(114)	128	(2)	12

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (3) Network operations costs in 2016/17 are approximately 10 per cent higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be a challenge. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are lower than the previous year mainly due to some efficiencies that have been realised and some non-recurring items claims in the previous year.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

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

in £m 2016-17 prices unless stated

- (5) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (6) Government and corporate affairs – costs are lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (7) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy costs as many discretionary projects have been cancelled and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. The restructuring of the team and the transfer to Finance occurred in the current year which has driven the noticeable reduction in costs compared to 2015/16, whilst increasing the costs in Finance.
- (8) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year.

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

in £m 2016-17 prices unless stated

- (9) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around a number of front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (10) Accommodation – these property expenses were broadly in line with the determination this year but are higher than the regulatory target for the control period to date. This is largely due to unforeseen costs connected with relocation of the route head office. Costs are lower than the previous year which included some transitional costs for the route head office move.
- (11) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (12) Legal and inquiry – costs for the current year are in line with the regulatory assumption. This is mainly due to the transfer of some of the Business change responsibilities to Legal and inquiry and also to extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. These extra items have been offset by some efficiencies over and above the regulatory expectation. Expenses in the current year are consistent with the previous year.
- (13) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.

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

in £m 2016-17 prices unless stated

- (14) Other corporate functions – costs are significantly higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.
- (15) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (16) Network Rail telecoms – costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (17) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.
- (18) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are broadly in line with the determination this year. Costs for the control period to date are favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.

Statement 8a: Summary analysis of network maintenance expenditure, Scotland

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	45	45	-	135	134	(1)	46
Signalling	17	15	(2)	52	46	(6)	17
Civils	19	24	5	59	76	17	22
Buildings	10	4	(6)	16	12	(4)	6
Electrical power and fixed plant	5	4	(1)	17	13	(4)	6
Telecoms	3	3	-	8	8	-	2
Other network operations	17	11	(6)	51	35	(16)	13
Asset management services	5	4	(1)	13	10	(3)	5
National Delivery Service	(1)	4	5	(3)	14	17	(1)
Property	-	-	-	2	1	(1)	1
Group	(2)	(2)	-	(6)	(5)	1	-
Total maintenance expenditure	118	112	(6)	344	344	-	117

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year which is mostly due to additional reactive maintenance works this year. Costs for the control period to date are broadly in line with the PR13 as lower than expected reactive maintenance costs have been offset by higher inspections costs, additional vegetation management costs and not quite achieving regulatory efficiency targets. Costs are consistent with the previous year with extra reactive maintenance costs being offset by lower inspections costs and some other minor efficiencies.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are in line with the determination. As noted elsewhere, the costs relating to National Delivery Services which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. These extra costs have been largely offset by some efficiencies achieved as well as a transfer of certain activities to the Director of Route Asset Management. These costs are included within the Other network operations category, which helps explain the overspend in that area. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16 with some extra expenses resulting from changes in government legislation affecting pensions offset by some efficiencies.

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

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting pension legislation changes and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were lower than the determination mainly as a result of lower than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are lower than the determination mainly due to the less reactive maintenance required, lower asset inspection costs incurred and transfer of responsibilities to Asset management services. The decrease in costs compared to the previous year is mainly due to a reduction in the level of reactive maintenance required.

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

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reversing the trend witnessed in earlier years of the control period. This extra activity is treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher than the previous year reflecting greater levels of reactive maintenance required in 2016/17.
- (6) Electrical power and fixed plant – costs are higher than the regulatory assumption in the control period to date as efficiency targets in the PR13 have not been fully achieved. Costs are lower than previous years of the control period partly due to a transfer of activity to Asset management services category.
- (7) Other network operations – costs for the current year are higher than the regulator's expectation. This includes some elements of activity transferred from the Track category which help reduce costs in that area but increase them in this heading. Costs this year also include extra expenditure associated with the Glasgow Queen Street blockade. The determination assumed that this would occur earlier in the control period. Costs in the control period to date are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year due to additional investment in performance improvements planned, the aforementioned Glasgow Queen Street blockade costs and some non-repeatable benefits in the 2015/16.
- (8) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant, additional activity undertaken by the routes to understand and manage the assets in their area and slower than planned telecoms efficiency savings. The same factors are responsible for the extra spend in the control period to date. Costs in broadly consistent with the previous year.

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

in £m 2016-17 prices unless stated

- (9) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (10) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 8b: Summary analysis of network maintenance headcount, Scotland

	2014-15	2015-16	2016-17
Track	792	749	868
Signalling	341	349	353
Civils	-	-	-
Buildings	-	-	-
Electrical power and fixed plant	135	146	142
Telecoms	56	54	55
Other network operations	139	176	171
Asset management services	-	-	-
National delivery service	74	108	98
Property	-	-	-
Group	-	-	-
Other maintenance	-	-	-
Total network maintenance headcount	1,537	1,582	1,685

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

Notes:

- (1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not directly comparable.
- (2) This statement refers to the average heading during the year.
- (3) This statement records the full time equivalent staff rather than the total number of employees.
- (4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount reported in this statement has increased compared to the previous year. This is a combination of extra resource recruited to deal with the expanding network (such as extra electrification assets), attempts to reduce the unfilled vacancies in the organisation to increase the level of maintenance work that can be performed and reduce reliance on overtime and a reclassification of certain local capital delivery teams to reflect organisational hierarchy changes.
- (2) Maintenance headcount attributed to network operations has increased slightly compared with the previous year. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisation to improve responsiveness and reduce reliance on overtime or external contractors. In addition, a number of teams responsible for delivering some of the more straight forward renewals activities have moved from the Support part of the organisation to the Maintenance part to reflect organisational hierarchy movements. This has minimal impact on Maintenance expenses as the vast majority of these costs are capitalised. Resource has also grown in Electrical power and fixed plant as the network expands its proportion of electrified train lines. As a result, extra resource is required to ensure the smooth running of these assets.

Statement 8c: Analysis of network maintenance expenditure by MDU, Scotland

in £m 2016-17 prices unless stated

	2014-15	2015-16	2016-17	CP5 Total
Edinburgh	21	22	23	66
Glasgow	15	15	15	45
Motherwell	28	27	26	81
Perth	14	14	16	44
Centrally managed				
Structures examinations	12	13	13	38
Major items of maintenance plant	-	-	-	-
HQ managed activities	4	3	2	9
Other	15	22	23	60
Total network maintenance	109	116	118	343

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

in £m 2016-17 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule
- (3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

- (1) Costs are broadly in line with the previous year with extra reactive maintenance costs being offset by lower inspections costs and some other minor efficiencies.
- (2) Overall depots costs are broadly in line with the previous year. Activity increases and additional staff costs increased following changes in government legislation surrounding pensions have been mitigated by efficiencies. Movements in the costs incurred by each depot are expected to fluctuate each year due to the individual circumstances of that depot and the challenges faced in any given year.
- (3) HQ managed activities – costs are lower than the previous year. In 2014/15, Network Rail's Board took the decision to long-term incentive payments to senior staff. These savings, and more, were instead reinvested into two major maintenance programmes, Tidy Railway and Vegetation Management, which were designed to generate long-term improvements in train performance. The costs of these initiatives were largely born in 2014/15 although some continued into 2015/16. As these programmes are now complete there is no such spend in the current year and so costs are lower than 2015/16.
- (4) Other – whilst costs in this category appear consistent with the previous year, this is made up of increases in reactive maintenance costs offset by the transfer of responsibilities from central functions to the front line, leading to increases in the costs reported by the depots. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

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

	2014-15			2015-16			2016-17		
	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Edinburgh	327	-	327	348	-	348	353	-	353
Glasgow	250	-	250	253	-	253	256	-	256
Motherwell	402	-	402	413	-	413	409	-	409
Perth	216	-	216	221	-	221	230	-	230
Centrally managed									
Route HQ	266	2	268	236	3	239	335	5	340
Other HQ	62	12	74	96	12	108	90	8	98
Total network maintenance	1,523	14	1,537	1,567	15	1,582	1,673	13	1,686

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

Notes:

- (1) This statement refers to the average heading during the year.
- (2) This statement records the full time equivalent staff rather than the total number of employees.
- (3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in Route HQ cost centres.
- (2) Headcount in the depots has increased compared to the previous year which is partly the result a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduced reliance on overtime and external contractors.
- (3) Route HQ – the increase in headcount is largely due to the transfer of responsibilities from local depots and other parts of the organisation to consolidate local capital delivery teams in one place. This has minimal impact on total Maintenance costs as the expenses relating to these individuals and the work they are undertaken is included within renewals. Undertaking those renewals jobs which are simpler or more routine allow greater flexibility for local route teams to determine the timing of the delivery.

Statement 9a: Summary analysis of renewals expenditure, Scotland

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	cumulative	Cumulative PR13	Difference	2015-16 Actual
Track	174	93	(81)	379	292	(87)	118
Signalling	53	83	30	112	254	142	32
Civils	83	65	(18)	269	219	(50)	92
Buildings	5	13	8	36	44	8	15
Electrical power and fixed plant	9	11	2	26	38	12	10
Telecoms	10	6	(4)	32	38	6	14
Wheeled plant and machinery	7	12	5	22	41	19	8
Information Technology	9	8	(1)	38	26	(12)	12
Property	2	1	(1)	13	3	(10)	3
Other renewals	7	8	1	25	(13)	(38)	10
Total renewals expenditure	359	300	(59)	952	942	(10)	314

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is mainly due to higher underlying costs (notably in Track and Signalling). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). Expenditure in the control period to date is broadly in line with the determination as higher like-for-like costs have been offset by deferral of activity. Investment is higher than the previous year due to a ramp up of track and signalling volumes delivered in the year.
- (2) Track – costs are higher than the regulator assumed due to a acceleration of activity coupled with higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not fully realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs have been exacerbated by extra volumes delivered in the current year including delivery of a slab track project at Glasgow Queen Street which was originally included in the determination allowances in 2015/16. Investment in the control period to date is largely in line with the regulatory assumption. As a result of financial underperformance (refer to Statement 5), certain activity has been reprofiled to future years in order to remain within the total funding available to the organisation. Expenditure in the current year was higher than the previous year. Non-volume work was higher due to extra slab track projects (notably at Glasgow Queen Street) whilst Plain line and High output were both higher due to additional volumes being delivered this year compared to 2015/16.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher than the regulatory expectation. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs for the control period to date are lower than the regulatory expectation. This has been to deferrals of activity (most of which have been replanned for later in the control period) partly offset by higher like-for-like costs. Costs are higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. The current year includes investment towards the Yoker control system as well as Motherwell North and Polmadie to Rutherglen resignalling with the latter two programmes due for commissioning in 2017/18 and 2018/19 respectively.

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

in £m 2016-17 prices unless stated

- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of acceleration of activity and higher underlying costs. The higher like-for-like cost continues the trend of the previous year. This includes costs relating to remediation works at Lamington following severe weather and damage to the network in 2015/16. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In 2015/16, costs relating to Lamington remediation were higher than the current year.
- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs is caused by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, there has also been extra scope following weather-damage at Wemyss Bay. As a result of these factors Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year as the limited funding available to the route is being allocated to projects and assets which have a more direct benefit on customers. This has resulted in better targeting of works and reprofiling of activity to future control periods as well as higher Buildings maintenance (as shown in Statement 8a).

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

in £m 2016-17 prices unless stated

- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year, with lower spend on electrical power but higher spend on fixed plant. The lower investment on AC distribution and SCADA (Supervisory Control And Data Acquisition) in the year continued the trends from the first two years in the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. The lower AC distribution investment is due to projects being reprofiled to later in CP5 and beyond. There was additional expenditure on fixed plant, including investment in extra signalling feeders to improve asset reliability and so train performance. Expenditure was broadly in line with the previous year.
- (7) Telecoms – expenditure in the year was higher than the determination reversing some of the underspend witnessed earlier in the control period. Despite this catch up, expenditure for the control period to date is less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is lower than the previous year which included some extra investment on the RETB (Radio Electronic Token Block) communications project. Whilst this project continued this year the project life cycle meant that expenditure was comparatively lower.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles partly offset by higher expenditure on High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is only approximately half of the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is slightly lower than the previous year which included higher levels of High output plant investment.

Statement 9a: Detailed analysis of renewals expenditure, Scotland – continued

in £m 2016-17 prices unless stated

- (9) Information technology – investment in the year is broadly in line with the determination but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail’s plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are broadly in line with the regulator’s assumption this year but noticeably higher in the control period to date. These extra costs are mainly due to the expense of fitting out the new route HQ office in Glasgow. The route HQ has been forced to relocate following structural issues in the former premises which were identified after the determination was finalised and so there was no funding for these works in the PR13. This additional cost is included as financial underperformance (refer to Statement 5a). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (Refer to Statement 2a).
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator’s determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
 - b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator’s assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.

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

in £m 2016-17 prices unless stated

- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams.

Statement 9b: Detailed analysis of renewals expenditure, Scotland

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	56	44	(12)	157	124	(33)
High output renewal	41	10	(31)	42	10	(32)
Plain line refurbishment	13	6	(7)	33	19	(14)
S&C renewal	16	13	(3)	49	43	(6)
S&C refurbishment	6	3	(3)	13	11	(2)
Track non-volume	27	6	(21)	46	51	5
Off track	15	11	(4)	39	34	(5)
Total track	174	93	(81)	379	292	(87)
Signalling						
Full conventional resignalling	10	35	25	30	121	91
Modular resignalling	-	5	5	2	16	14
ERTMS resignalling	-	-	-	3	-	(3)
Partial conventional resignalling	22	19	(3)	35	47	12
Targeted component renewal	1	4	3	3	10	7
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	4	3	(1)	6	13	7
Level crossings	2	7	5	6	13	7
Minor works	11	6	(5)	22	21	(1)
Centrally managed costs	3	4	1	5	13	8
Other	-	-	-	-	-	-
Total signalling	53	83	30	112	254	142
Civils						
Underbridges	37	25	(12)	110	86	(24)
Overbridges	3	3	-	11	11	-
Bridgeguard 3	-	-	-	9	-	(9)
Major structures	12	7	(5)	31	22	(9)
Tunnels	3	3	-	9	6	(3)
Other assets	8	6	(2)	28	23	(5)
Structures other	(1)	6	7	6	21	15
Earthworks	21	15	(6)	65	50	(15)
Other	-	-	-	-	-	-
Total civils	83	65	(18)	269	219	(50)
Buildings						
Managed stations	-	2	2	1	6	5
Franchised stations	5	9	4	29	30	1
Light maint depots	1	1	-	4	4	-
Depot plant	-	-	-	-	2	2
Lineside buildings	-	-	-	2	1	(1)
MDU buildings	(1)	-	1	-	1	1
NDS depots	-	1	1	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	5	13	8	36	44	8

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	2	2	-	5	5
Overhead Line	1	2	1	3	5	2
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	1	-	(1)	1	4	3
Energy efficiency	-	1	1	1	2	1
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	1	1	-	5	5
Fixed plant	7	5	(2)	21	17	(4)
Total electrical power and plant	9	11	2	26	38	12
Telecoms						
Operational communications	1	2	1	3	5	2
Network	1	1	-	5	6	1
SISS	-	1	1	2	4	2
Projects and other	3	1	(2)	15	17	2
Non-route capital expenditure	5	1	(4)	7	6	(1)
Total telecoms	10	6	(4)	32	38	6
Wheeled plant and machinery						
High output	3	2	(1)	9	11	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	-	1	1
Intervention	2	2	-	4	10	6
Materials delivery	-	1	1	3	1	(2)
On track plant	1	2	1	3	5	2
Seasonal	-	-	-	-	4	4
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	5	5	2	6	4
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	7	12	5	22	41	19
Information Technology						
IM delivered renewals	9	7	(2)	35	23	(12)
Traffic management	-	1	1	3	3	-
Total information technology	9	8	(1)	38	26	(12)
Property						
MDUs/offices	2	-	(2)	10	2	(8)
Commercial estate	-	1	1	3	1	(2)
Corporate services	-	-	-	-	-	-
Total property	2	1	(1)	13	3	(10)
Other renewals						
Asset information strategy	5	4	(1)	12	15	3
Intelligent infrastructure	1	3	2	3	7	4
Faster isolations	-	2	2	1	5	4
LOWS	-	-	-	-	1	1
Small plant	1	1	-	1	3	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(2)	(2)	-	(44)	(44)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	8	-	(8)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	7	8	1	25	(13)	(38)
Total renewals	359	300	(59)	952	942	(10)

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

in £m 2016-17 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is mainly due to higher underlying costs (notably in Track and Signalling). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). Expenditure in the control period to date is broadly in line with the determination as higher like-for-like costs have been offset by deferral of activity. Investment is higher than the previous year due to a ramp up of track and signalling volumes delivered in the year.
- (2) Track – costs are higher than the regulator assumed due to an acceleration of activity coupled with higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not fully realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs have been exacerbated by extra volumes delivered in the current year including delivery of a slab track project at Glasgow Queen Street which was originally included in the determination allowances in 2015/16. Investment in the control period to date is largely in line with the regulatory assumption. As a result of financial underperformance (refer to Statement 5), certain activity has been reprofiled to future years in order to remain within the total funding available to the organisation. Expenditure in the current year was higher than the previous year. Non-volume work was higher due to extra slab track projects (notably at Glasgow Queen Street) whilst Plain line and High output were both higher due to additional volumes being delivered this year compared to 2015/16.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher than the regulatory expectation. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs for the control period to date are lower than the regulatory expectation. This has been to deferrals of activity (most of which have been replanned for later in the control period) partly offset by higher like-for-like costs. Costs are higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. The current year includes investment towards the Yoker control system as well as Motherwell North and Polmadie to Rutherglen resignalling with the latter two programmes due for commissioning in 2017/18 and 2018/19 respectively.

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

in £m 2016-17 prices unless stated

- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of acceleration of activity and higher underlying costs. The higher like-for-like cost continues the trend of the previous year. This includes costs relating to remediation works at Lamington following severe weather and damage to the network in 2015/16. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In 2015/16, costs relating to Lamington remediation were higher than the current year.
- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs is caused by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, there has also been extra scope following weather-damage at Wemyss Bay. As a result of these factors Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year as the limited funding available to the route is being allocated to projects and assets which have a more direct benefit on customers. This has resulted in better targeting of works and reprofiling of activity to future control periods as well as higher Buildings maintenance (as shown in Statement 8a).

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

in £m 2016-17 prices unless stated

- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year, with lower spend on electrical power but higher spend on fixed plant. The lower investment on AC distribution and SCADA (Supervisory Control And Data Acquisition) in the year continued the trends from the first two years in the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. The lower AC distribution investment is due to projects being reprofiled to later in CP5 and beyond. There was additional expenditure on fixed plant, including investment in extra signalling feeders to improve asset reliability and so train performance. Expenditure was broadly in line with the previous year.
- (7) Telecoms – expenditure in the year was higher than the determination reversing some of the underspend witnessed earlier in the control period. Despite this catch up, expenditure for the control period to date is less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is lower than the previous year which included some extra investment on the RETB (Radio Electronic Token Block) communications project. Whilst this project continued this year the project life cycle meant that expenditure was comparatively lower.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles partly offset by higher expenditure on High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is only approximately half of the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is slightly lower than the previous year which included higher levels of High output plant investment.

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

in £m 2016-17 prices unless stated

- (9) Information technology – investment in the year is broadly in line with the determination but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail’s plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are broadly in line with the regulator’s assumption this year but noticeably higher in the control period to date. These extra costs are mainly due to the expense of fitting out the new route HQ office in Glasgow, The route HQ has been forced to relocate following structural issues in the former premises which were identified after the determination was finalised and so there was no funding for these works in the PR13. This additional cost is included as financial underperformance (refer to Statement 5a). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (Refer to Statement 2a).
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator’s determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
 - b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator’s assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.

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

in £m 2016-17 prices unless stated

- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams.

Statement 10: Other information, Scotland

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	39	32	(7)	79	80	1	29
Access charge supplement Income	(30)	(30)	-	(75)	(75)	-	(25)
Net (income)/cost	9	2	(7)	4	5	1	4
Schedule 8							
Performance element income	(1)	-	1	(3)	-	3	(1)
Performance element costs	1	-	(1)	7	1	(6)	2
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	-	-	-	4	1	(3)	1

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	1	3	1
Proposed income/(expenditure) to be included in the CP6			
Business Rates	-	1	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	-
Reporters fees	-	-	-
Other industry costs	1	-	-
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	2	3	1

Statement 10: Other information, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This is the case in the current year. Performance element costs are higher this year than the determination assumed. This included the delivery of slab tracks works at Glasgow Queen Street. The nature of these complex works necessitates closing the railway for a time, resulting in Schedule 4 costs. The determination assumed that this work would occur in 2015/16. Costs for the control period to date are broadly in line with the regulator's expectation but as lower than expected renewals activity has been delivered during these possessions, financial underperformance has been recognised (Statement 5a). Financial underperformance was also caused by extreme weather in 2015/16. Costs were higher than the previous year, reflecting the costs of the aforementioned slab track replacement investment. In addition, additional works requiring possessions were undertaken this year, including significant increases in plain line track and partial conventional resignalling. These factors offset the extra costs in 2015/16 when adverse weather led to the closure of the West Coast main line for a number of weeks to remediate damage at Lamington viaduct.

Statement 10: Other information, Scotland – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are in line with the regulator's expectation this year which compares favourably to the experiences for the network as a whole. Performance for the control period to date is adverse to the regulator's targets mainly due to extra network congestion (such as the extra traffic in 2014/15 owing to the Glasgow Commonwealth Games) and infrastructure failures. Performance was improved since the previous year due to improved performance and fewer one-off events due, in part, to the benign weather present in the current year.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to the Volume Incentive (see Statement 12). The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6. For the control period to date, gains made on the volume incentive have been partly offset by the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

Statement 11:

There is no Statement 11 required for Scotland

Statement 12: Volume incentives, Scotland

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	8	1	34	33	0.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	0	0	467	457	2.7%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	1	1	2.7%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(3)	0	1,114	1,219	4.3%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	4	1					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has outperformed the regulator's targets and has recognised a gain as a result, augmenting the amounts earned earlier in the control period (as shown in the below table). This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued provision of additional services as passenger demand expands faster than the regulatory expectation. For the control period to date, Network Rail has outperformed growth targets. As the below table illustrates, this is due to better than expected passenger growth.

	Passenger train miles	Passenger farebox	Freight train miles	Freight gross tonne miles	Total
2014/15	1	-	-	-	1
2015/16	1	-	-	-	1
2016/17	1	-	-	-	1
Total	3	-	-	-	3

Statement 12: Volume incentives, Scotland – continued

in £m 2016-17 prices unless stated

- (2) Passenger train mile growth in the current year has been higher than the ORR's expectation and higher than the previous year too. The previous year's passenger train miles was impacted by the closure of the West Coast Main Line for a number of weeks following network damage at Lamington viaduct following extreme weather. Passenger train miles in the control period to date has exceeded targets, including the benefit of extra passenger traffic in the opening year of CP5 of the Glasgow Commonwealth Games.

Statement 14: Renewals volumes, unit costs and expenditure, Scotland

in £m 2016-17 prices unless stated

		2016-17		Full Project		C = A ÷ B	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	76	52	116	213	545
	High Output Renewal	km	44	41	41	43	953
	Plain line Refurbishment	km	126	12	27	245	110
	S&C Renewal/Refurbishment	point ends	107	12	20	199	101
	Track Drainage	lm	14,501	7	8	14,501	1
	Fencing	km	220	6	21	965	22
	Slab Track	km	2	19	26	2	13,000
	Off track	km/No.	13	2	3	16	188
	Other	-	-	-	-	-	-
Total			15,089	151	262	16,184	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	18	3	9	18	500
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	1	1	1	1	1,000
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			19	4	10	19	-
Civils	Underbridges	m ²	25,530	28	61	39,823	2
	Overbridges (incl BG3)	m ²	201	-	-	201	-
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	3,242	2	3	3,242	1
	Culverts	m ²	726	3	5	925	5
	Footbridges	m ²	562	1	3	983	3
	Coastal & Estuarial Defences	m	200	1	1	200	5
	Retaining Walls	m ²	1,622	1	1	1,622	1
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	769	14	36	1,069	34
	EW Drainage	m	42,876	3	3	42,876	0
	Other	-	-	-	-	-	-
Total			75,728	53	113	90,941	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-
	Buildings (FS)	m ²	-	-	-	-	-
	Platforms (FS)	m ²	1,195	1	1	1,195	1
	Canopies (FS)	m ²	4,900	1	4	6,250	1
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	291	1	2	594	3
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	4	-	-	-	90	-
	Light Maintenance Depots	m ²	863	1	1	863	1
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-
	MDU Buildings	m ²	-	-	-	-	-
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			7,253	4	8	8,992	-

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	37	1	6	99	61
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	8	1	2	8	250
	Signalling Supply Points	No.	3	1	6	13	462
	Other Fixed Plant		-	-	-	-	-
Total			48	3	14	120	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	3	-	1	63	16
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	7	-	1	20	50
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			10	-	2	83	-

Statement 14: Renewals volumes, unit costs and expenditure, Scotland – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	396	394	2	1,184	1,174	10	397
Fixed Income	28	28	-	90	90	-	27
Variable Income	110	122	(12)	320	335	(15)	108
Other Single Till Income	87	88	(1)	236	253	(17)	68
Opex memorandum account	1	-	1	(1)	-	(1)	-
Total Income	622	632	(10)	1,829	1,852	(23)	600
Operating expenditure							
Network operations	50	42	(8)	149	129	(20)	50
Support costs	35	47	12	119	144	25	42
Traction electricity, industry costs and rates	66	80	14	210	222	12	68
Network maintenance	127	109	(18)	392	337	(55)	133
Schedule 4	27	26	(1)	70	63	(7)	23
Schedule 8	20	-	(20)	35	1	(34)	4
Total operating expenditure	325	304	(21)	975	896	(79)	320
Capital expenditure							
Renewals	216	258	42	719	692	(27)	238
PR13 enhancement expenditure	213	59	(154)	422	183	(239)	115
Non PR13 enhancement expenditure	(1)	-	1	12	-	(12)	5
Total capital expenditure	428	317	(111)	1,153	875	(278)	358
Other expenditure							
Financing costs	133	138	5	359	401	42	110
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	133	138	5	359	401	42	110
Total expenditure	886	759	(127)	2,487	2,172	(315)	788

Statement 1: Summary regulatory financial performance, Anglia – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target for the same reason. These variances are set out in more detail in Statement 6a.
- (4) Income – Other single till income in the year is broadly in line with the determination as reduced income from changes in station management has been largely offset by extra Open access income from offering more train paths to operators. The control period to date variance is largely due to changes in station management and lower rental income. The improvement since the previous year is mostly due to extra property sales and rental income. These variances are set out in more detail in Statement 6a.
- (5) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The amount reported in the current year and control period to date is due to costs gains recognised under the Volume incentive offset by differences in rates and industry costs. The variances are set out in more detail in Statement 10.
- (6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Expenses are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (7) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income). The savings made in the control period to date are also due to lower Traction electricity costs, partly offset by higher British Transport Police costs. Costs are similar to the previous year. Traction electricity, industry costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Anglia – continued

in £m 2016-17 prices unless stated

- (9) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. The variances in the control period to date are due to similar reasons, along with extra reactive maintenance activity required and additional investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Expenses are lower than the previous year mainly due to lower levels of Reactive maintenance works required this year. Maintenance costs are discussed in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are broadly in line with the determination mostly as a result of reduced delivery of renewals which require network possessions offset by higher underlying costs. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are similar to the previous year. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling, Civils and Electrification & Fixed Plan). Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes but with a noticeable contribution from Crossrail due to reprofiling of this programme. This programme is also the cause of the variance in the control period to date. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Anglia – continued

in £m 2016-17 prices unless stated

- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Anglia

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,119	3,900	219
Indexation to 2015-16 prices	238	225	13
Opening RAB for the year (2015-16 prices)	4,357	4,125	232
Indexation for the year	96	91	5
Opening RAB (2016-17 prices)	4,453	4,216	237
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	186	258	(72)
PR13 enhancements	216	68	148
Non-PR13 enhancements	(1)	-	(1)
Total enhancements	215	68	147
Amortisation	(210)	(210)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2017	4,644	4,332	312

RAB Regulatory financial position - cumulative, Anglia

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	4,056	4,318	4,453	4,056
Adjustments for the actual capital expenditure outturn in CP4	115	-	-	115
Renewals	248	216	186	650
PR13 enhancements	93	113	216	422
Non-PR13 enhancements	5	5	(1)	9
Total enhancements	98	118	215	431
Amortisation	(199)	(199)	(210)	(608)
Adjustments for under-delivery of regulatory outputs	-	-	-	-
Closing RAB	4,318	4,453	4,644	4,644

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in the first two years of the control period relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) more than offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. Whilst there are variances in profiling across a number of programmes the largest contribution is from differences in which of Network Rail's routes different elements of the Crossrail programme would occur.
- (6) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.

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

in £m 2016-17 prices unless stated

- (8) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Anglia

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	200	234	258	692
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	34	-	-	34
Capitalised financing on CP4 deferrals	1	1	2	4
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	235	235	260	730
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(48)	(86)	(148)	(282)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(9)	(15)
Adjustments for efficient overspend	74	86	103	263
Capitalised financing on efficient overspend	2	5	9	16
25% retention of efficient overspend	(18)	(21)	(26)	(65)
Capitalised financing on efficient overspend 25% retention	-	(1)	(3)	(4)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	4	1	10
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	(1)	(1)	(3)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	248	216	186	650
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(2)	(1)	1	(2)
Adjustment for 25% retention of efficient overspend	19	23	27	69
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	2	2
Total actual renewals expenditure (see statement 9)	265	238	216	719

Statement 2b: RAB - reconciliation of expenditure, Anglia - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	59	65	68	192
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	1	(1)	-	-
Capitalised financing on CP4 deferrals	-	-	-	-
Baseline adjustments	-	(1)	(9)	(10)
Capitalised financing on Baseline adjustments	-	-	-	-
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	60	63	59	182
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	33	41	143	217
Capitalised financing on acceleration / (deferrals) of expenditure	1	2	6	9
Adjustments for efficient overspend	-	-	-	-
Capitalised financing on efficient overspend	-	-	-	-
25% retention of efficient overspend	-	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-	-
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	11	11	22
agreements - retention of efficient overspend	-	(4)	(4)	(8)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	1	1
Adjustments for efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	(1)	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	93	113	216	422
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	5	(1)	10
efficient overspend	(1)	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	5	5	(1)	9
Total enhancements (added to the RAB - see statement 2a)	98	118	215	431
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(1)	(2)	(7)	(10)
Adjustment for 25% retention of efficient overspend	1	4	4	9
Other adjustments	2	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	26	123	216	365
Other adjustments	2	-	-	2
Total actual enhancement expenditure (see statement 3)	128	243	428	799

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Civils and Electrification and fixed plant projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being programmes with their own protocol (such as Thameslink and Crossrail).

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

in £m 2016-17 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and subsequent Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate. The large variance is due to assumptions around which of Network Rail's routes the Crossrail works were planned to occur in.
- (12) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (13) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Crossrail programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (14) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. There was no expenditure in this category in the current financial year.

Statement 3: Analysis of enhancement capital expenditure, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	3	3	-	7	9	2
Stations - Access for All (AfA)	8	5	(3)	13	8	(5)
Development	(7)	(1)	6	9	20	11
Level crossing safety	4	4	-	10	15	5
Passenger journey improvement	-	-	-	2	2	-
The strategic rail freight network	4	3	(1)	33	33	-
Total funds	12	14	2	74	87	13
Committed projects						
Crossrail	172	2	(170)	279	3	(276)
IEP Programme	-	-	-	-	-	-
Thameslink	-	1	1	2	7	5
Total committed projects	172	3	(169)	281	10	(271)
Named schemes						
Ports and Airports						
Service Improvements in the Ely Area	1	(1)	(2)	2	2	-
Total Named Schemes	1	(1)	(2)	2	2	-
HLOS capacity metric schemes						
West Anglia main line capacity increase	14	24	10	22	30	8
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	-	-	4	4	-
Anglia traction power supply upgrade	6	17	11	13	24	11
Total HLOS capacity metric schemes	20	41	21	39	58	19
CP4 project rollovers						
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	-	-	-
Other projects						
Seven day railway projects	1	1	-	5	5	-
ERTMS Cab fitment	-	-	-	-	1	1
R&D allowance	1	-	(1)	1	1	-
Income generating property schemes	6	1	(5)	20	19	(1)
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	8	2	(6)	26	26	-
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	213	59	(154)	422	183	(239)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	(1)	-	1	7	-	(7)
Total Government sponsored schemes	(1)	-	1	7	-	(7)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	4	-	(4)
Total Network Rail spend to save schemes	-	-	-	4	-	(4)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	(1)	-	1	12	-	(12)
Total Network Rail funded enhancements (see Statement 1)	212	59	(153)	434	183	(251)
Third Party PAYG	216	-	(216)	365	-	(365)
Total enhancements (see statement 2b)	428	59	(369)	799	183	(616)

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £212m (as shown in Statement 1). This comprises the total enhancement figure in the table above £428m less the PAYG schemes funded by third parties (£216m).
- (5) Investment expenditure this year was higher than the previous year. This is a combination of increases and decreases across a wide range of programmes but there is a sizeable contribution from Crossrail to reflect the extra work in this route to meet programme milestones.

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2016-17 prices unless stated

- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was generally in line with the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:
- (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is broadly consistent with the baseline in the current year and the control period to date.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. This year expenditure was accelerated from further year of the control period and so investment is higher than the baseline. The control period to date variance is largely caused by the extra investment in the current year.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, and the Innovation Fund. The credit balance in the current year arises from a reclassification of projects to following agreed changes in how these projects would be funded.
 - (d) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure in the year was in line with the baseline. The control period to date variance is due to slower than planned implementation in previous years of the control period.
 - (e) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure in the year and the control period to date is in step with the baseline.
 - (f) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year and the control period to date is consistent with the baseline.

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2016-17 prices unless stated

- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is much higher than the baseline due to extra investment on Crossrail. The following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is consistent with the baseline but is lower in the control period to date due to reprofiling of activity.
 - (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is noticeably higher than the regulator's determination in the year and control period to date. This is mainly due to the determination assumptions over which of Network Rail's operational routes the work would occur in. The amounts included for the Anglia route were minimal even though a large part of the programme is being delivered in East London and beyond. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (8) PR13 funded schemes – named schemes - the only programme in this category is the Service Improvements in the Ely Area project. Expenditure in the year and control period to date is broadly consistent with the baseline.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline due to underspends on West Anglia main line capacity increase and Anglia traction power supply upgrade. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:
- (a) West Anglia main line capacity increase – This project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. In the current year, expenditure was lower than the baseline. This was partly due to acceleration of activity in 2015/16, and deferral of planned activity from the current year to later years of the control period due in part to delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract award. The control period to date variance largely arises from the current year underspend.
 - (b) Anglia traction power supply upgrade - The aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. In the current year expenditure is lower than the baseline mainly due to slower progress by the specialist electrification contractor delivering the required works. The variance in the control period to date is largely the result of the underspend in the current year.

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2016-17 prices unless stated

- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is higher than the baseline in the year mainly due to extra investment in Income generating property schemes. Notable variances to the baseline include:
- (a) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year is higher than the baseline mainly due to deferrals of projects planned for 2015/16 into the current year. As a result the control period to date figure is broadly in step with the baseline.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
 - (b) PAYGO – significant programmes in this category in the current year include Gospel Oak to Barking electrification works and development of a new station at Cambridge North. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Anglia

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	3,018	2,828	(190)	2,645	2,577	(68)
Income						
Grant income	(396)	(394)	2	(1,163)	(1,153)	10
Fixed charges	(28)	(28)	-	(88)	(88)	-
Variable charges	(110)	(122)	(12)	(315)	(330)	(15)
Other single till income	(87)	(88)	(1)	(231)	(245)	(14)
Total income	(621)	(632)	(11)	(1,797)	(1,816)	(19)
Expenditure						
Network operations	50	42	(8)	146	127	(19)
Support costs	35	47	12	118	145	27
Traction electricity, industry costs and rates	66	80	14	205	219	14
Network maintenance	127	109	(18)	386	331	(55)
Schedule 4	27	26	(1)	69	62	(7)
Schedule 8	20	-	(20)	34	1	(33)
Renewals	216	258	42	706	682	(24)
PR13 enhancement	213	68	(145)	415	189	(226)
Non-PR13 enhancement	(1)	-	1	12	-	(12)
Total expenditure	753	630	(123)	2,091	1,756	(335)
Financing						
Interest expenditure on nominal debt - FIM covered	30	46	16	97	128	31
covered	18	20	2	56	60	4
Expenditure on the FIM	22	32	10	76	93	17
Interest expenditure on government borrowing	31	-	(31)	59	-	(59)
Interest on cash balances held by Network Rail	(1)	(2)	(1)	(3)	(4)	(1)
Total interest costs	100	96	(4)	285	277	(8)
Accretion on index linked debt - FIM covered	33	42	9	68	124	56
Total financing costs	133	138	5	353	401	48
Corporation tax	-	-	-	-	-	-
Other	11	-	(11)	2	46	44
Movement in net debt	276	136	(140)	649	387	(262)
Closing net debt	3,294	2,964	(330)	3,294	2,964	(330)

D) Financial indicators

	2014-15	2015-16	2016-17	PR13 2016-17
Adjusted interest cover ratio (AICR)	0.80	0.83	0.90	1.26
FFO/interest	2.85	3.00	2.98	3.44
Net debt/RAB (gearing)	68.8%	69.3%	70.8%	68.4%
FFO/debt	9.4%	9.0%	9.1%	11.1%
RCF/debt	6.1%	6.0%	6.0%	7.9%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Anglia – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the Anglia route has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt at 31 March 2017 attributable to the Anglia route is £0.3bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Anglia – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Anglia – continued

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- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

Statement 4: Net debt and financial ratios, Anglia – continued

in £m nominal unless otherwise stated

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

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

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

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination are, therefore, the same as the reasons outlined in the AICR comment above.

Statement 4: Net debt and financial ratios, Anglia – continued

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- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator’s expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4).
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Anglia

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	396	394	2	2	-	-	-	-
Fixed Income	28	28	-	-	-	-	-	-
Variable Income	68	68	-	-	-	-	-	-
Other Single Till Income	87	88	(1)	-	-	-	(1)	(1)
Opex memorandum account	1	-	1	(1)	-	-	2	2
Total Income	580	578	2	1	-	-	1	1
Expenditure								
Network operations	50	42	(8)	-	-	-	(8)	(8)
Support costs	35	47	12	1	-	-	11	11
Industry costs and rates	24	24	-	1	-	-	(1)	(1)
Traction electricity	-	2	2	-	-	-	2	2
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	127	109	(18)	-	-	-	(18)	(18)
Schedule 4 costs	27	26	(1)	-	13	-	(14)	(14)
Schedule 8 costs	20	-	(20)	-	-	-	(20)	(20)
Renewals	216	258	42	2	143	-	(103)	(26)
PR13 Enhancements	213	59	(154)	-	(143)	-	(11)	(4)
Non PR13 Enhancements	(1)	-	1	-	1	-	-	-
Financing Costs	133	138	5	5	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	844	705	(139)	9	14	-	(162)	(78)
Total:			(137)	10	14	-	(161)	(77)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(77)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(12)
Under-delivery of train performance requirements (CaSL)								(5)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(21)
Total financial out / (under) performance to be recognised								(98)

Statement 5a: Total financial performance, Anglia - continued

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to: total financial performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance	Final Variance $G = C - D - E - F = G \times 25\%$
A	B	C	D	E	F			
Income								
Grant Income	1,184	1,174	10	10	-	-	-	-
Fixed Income	90	90	-	-	-	-	-	-
Variable Income	190	192	(2)	-	-	-	(2)	(2)
Other Single Till Income	236	253	(17)	-	-	-	(17)	(17)
Opex memorandum account	(1)	-	(1)	(4)	-	-	3	3
Total Income	1,699	1,709	(10)	6	-	-	(16)	(16)
Expenditure								
Network operations	149	129	(20)	-	-	-	(20)	(20)
Support costs	119	144	25	3	-	-	22	22
Industry costs and rates	76	73	(3)	3	-	-	(6)	(6)
Traction electricity	4	5	1	-	-	-	1	1
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	392	337	(55)	-	(6)	-	(49)	(49)
Schedule 4 costs	70	63	(7)	-	18	-	(25)	(25)
Schedule 8 costs	35	1	(34)	-	-	-	(34)	(34)
Renewals	719	692	(27)	2	237	-	(266)	(67)
PR13 Enhancements	422	183	(239)	-	(217)	-	(22)	(8)
Non PR13 Enhancements	12	-	(12)	-	(12)	-	-	-
Financing Costs	359	401	42	42	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	2,357	2,029	(328)	50	21	-	(399)	(186)
Total:			(338)	56	21	-	(415)	(202)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(202)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(32)
Under-delivery of train performance requirements (CaSL)								(12)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(48)
Total financial out / (under) performance to be recognised								(250)

	2016-17			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(42)	(54)	12	(130)	(143)	13
Total variance not included in total	(42)	(54)	12	(130)	(143)	13
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	1	-	1	1	-	1
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total	1	-	1	3	-	3
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	42	54	(12)	130	143	(13)
Total variance not included in total	42	54	(12)	130	143	(13)
Breakdown of variance not included in total financial performance:						
Investment of CP4 long distance financial penalty	2	-	2	2	-	2
Total variance not included in total financial performance:	2	-	2	2	-	2

Statement 5a: Total financial performance, Anglia – continued

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Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – income is in line with expectation.
- (3) Variable income – income is in line with the baseline in the year. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Anglia – continued

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- (4) Other single till income – this is slightly adverse to the regulator's expectation. Extra property sales and open access income has been offset by structural decline in the freight market and lower stations income following a transfer of stations to operators. Performance in the control period to date is adverse to expectation due to lower property rental income, and stations income resulting from the aforementioned station transfer which has been partly offset by extra open access income. The lower property rental income arises from overoptimistic expectations around the level of rental growth that the market could bear. Income variances are discussed in more detail in Statement 6a. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Increased passenger demand has led to gains recognised under the for passenger elements of the volume incentives in the year and control period to date. The volume incentive is set out in more detail in Statement 12.
- (6) Network operations – are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7a. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. The variances for the control period to date arises from similar causes.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target in the current year and the control period to date. This is more than offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance).
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.

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- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

Statement 5a: Total financial performance, Anglia – continued

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- (13) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Financial underperformance recognised in the current year and the control period to date relates to Crossrail anticipated programme increases as discussed in more detail in Statement 5c. The net financial out/ under performance retained by Network Rail is determined by the protocol arrangement in place for this programme. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Anglia – continued

in £m 2016-17 prices unless stated

- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no projects in the current year or the control period to date which have resulted in financial under or out performance.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction in its financial performance for this missed output.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(12)	41	(53)	(13)		(13)	-	-
Signalling	48	59	(11)	(3)		(2)	(1)	-
Civils	7	25	(18)	(5)		(4)	(1)	-
Buildings	-	4	(4)	(1)		(1)	-	-
Electrical power and fixed plant	3	19	(16)	(4)		(3)	(1)	-
Telecoms	(4)	(4)	-	-		-	-	-
Wheeled plant and machinery	3	3	-	-		-	-	-
IT	-	-	-	-		-	-	-
Property	2	2	-	-		-	-	-
Other renewals	(5)	(4)	(1)	-		-	-	-
Total	42	145	(103)	(26)		(23)	(3)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(47)	74	(121)	(31)		(28)	(3)	-
Signalling	61	92	(31)	(8)		(9)	1	-
Civils	(13)	30	(43)	(11)		(11)	-	-
Buildings	2	18	(16)	(4)		(4)	-	-
Electrical power and fixed plant	38	67	(29)	(7)		(5)	(2)	-
Telecoms	(6)	(6)	-	-		-	-	-
Wheeled plant and machinery	14	14	-	-		-	-	-
IT	(9)	(9)	-	-		-	-	-
Property	8	8	-	-		-	-	-
Other renewals	(75)	(49)	(26)	(6)		(4)	(2)	-
Total	(27)	239	(266)	(67)		(61)	(6)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Over a quarter of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes in S&C renewals and refurbishment and especially in High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (due to unrealistic assumptions in the plan and the strategic importance of enhancement programmes such as Crossrail utilising available possessions) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding and access constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost.. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability. Lastly, the cost of land purchases to deliver certain projects is much higher than the determination assumed.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of damage caused to the network, notably at Camden viaduct, which has required investment to remediate. The underperformance in the control period to date is largely due to the same factors.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. The underperformance in the control period to date is largely due to the same factors.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Resources (both contractor and track possessions) have been squeezed by extra enhancement works which are given priority (such as Crossrail and Gospel Oak to Barking electrification). The underperformance in the control period to date is largely due to the same factors.

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

in £m 2016-17 prices unless stated

- (7) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. This is offset by additional costs incurred on completing renewals projects from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification). The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with notable contributions from electrification projects.

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

in £m 2016-17 prices unless stated

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	1	1	-	-	-
Crossrail	(170)	(159)	-	(11)	(4)
Other Enhancements	16	16	-	-	-
Total	(153)	(142)	-	(11)	(4)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	5	5	-	-	-
Crossrail	(276)	(254)	-	(22)	(8)
Other Enhancements	20	20	-	-	-
Total	(251)	(229)	-	(22)	(8)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.
- (2) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Anglia

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2016-17		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	65	54	11	-	-	-		11
Capacity charge	77	79	(2)	-	-	-		(2)
Electricity asset utilisation charge	9	9	-	-	-	-		-
Property income	145	137	8	-	-	-		8
Expenditure								
Network operations	149	123	(26)	-	-	-		(26)
Support costs	119	147	28	-	2	-		26
RSSB and BT Police	28	23	(5)	-	-	-		(5)
Network maintenance	392	354	(38)	4	-	-		(42)
Schedule 4 costs	70	70	-	25	-	-		(25)
Schedule 8 costs	35	-	(35)	-	-	-		(35)
Renewals	719	688	(31)	235	-	(199)		(67)
Total REBS performance			(90)	264	2	(199)		(157)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(32)
Under-delivery of train performance requirements (CaSL)								(12)
Missed ORBIS milestones								(4)
Total adjustment for under delivery of outputs and reduced sustainability								(48)
Cumulative performance to end of 2016-17								(205)
Less cumulative outperformance recognised up to the end of 2014-15								(123)
Net REBS performance for 2016-17								(82)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Anglia – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	396	394	2	1,184	1,174	10	397
Franchised track access income							
Fixed charges	28	28	-	90	90	-	27
Variable charges							
Variable usage charge	14	14	-	42	41	1	14
Traction electricity charges	42	54	(12)	130	143	(13)	44
Electrification asset usage charge	3	3	-	9	9	-	3
Capacity charge	25	26	(1)	74	77	(3)	25
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	26	25	1	65	65	-	22
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	110	122	(12)	320	335	(15)	108
Total franchised track access income	138	150	(12)	410	425	(15)	135
Total franchised track access and grant income	534	544	(10)	1,594	1,599	(5)	532
Other single till income							
Property income	58	57	1	150	161	(11)	40
Freight income	6	8	(2)	19	19	-	6
Open access income	6	2	4	15	7	8	6
Stations income	10	12	(2)	31	41	(10)	9
Facility and financing charges	1	3	(2)	4	7	(3)	1
Depots Income	6	6	-	17	17	-	6
Other income	-	-	-	-	1	(1)	-
Total other single till income	87	88	(1)	236	253	(17)	68
Total income	621	632	(11)	1,830	1,852	(22)	600

Statement 6a: Analysis of income, Anglia – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity).
- (3) Grant income - grant income in the current year and the control period to date is higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Anglia – continued

in £m 2016-17 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Property income – this is in line with determination in the current year but comprises lower property rental income offset by additional property sales. The control period to date position is adverse to the regulator's expectation with property rental income lower than planned and property sales income broadly in line with the determination. The lower property sales rental is partly caused by lower than expected increases in the level of rental growth that the determination assumed with yield targets now appearing overoptimistic. In addition, the transfer of a managed station (Fenchurch Street) to the train operator has reduced rental income earned at this station. Property income is higher than the previous year mainly due to additional property sales income. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (6) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand.
- (7) Stations income – revenue earned this year is lower than the regulator expected. This is a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. The variance in the control period to date is due to the same factor.

Statement 6b: Analysis of other single till income, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	45	53	(8)	128	150	(22)	41
Property sales	13	8	5	22	19	3	(1)
Adjustment for commercial opex	-	(4)	4	-	(8)	8	-
Total property income	58	57	1	150	161	(11)	40
Freight income							
Freight variable usage charge	5	5	-	15	13	2	5
Freight traction electricity charges	1	2	(1)	3	3	-	1
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	1	1	-	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	6	8	(2)	19	19	-	6
Open access income							
Variable usage charge income	4	-	4	8	-	8	3
Open access capacity charge	1	-	1	2	-	2	1
Open access traction electricity charges	-	-	-	-	1	(1)	-
Fixed contractual contribution	1	2	(1)	5	6	(1)	2
Open access other income	-	-	-	-	-	-	-
Total open access income	6	2	4	15	7	8	6
Stations income							
Managed stations income							
Long term charge	4	4	-	12	13	(1)	4
Qualifying expenditure	3	3	-	9	10	(1)	3
Total managed stations income	7	7	-	21	23	(2)	7
Franchised stations income							
Long term charge	3	4	(1)	9	14	(5)	2
Stations lease income	-	1	(1)	1	4	(3)	-
Total franchised stations income	3	5	(2)	10	18	(8)	2
Total stations income	10	12	(2)	31	41	(10)	9
Facility and financing charges							
Facility charges	1	3	(2)	4	7	(3)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	3	(2)	4	7	(3)	1
Depots income	6	6	-	17	17	-	6
Other	-	-	-	-	1	(1)	-
Total other single till income	87	88	(1)	236	253	(17)	68

Statement 6b: Analysis of other single till income (unaudited), Anglia – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	24	22	(2)	72	69	(3)	24
Signalling shift managers	2	1	(1)	7	3	(4)	2
Local operations managers	2	2	-	6	5	(1)	2
Controllers	4	3	(1)	12	9	(3)	4
Electrical control room operators	2	1	(1)	3	4	1	1
Total signaller expenditure	34	29	(5)	100	90	(10)	33
Non-signaller expenditure							
Mobile operations managers	5	3	(2)	17	9	(8)	5
Managed stations	4	4	-	11	11	-	5
Performance	2	1	(1)	7	4	(3)	2
Customer relationship executives	1	1	-	1	2	1	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	6	6	-
Other	4	1	(3)	19	4	(15)	2
Operations delivery	5	-	(5)	15	-	(15)	5
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	(1)	3	4	1	9	8	1
Other operating income	(4)	(2)	2	(22)	(6)	16	(4)
Total non-signaller expenditure	16	13	(3)	49	39	(10)	17
Total network operations expenditure	50	42	(8)	149	129	(20)	50
Support costs							
Core support costs							
Human resources	1	5	4	10	17	7	5
Information management	6	6	-	18	20	2	6
Government and corporate affairs	1	2	1	3	5	2	1
Group strategy	1	2	1	3	3	-	1
Finance	2	3	1	6	8	2	2
Business services	3	2	(1)	4	3	(1)	1
Accommodation	11	11	-	36	35	(1)	11
Utilities	4	4	-	11	12	1	3
Insurance	(1)	4	5	7	14	7	5
Legal and inquiry	1	1	-	3	2	(1)	1
Safety and sustainable development	1	1	-	6	3	(3)	2
Strategic sourcing	1	1	-	3	3	-	1
Business change	-	-	-	-	1	1	-
Other corporate functions	2	-	(2)	7	1	(6)	3
Core support costs	33	42	9	117	127	10	42
Other support costs							
Asset management services	2	4	2	10	9	(1)	5
Network Rail telecoms	3	3	-	12	11	(1)	4
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(7)	-	7	(4)
Commercial property	-	(1)	(1)	(4)	(2)	2	(2)
Group costs	(1)	(1)	-	(9)	(2)	7	(3)
Total other support costs	2	5	3	2	17	15	-
Total support costs	35	47	12	119	144	25	42
Traction electricity, industry costs and rates							
Traction electricity	42	56	14	134	148	14	44
Business rates	13	14	1	42	45	3	13
British transport police costs	8	7	(1)	25	20	(5)	8
RSSB costs	1	1	-	3	2	(1)	1
ORR licence fee and railway safety levy	1	2	1	5	5	-	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	1	-	(1)	1	1	-	-
Total traction electricity, industry costs and rates	66	80	14	210	222	12	68
Total network operations expenditure, support costs, traction electricity, industry costs and rates	151	169	18	478	495	17	160

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year.

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

in £m 2016-17 prices unless stated

- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Insurance - costs are favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (8) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.

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

in £m 2016-17 prices unless stated

- (9) Other corporate functions – costs are higher than the determination assumed this in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.
- (10) Asset Management Services – costs are higher than the determination expected for the control period to date. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (11) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.
- (12) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower reorganisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).

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

in £m 2016-17 prices unless stated

- (13) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the previous year mainly due to lower traction electricity costs partly offset by extra British Transport Police costs. The same factors explain the variance to the regulator’s targets for the current year and the control period to date.
- (14) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are lower than the prior year reflecting lower market prices which is offset by lower income in Statement 6a.
- (15) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (16) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year’s costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	25	27	26	26
MOMS	2	6	5	5
Control	4	5	5	5
Planning & Performance Staff Costs	4	4	4	4
Managed Stations Staff Costs	2	1	1	0
Operations Management Staff Costs	2	1	1	1
Other	12	6	8	9
Total operations & customer services costs	51	50	50	50
Total Network Operations	51	50	50	50
Support				
Human resources				
Functional support	3	1	2	1
Training (inc Westwood)	2	1	1	0
Graduates	0	0	0	0
Apprenticeships	1	1	1	0
Other	0	1	0	0
Total human resources	6	4	4	1
Information management				
Support	1	1	1	1
Projects	0	0	0	0
Licences	0	0	0	0
Business operations	6	5	5	5
Other	0	0	0	0
Total information management	7	6	6	6
Finance	2	2	2	2
Business Change	0	0	0	0
Contracts & Procurement	1	0	0	0
Strategic Sourcing (National Supply Chain)	0	1	1	1
Planning & development	1	1	1	1
Safety & compliance	1	0	0	0
Other corporate services	5	1	2	2
Commercial property	11	13	9	11
Infrastructure Projects	(5)	(2)	(3)	(2)
Route Services	1	2	1	1
Central Route Services (inc National Supply Chain)	0	0	0	0
Asset management & Engineering/Asset heads	14	0	0	0
National delivery service	0	0	0	0
Private party	0	0	0	0
Utilities	0	4	3	4
Network Rail Telecoms	0	5	4	3
Digital Railway	0	2	2	2
Safety Technical & Engineering	0	4	5	2
Government & Corporate Affairs	0	1	1	1
Business Services	0	1	1	3
Route Asset Management	0	(2)	0	(2)
Legal and inquiry	0	1	1	1
Group/central				
Pensions	0	0	0	0
Insurance	3	3	5	(1)
Redundancy/reorganisation costs	6	2	1	1
Staff incentives/Bonus Reduction	0	(2)	(1)	0
Accommodation & Support Recharges	0	(3)	(3)	(2)
Commercial claims settlements	0	0	(1)	0
ORR financial penalty	8	(2)	0	0
Other	0	0	1	0
Total group/central costs	17	(2)	2	(2)
Total support	61	42	42	35
Total network operations and support costs	112	92	92	85

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Anglia – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	63	39	(24)	188	123	(65)	63
Signalling	22	18	(4)	66	57	(9)	22
Civils	14	12	(2)	43	36	(7)	17
Buildings	1	5	4	4	12	8	2
Electrical power and fixed plant	12	12	-	38	36	(2)	13
Telecoms	2	2	-	6	6	-	2
Other network operations	10	15	5	39	48	9	12
Asset management services	4	4	-	11	10	(1)	4
National Delivery Service	(1)	4	5	(3)	13	16	(1)
Property	2	-	(2)	6	1	(5)	1
Group	(2)	(2)	-	(6)	(5)	1	(2)
Total maintenance expenditure	127	109	(18)	392	337	(55)	133

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are lower than the previous year mainly due to a lower level of reactive maintenance works required and some other efficiencies.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, certain activities the regulator assumed would be managed and so reported within Other network operations have become the responsibility of the Track team, resulting in higher costs in track (but savings in Other network operations). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This year included significant investment in such performance improvement schemes. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16.

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

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are higher than the regulator expected mainly as a result of higher than expected levels of reactive maintenance.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year and the control period to date in this category is lower than the regulator assumed, reflecting the amount of this type of work required so far in control period 5. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

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

in £m 2016-17 prices unless stated

- (6) Other network operations – costs for the current year are lower than the regulator's expectation. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. In the control period to date investment has been made in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Despite this costs in the control period to date are lower than the regulator expected largely due to a transfer of responsibilities (and so costs) from Other network operations into the track category. This is to give greater understanding of underlying costs and provide greater accountability to the front line management teams. This helps explain the higher costs reported in Track.
- (7) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (8) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	cumulative	Cumulative PR13	Difference	2015-16 Actual
Track	90	78	(12)	251	204	(47)	83
Signalling	19	67	48	97	158	61	22
Civils	21	28	7	94	81	(13)	38
Buildings	6	6	-	27	29	2	11
Electrical power and fixed plant	45	48	3	98	136	38	22
Telecoms	8	4	(4)	23	17	(6)	7
Wheeled plant and machinery	6	9	3	23	37	14	9
Information Technology	8	8	-	34	25	(9)	12
Property	1	3	2	5	13	8	1
Other renewals	12	7	(5)	67	(8)	(75)	33
Total renewals expenditure	216	258	42	719	692	(27)	238

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling, Civils and Electrification & Fixed Plant). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities (notably Signalling and Track) until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was broadly in line with the previous year.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was much lower than the determination expected. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Cambridge and Clacton schemes have been deferred until next control period to optimise design and delivery and to allow further investment in the Yarmouth-Lowestoft scheme. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year.
- (4) Civils – expenditure in the year was lower than the regulator anticipated due to deferrals of activity partially offset by higher underlying costs partially offset by deferrals of activity more than offset by higher underlying costs. The lower expenditure this year mitigates some of the additional expenditure earlier in the control period. The higher like-for-like cost continues the trend of the previous year. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected. The higher expenditure is due to a combination of emergency repair works required beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Detailed analysis of renewals expenditure, Anglia – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year broadly in line with the determination expectation. However, this was as a result of higher underlying costs leading to a reduction in volumes to remain within the funding available. The higher like-for-like costs reflects an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year with the largest contribution from franchised stations.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably to comply with safety standards) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints (including access and the diversion of contractor resources to the Gospel Oak to Barking electrification programme) and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year mostly due to additional costs for Overhead line projects. This mostly relates to additional works on Great Eastern OLE programmes.
- (7) Telecoms – expenditure in the year was higher than the determination, continuing the trend of earlier years of the control period. Activity is expected to be curtailed in the final two years of the control period. Expenditure is broadly in line with the previous year.

Statement 9a: Detailed analysis of renewals expenditure, Anglia – continued

in £m 2016-17 prices unless stated

- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is only approximately 40 per cent of the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen.

Statement 9a: Detailed analysis of renewals expenditure, Anglia – continued

in £m 2016-17 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.

Statement 9a: Detailed analysis of renewals expenditure, Anglia – continued

in £m 2016-17 prices unless stated

- e. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Anglia

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	23	16	(7)	79	63	(16)
High output renewal	38	36	(2)	74	53	(21)
Plain line refurbishment	6	-	(6)	10	1	(9)
S&C renewal	15	18	3	63	63	-
S&C refurbishment	1	4	3	6	13	7
Track non-volume	1	4	3	5	11	6
Off track	6	-	(6)	14	-	(14)
Total track	90	78	(12)	251	204	(47)
Signalling						
Full conventional resignalling	-	6	6	13	10	(3)
Modular resignalling	2	1	(1)	2	16	14
ERTMS resignalling	1	-	(1)	2	-	(2)
Partial conventional resignalling	1	17	16	3	30	27
Targeted component renewal	-	-	-	-	-	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	-	1	1	44	22	(22)
Level crossings	7	34	27	16	52	36
Minor works	7	4	(3)	16	16	-
Centrally managed costs	1	4	3	1	12	11
Other	-	-	-	-	-	-
Total signalling	19	67	48	97	158	61
Civils						
Underbridges	21	16	(5)	55	44	(11)
Overbridges	-	3	3	3	10	7
Bridgeguard 3	-	-	-	-	-	-
Major structures	1	-	(1)	3	-	(3)
Tunnels	-	-	-	-	-	-
Other assets	1	3	2	5	7	2
Structures other	(1)	1	2	1	2	1
Earthworks	1	5	4	30	18	(12)
Other	(2)	-	2	(3)	-	3
Total civils	21	28	7	94	81	(13)
Buildings						
Managed stations	2	2	-	4	11	7
Franchised stations	-	2	2	7	9	2
Light maint depots	2	-	(2)	5	1	(4)
Depot plant	-	-	-	4	5	1
Lineside buildings	1	1	-	4	2	(2)
MDU buildings	1	1	-	3	1	(2)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	6	6	-	27	29	2

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	1	3	2	1	12	11
Overhead Line	35	39	4	78	96	18
DC distribution	5	-	(5)	5	-	(5)
Conductor rail	-	-	-	-	-	-
SCADA	1	-	(1)	1	5	4
Energy efficiency	-	1	1	2	3	1
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	2	1	3	5	2
Fixed plant	2	3	1	8	15	7
Total electrical power and plant	45	48	3	98	136	38
Telecoms						
Operational communications	2	-	(2)	8	5	(3)
Network	1	3	2	3	7	4
SISS	-	-	-	-	-	-
Projects and other	1	1	-	1	2	1
Non-route capital expenditure	4	-	(4)	11	3	(8)
Total telecoms	8	4	(4)	23	17	(6)
Wheeled plant and machinery						
High output	3	1	(2)	11	10	(1)
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	1	1	-
Intervention	1	1	-	3	9	6
Materials delivery	-	1	1	3	1	(2)
On track plant	1	2	1	2	5	3
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	4	4	2	5	3
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	6	9	3	23	37	14
Information Technology						
IM delivered renewals	8	7	(1)	32	22	(10)
Traffic management	-	1	1	2	3	1
Total information technology	8	8	-	34	25	(9)
Property						
MDUs/offices	-	2	2	3	10	7
Commercial estate	1	1	-	2	3	1
Corporate services	-	-	-	-	-	-
Total property	1	3	2	5	13	8
Other renewals						
Asset information strategy	4	3	(1)	11	14	3
Intelligent infrastructure	1	2	1	3	4	1
Faster isolations	-	3	3	1	11	10
LOWS	-	-	-	-	1	1
Small plant	1	1	-	1	3	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(2)	(2)	-	(41)	(41)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	4	-	(4)	48	-	(48)
Other	2	-	(2)	3	-	(3)
West Coast	-	-	-	-	-	-
Total other renewals	12	7	(5)	67	(8)	(75)
Total renewals	216	258	42	719	692	(27)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Anglia – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Anglia

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	27	26	(1)	70	63	(7)	23
Access charge supplement Income	(26)	(25)	1	(65)	(65)	-	(22)
Net (income)/cost	1	1	-	5	(2)	(7)	1
Schedule 8							
Performance element income	-	-	-	(2)	-	2	(1)
Performance element costs	20	-	(20)	37	1	(36)	5
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	20	-	(20)	35	1	(34)	4

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	2	3	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(1)	(4)	(2)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(1)	1	1
Reporters fees	-	-	-
Other industry costs	1	-	-
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	1	(1)	-

Statement 10: Other information, Anglia – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This is the case in the current year. The minor control period to date variance is a factor of the difference between the inflation rates used to uplift the contractual payments and the inflation rates used to uplift the regulator's PR13 targets. Performance element costs are broadly in line with the regulator's assumption. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions offset by higher like-for-like costs. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Increased possessions to undertake maintenance activities also added to the costs in the current year. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.

Statement 10: Other information, Anglia – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident being higher than ever. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum currently shows a net gain for this year which is primarily due to the Volume incentive (see Statement 12) partly offset by differences in rates and industry costs (see Statement 7a). The control period to date position comprises outperformance generated through the Volume incentive partly offset by differences in the Business rates costs and the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

Statement 11

Statement 11 is not required for Anglia.

Statement 12: Volume incentives, Anglia

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(1)	0	29	28	0.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	3	1	1,125	1,067	3.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	2	2	2.7%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	2	1	2,549	2,292	3.7%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	4	2					

The cumulative volume incentive is determined by the following calculation: $[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$

Where:
A_t = Actual in year quantity
B = 2016-17 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Anglia – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has outperformed the regulator's targets and has recognised a gain as a result, augmenting the gains made in earlier in the control period (as shown in Statement 10). This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5). Outperformance this year is due to a combination of Passenger farebox income (reflecting increased demand for rail travel in excess of the regulator's assumption) and additional freight loads.

Statement 14: Renewals volumes, unit costs and expenditure, Anglia

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	27	24	36	66	545
	High Output Renewal	km	61	34	34	61	557
	Plain line Refurbishment	km	19	5	7	34	206
	S&C Renewal/Refurbishment	point ends	33	11	17	110	155
	Track Drainage	lm	1,426	1	1	1,426	1
	Fencing	km	9	1	1	17	59
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	11	2	6	21	286
	Other		-	-	-	-	-
Total			1,586	78	102	1,735	-
Signalling	Full Conventional Resignalling	SEU	1	1	1	1	1,000
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-
	Minor Works		-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-
	Other		-	-	-	-	-
Total			1	1	1	1	-
Civils	Underbridges	m ²	2,648	21	71	12,427	6
	Overbridges (incl BG3)	m ²	405	1	1	466	2
	Major Structures		-	-	-	-	-
	Tunnels	m ²	-	-	-	-	-
	Culverts	m ²	101	-	-	101	-
	Footbridges	m ²	551	1	3	729	4
	Coastal & Estuarial Defences	m	-	-	-	-	-
	Retaining Walls	m ²	53	-	-	53	-
	Structures Other		-	-	-	-	-
	Earthworks	5-chain	20	1	1	40	25
	EW Drainage	m	-	-	-	-	-
	Other		-	-	-	-	-
Total			3,778	24	76	13,816	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-
	Other (MS)	m ²	146	1	2	146	14
	Buildings (FS)	m ²	-	-	-	-	-
	Platforms (FS)	m ²	-	-	-	-	-
	Canopies (FS)	m ²	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-
	Other (FS)		-	-	-	-	-
	Light Maintenance Depots	m ²	24,184	-	1	24,184	0
	Depot Plant		-	-	-	-	-
	Lineside Buildings	m ²	3,500	-	-	3,500	-
	MDU Buildings	m ²	225	-	-	600	-
	NDS Depot		-	-	-	-	-
	Other		-	-	-	-	-
Total			28,055	1	3	28,430	-

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	6	11	40	34	1,176
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	174	9	34	695	49
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	7	-	1	18	56
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	12	-	2	24	83
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-
	Other DC		-	-	-	-	-
	SCADA	RTU	1	-	2	2	1,000
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-
	Signalling Supply Points	No.	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-
Total			200	20	79	773	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	33	2	7	88	80
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			33	2	7	88	-

Statement 14: Renewals volumes, unit costs and expenditure, Anglia – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, East Midlands

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	231	230	1	689	683	6	232
Fixed Income	17	17	-	53	52	1	16
Variable Income	57	58	(1)	181	177	4	61
Other Single Till Income	36	30	6	81	80	1	25
Opex memorandum account	2	-	2	10	-	10	5
Total Income	343	335	8	1,014	992	22	339
Operating expenditure							
Network operations	26	16	(10)	78	55	(23)	26
Support costs	14	22	8	48	68	20	16
Traction electricity, industry costs and rates	26	25	(1)	76	72	(4)	27
Network maintenance	76	59	(17)	209	183	(26)	66
Schedule 4	8	10	2	29	40	11	9
Schedule 8	14	-	(14)	34	1	(33)	7
Total operating expenditure	164	132	(32)	474	419	(55)	151
Capital expenditure							
Renewals	141	135	(6)	440	380	(60)	141
PR13 enhancement expenditure	125	267	142	396	530	134	122
Non PR13 enhancement expenditure	5	-	(5)	13	-	(13)	(1)
Total capital expenditure	271	402	131	849	910	61	262
Other expenditure							
Financing costs	92	113	21	243	291	48	75
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	92	113	21	243	291	48	75
Total expenditure	527	647	120	1,566	1,620	54	488

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is higher than the determination target as lower electricity income has been offset by incremental revenue from offering more train paths to operators to help meet passenger demand for train travel. Income is broadly in line with the previous year. These variances are set out in more detail in Statement 6a.
- (4) Income – Other single till income in the year is higher than the determination as extra property rental income and income earned from offering additional station and depot facilities to operators has more than compensated for lower freight income. The control period to date position is in line with the regulatory assumption. Income is higher than the previous year after finalising contractual discussions of the additional revenue relating to stations to depots. These variances are set out in more detail in Statement 6a.
- (5) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). Amounts in the current year and control period to date mainly relate to gains under the Volume incentive mechanism and differences in Business rates costs. This is disclosed in more detail in Statement 10.
- (6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (7) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2016-17 prices unless stated

- (8) Operating expenditure - Traction electricity, industry costs and rates are largely in line with the determination with lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher rates and industry costs. Higher rates and industry costs account for the extra costs in the control period to date too. Costs are in step with the previous year. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (9) Operating expenditure - Network Maintenance costs are higher than the determination, which is mostly due to additional reactive maintenance activity and higher civils inspections costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year and additional structures inspections costs have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are broadly in line with the determination in the current year. Costs are lower in the control period to date as management have designed and enforced strategies to minimise late changes to the possessions regime, resulting in discounts. Costs are similar to the prior year. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to efficient overspends (notably in Track, Signalling and Civils) offset by net deferrals of activity. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is broadly in line with the previous year. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes but has a noticeable contribution from delays in electrification programmes. The same programmes are also responsible for the control period to date variance. Expenditure is similar to the previous year. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2016-17 prices unless stated

- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, East Midlands

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,760	2,675	85
Indexation to 2015-16 prices	160	155	5
Opening RAB for the year (2015-16 prices)	2,920	2,830	90
Indexation for the year	64	62	2
Opening RAB (2016-17 prices)	2,984	2,892	92
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	125	135	(10)
PR13 enhancements	121	283	(162)
Non-PR13 enhancements	6	-	6
Total enhancements	127	283	(156)
Amortisation	(134)	(134)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2017	3,102	3,176	(74)

RAB Regulatory financial position - cumulative, East Midlands

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	2,611	2,859	2,984	2,611
Adjustments for the actual capital expenditure outturn in CP4	75	-	-	75
Renewals	145	133	125	403
PR13 enhancements	150	120	121	391
Non-PR13 enhancements	8	(1)	6	13
Total enhancements	158	119	127	404
Amortisation	(128)	(127)	(134)	(389)
Adjustments for under-delivery of regulatory outputs	(2)	-	-	(2)
Closing RAB	2,859	2,984	3,102	3,102

Statement 2a: RAB - Regulatory financial position, East Midlands – continued

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b. The control period to date position is broadly in line with the original PR13 assumptions.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This is mainly due to lower expenditure on electrification programmes as set out in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The expenditure in the current year largely relates to development of a new station at Ilkeston.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

Statement 2a: RAB - Regulatory financial position, East Midlands – continued

in £m 2016-17 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, East Midlands

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	131	114	135	380
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	7	-	-	7
Capitalised financing on CP4 deferrals	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	138	114	135	387
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(29)	(11)	(58)	(98)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(3)	(5)
Adjustments for efficient overspend	45	37	63	145
Capitalised financing on efficient overspend	1	3	5	9
25% retention of efficient overspend	(11)	(10)	(16)	(37)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	4	2	1	7
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	(1)	(1)
Other adjustments	(1)	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	145	133	125	403
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	(1)	-	(1)
Adjustment for 25% retention of efficient overspend	12	9	16	37
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	1	-	-	1
Total actual renewals expenditure (see statement 9)	158	141	141	440

Statement 2b: RAB - reconciliation of expenditure, East Midlands - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	123	169	283	575
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	18	(18)	-	-
Capitalised financing on CP4 deferrals	-	1	-	1
Baseline adjustments	-	(28)	(16)	(44)
Capitalised financing on Baseline adjustments	-	(1)	(1)	(2)
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	141	123	266	530
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	4	(11)	(141)	(148)
Capitalised financing on acceleration / (deferrals) of expenditure	-	-	(3)	(3)
Adjustments for efficient overspend	5	4	3	12
Capitalised financing on efficient overspend	-	-	-	-
25% retention of efficient overspend	(1)	(1)	(1)	(3)
Capitalised financing of 25% efficient overspend	-	-	-	-
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	6	(4)	2
agreements - retention of efficient overspend	-	(1)	1	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	1	-	-	1
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	150	120	121	391
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	9	(1)	5	13
overspend	(1)	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	1	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	8	(1)	6	13
Total enhancements (added to the RAB - see statement 2a)	158	119	127	404
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	-	3	3
Adjustment for 25% retention of efficient overspend	1	2	-	3
Other Adjustments	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	8	8	10	26
Other adjustments	(1)	-	-	(1)
Total actual enhancement expenditure (see statement 3)	166	129	140	435

Statement 2b: RAB - reconciliation of expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than the costs of delivering the programmes. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

Statement 2b: RAB - reconciliation of expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

Statement 2b: RAB - reconciliation of expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and subsequent Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, East Midlands

in £m 2016-17 prices unless stated

	2016-17			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	-	-	1	1	-
Stations - Access for All (AfA)	-	-	-	1	-	(1)
Development	-	-	-	3	2	(1)
Level crossing safety	1	-	(1)	4	5	1
Passenger journey improvement	4	21	17	7	25	18
The strategic rail freight network	(1)	-	1	13	13	-
Total funds	4	21	17	29	46	17
Committed projects						
Thameslink	-	6	6	43	51	8
Total committed projects	-	6	6	43	51	8
Named schemes						
The Electric Spine:						
MML electrification	54	84	30	159	183	24
Derby station area remodelling	13	14	1	20	21	1
DfT SoFA amount	50	123	73	113	188	75
Total Electric Spine projects	117	221	104	292	392	100
HLOS capacity metric schemes						
MML long distance high speed services train lengthening	-	9	9	2	12	10
Total HLOS capacity metric schemes	-	9	9	2	12	10
CP4 project rollovers						
MML linespeed improvements	2	6	4	26	22	(4)
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	2	6	4	26	22	(4)
Other projects						
Seven day railway projects	1	-	(1)	-	-	-
ERTMS Cab fitment	-	1	1	-	1	1
R&D allowance	-	-	-	-	1	1
Depots and stabling	1	3	2	3	5	2
Income generating property schemes	-	-	-	1	-	(1)
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	2	4	2	4	7	3
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	125	267	142	396	530	134
B) Investments not included in PR13						
Government sponsored schemes						
Ilkestone New Station	6	-	(6)	6	-	(6)
Other government sponsored schemes	(1)	-	1	-	-	-
Total Government sponsored schemes	5	-	(5)	6	-	(6)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	2	-	(2)
Total Network Rail spend to save schemes	-	-	-	2	-	(2)
Total Schemes promoted by third parties	-	-	-	5	-	(5)
Discretionary Investment	-	-	-	-	-	-
Total non PR13 enhancement expenditure	5	-	(5)	13	-	(13)
Total Network Rail funded enhancements (see Statement 1)	130	267	137	409	530	121
Third Party PAYG	10	-	(10)	26	-	(26)
Total enhancements (see statement 2b)	140	267	127	435	530	95

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £130m (as shown in Statement 1). This comprises the total enhancement figure in the table above £140m less the PAYG schemes funded by third parties (£10m).
- (5) Investment expenditure this year was slightly higher than the previous year. This is a combination of increases and decreases across a wide range of programmes with the main contribution coming from electrification programmes.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:
- (a) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is significantly lower than the baseline this year although a ramp up on activity is expected in future years, particularly on Market Harborough, Leicester and Derby-Sheffield line speed improvements. The current year variance accounts for the saving in the control period to date.
 - (b) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline but the control period to date position is consistent with the baseline. The credit balance in the current year reflects agreed changes in the funding of parts of the Syston to Stoke Gauge project which is now classified within Government sponsored schemes.
- (7) PR13 funded schemes – Committed Projects - expenditure for the year is lower than the baseline. The only programme in this category is Thameslink. The objective of this programme is to increase the frequency with which services could operate on this part of the network. Activity on this part of the network this year has been minimal. The control period to date variance is largely due to the underspend in the current year.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (8) PR13 funded schemes – named schemes - expenditure in the year is noticeably lower than the baseline with underspends against all of the programmes in this category. The following notable variances between expenditure and baselines are set out below:
- (a) Midland Mainline Electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure is lower than the baseline due to some delays encountered by the project. This includes reconstruction of two bridges that has been delayed due to access constraints and further work undertaken to assure project costs and contractor estimates. The control period to date variance largely arises from the current year underspend.
 - (b) Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. Expenditure for the year and control period to date is consistent with the baseline.
 - (c) Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme. The control period to date variance largely arises from the current year underspend.
- (9) PR13 funded schemes – HLOS capacity metric schemes - there is only one programme in this category: MML long distance high speed services train lengthening. This project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Minimal work was completed this year as the project has been reprofiled to later in the control period and beyond. Most of the milestones for this programme are in CP6, as agreed with the regulator. The variance in the control period to date is predominately due to the underspend in the current year.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. There is only one project in this category: MML Linespeed Improvements. This project aims to increase the linespeed on the Midlands Main Line. The expected costs to complete this programme are higher than the estimates prepared to support the aforementioned Hendy review. Consequently, financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). In the current year expenditure was lower than planned as a result of acceleration of activity into 2015/16 last year and some modest efficiencies made this year, resulting in financial outperformance.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in Depots & stabling projects. Notable variances to the baseline include:
- (a) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is lower than the baseline. This is mainly due to delays in selecting the preferred option for the Kettering stabling. Discussions are ongoing between Network Rail and DfT to identify the optimal solution. The variance in the control period to date is largely the result of the underspend in the current year.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was Ilkeston new station, a project which will build a new station at Ilkeston on the Erewash Valley Line. The credit balance in the Other category is due to costs reported in previous years now being shown within the Ilkeston new station line for transparency purposes.
 - (b) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
 - (c) PAYGO – Significant programmes in this category in the current year include: Ilkeston new station. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, East Midlands

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	2,062	2,025	(37)	1,702	1,666	(36)
Income						
Grant income	(231)	(230)	1	(677)	(672)	5
Fixed charges	(17)	(17)	-	(53)	(52)	1
Variable charges	(57)	(58)	(1)	(177)	(172)	5
Other single till income	(36)	(30)	6	(81)	(84)	(3)
Total income	(341)	(335)	6	(988)	(980)	8
Expenditure						
Network operations	26	16	(10)	76	53	(23)
Support costs	14	22	8	48	66	18
Traction electricity, industry costs and rates	26	25	(1)	77	69	(8)
Network maintenance	76	59	(17)	205	179	(26)
Schedule 4	8	10	2	28	39	11
Schedule 8	14	-	(14)	33	-	(33)
Renewals	141	135	(6)	433	374	(59)
PR13 enhancement	125	283	158	390	567	177
Non-PR13 enhancement	5	-	(5)	12	-	(12)
Total expenditure	435	550	115	1,302	1,347	45
Financing						
Interest expenditure on nominal debt - FIM covered	21	37	16	65	94	29
Interest expenditure on index linked debt - FIM covered	12	16	4	37	43	6
Expenditure on the FIM	15	26	11	51	67	16
Interest expenditure on government borrowing	21	-	(21)	40	-	(40)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(3)	(2)
Total interest costs	69	78	9	192	201	9
Accretion on index linked debt - FIM covered	23	35	12	47	90	43
Total financing costs	92	113	21	239	291	52
Corporation tax	-	-	-	-	-	-
Other	8	-	(8)	1	29	28
Movement in net debt	194	328	134	554	687	133
Closing net debt	2,256	2,353	97	2,256	2,353	97

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	0.69	0.84	0.63	0.88
FFO/interest	2.68	2.88	2.59	2.59
Net debt/RAB (gearing)	70.0%	70.7%	72.7%	74.1%
FFO/debt	8.6%	8.6%	7.9%	8.6%
RCF/debt	5.4%	5.6%	4.8%	5.3%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to East Midlands route has increased by £0.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt attributable to the East Midlands route at 31 March 2017 is £0.1bn lower than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, higher performance regime costs and higher net operating costs have driven increases in debt. However, these extra costs have been more than offset by lower capital investment, financing costs savings and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review and subsequent Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, East Midlands – continued

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- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator did not expect Network Rail to cover its interest costs through its trading profits (including an assumption for steady state renewals) and so this shortfall, along with any emerging risks, would need to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accruing debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. The ratio is in line with the regulatory expectation as lower net income from trading activities have been mitigated by lower interest costs (as noted above).
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is lower than the regulatory comparative which is mainly due to lower overall capital spend. Lower overall capital spend compared to the PR13 assumption results in a lower ratio as the debt and the RAB should rise by the same absolute value but as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same, lower absolute amount will result in a lower ratio. The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.
- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. This is partly offset by lower net debt than the regulator expected due to lower levels of capital investment. The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, East Midlands

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2016-17								
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
			Favourable / (Adverse)					
Income								
Grant Income	231	230	1	1	-	-	-	-
Fixed Income	17	17	-	-	-	-	-	-
Variable Income	49	47	2	-	-	-	2	2
Other Single Till Income	36	30	6	-	-	-	6	6
Opex memorandum account	2	-	2	1	-	-	1	1
Total Income	335	324	11	2	-	-	9	9
Expenditure								
Network operations	26	16	(10)	-	-	-	(10)	(10)
Support costs	14	22	8	-	-	-	8	8
Industry costs and rates	17	14	(3)	(1)	-	-	(2)	(2)
Traction electricity	-	(1)	(1)	-	-	-	(1)	(1)
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	76	59	(17)	-	(8)	-	(9)	(9)
Schedule 4 costs	8	10	2	-	1	-	1	1
Schedule 8 costs	14	-	(14)	-	-	-	(14)	(14)
Renewals	141	135	(6)	-	57	-	(63)	(16)
PR13 Enhancements	125	267	142	-	141	-	1	-
Non PR13 Enhancements	5	-	(5)	-	(5)	-	-	-
Financing Costs	92	113	21	21	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	519	636	117	20	186	-	(89)	(43)
Total:			128	22	186	-	(80)	(34)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(34)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(6)
Under-delivery of train performance requirements (CaSL)								(2)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(10)
Total financial out / (under) performance to be recognised								(44)

Statement 5a: Total financial performance, East Midlands - continued

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: total financial performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance	
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	689	683	6	6	-	-	-	-
Fixed Income	53	52	1	1	-	-	-	-
Variable Income	156	149	7	-	-	-	7	7
Other Single Till Income	81	80	1	-	-	-	1	1
Opex memorandum account	10	-	10	5	-	-	5	5
Total Income	989	964	25	12	-	-	13	13
Expenditure								
Network operations	78	55	(23)	-	-	-	(23)	(23)
Support costs	48	68	20	1	-	-	19	19
Industry costs and rates	49	43	(6)	(4)	-	-	(2)	(2)
Traction electricity	2	1	(1)	-	-	-	(1)	(1)
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	209	183	(26)	-	(4)	-	(22)	(22)
Schedule 4 costs	29	40	11	-	2	-	9	9
Schedule 8 costs	34	1	(33)	-	-	-	(33)	(33)
Renewals	440	380	(60)	-	85	-	(145)	(36)
PR13 Enhancements	396	530	134	-	146	-	(12)	(3)
Non PR13 Enhancements	13	-	(13)	-	(13)	-	-	-
Financing Costs	243	291	48	48	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,541	1,592	51	45	216	-	(210)	(92)
Total:			76	57	216	-	(197)	(79)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(79)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(12)
Under-delivery of train performance requirements (CaSL)								(5)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								(2)
Total adjustment for under-delivery outputs								(21)
Total financial out / (under) performance to be recognised								(100)

	2016-17			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(8)	(11)	3	(25)	(28)	3
Total variance not included in total	(8)	(11)	3	(25)	(28)	3
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total	-	-	-	1	-	1
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	8	11	(3)	25	28	(3)
Total variance not included in total	8	11	(3)	25	28	(3)

Statement 5a: Total financial performance, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Fixed income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.

Statement 5a: Total financial performance, East Midlands – continued

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- (3) Variable income – financial outperformance for the control period to date has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – financial outperformance has been reported for the current year mainly as a result of improved property rental income and increased depot services partly offset by freight income as that sector of operations continues to struggle following legislative changes. The control period to date position is broadly in line with the regulator's expectation with extra property income offsetting lower freight income. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Financial outperformance has been reported for the control period to date as extra passenger demand has been responded to. The volume incentive is set out in more detail in Statement 12.
- (6) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7a. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation.

Statement 5a: Total financial performance, East Midlands – continued

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- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the behest of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it was been agreed with the regulator that this fund will be outside the scope of the FPM.
- (11) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). After adjusting for this there is minimal financial outperformance in the current year but some has been generated in the control period to date. The route management team have placed importance on not making late changes to the agreed possession schedule. Possession plans have been put in place as early as possible to gain maximum discount through enhanced planning of renewals workbanks.

Statement 5a: Total financial performance, East Midlands – continued

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- (12) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017), damage to overhead line electrification equipment (Luton) and damage to a bridge following engineering work (Barrow on Soar). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across many asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

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- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this control period from MML linespeed improvements. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances that give rise to financial outperformance or underperformance in the current year or the control period to date.
- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction in its financial performance for this missed output.

Statement 5a: Total financial performance, East Midlands – continued

in £m 2016-17 prices unless stated

- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (St Pancras to Sheffield Line Speed improvement) there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

Statement 5b: Total financial performance - renewals variance analysis, East Midlands

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(25)	7	(32)	(8)		(8)	-	-
Signalling	21	35	(14)	(4)		(4)	-	-
Civils	(7)	7	(14)	(3)		(3)	-	-
Buildings	3	4	(1)	-		-	-	-
Electrical power and fixed plant	(1)	1	(2)	(1)		-	(1)	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	3	3	-	-		-	-	-
IT	(1)	(1)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	1	1	-	-		-	-	-
Total	(6)	57	(63)	(16)		(15)	(1)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(88)	1	(89)	(22)		(20)	(2)	-
Signalling	32	63	(31)	(8)		(9)	1	-
Civils	2	20	(18)	(4)		(4)	-	-
Buildings	5	6	(1)	-		-	-	-
Electrical power and fixed plant	6	8	(2)	(1)		-	(1)	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	8	8	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	(1)	(1)	-	-		-	-	-
Other renewals	(20)	(16)	(4)	(1)		-	(1)	-
Total	(60)	85	(145)	(36)		(33)	(3)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

Statement 5b: Total financial performance - renewals variance analysis, East Midlands – continued

in £m 2016-17 prices unless stated

- (2) Track – there has been financial underperformance in the current year. Approximately a quarter of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. Delivery of slab track works this year adversely impacted financial performance. Slab track works are relatively unique and the modelled unit rates assumed in the CP5 plan have proved to be insufficient. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, such as East Nottingham where issues with new technology and contractor claims both contributed to escalated costs. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, East Midlands – continued

in £m 2016-17 prices unless stated

- (4) Civils – financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. The underperformance in the control period to date is largely due to the same factors.
- (5) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. This is partly offset by additional costs incurred on completing renewals projects from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with notable contributions from FTN.

Statement 5c: Total financial performance - enhancement variance analysis, East Midlands

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	30	34	-	(4)	(1)
MML linespeed improvements	4	3	-	1	-
Thameslink	6	2	-	4	1
Seven day railway	(1)	(1)	-	-	-
Other Enhancements	98	98	-	-	-
Total	137	136	-	1	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	24	28	-	(4)	(1)
MML linespeed improvements	(4)	3	-	(7)	(2)
Thameslink	8	9	-	(1)	-
Seven day railway	-	-	-	-	-
Other Enhancements	93	93	-	-	-
Total	121	133	-	(12)	(3)

Statement 5c: Total financial performance - enhancement variance analysis, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) MML linespeed improvements – some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed.
- (2) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, East Midlands

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	40	43	(3)	-	-	-		(3)
Capacity charge	83	79	4	-	-	-		4
Electricity asset utilisation charge	3	2	1	-	-	-		1
Property income	10	6	4	-	-	-		4
Expenditure								
Network operations	78	52	(26)	-	-	-		(26)
Support costs	48	66	18	-	1	-		17
RSSB and BT Police	16	13	(3)	-	-	-		(3)
Network maintenance	209	189	(20)	(1)	-	-		(19)
Schedule 4 costs	29	42	13	4	-	-		9
Schedule 8 costs	34	-	(34)	-	-	-		(34)
Renewals	440	405	(35)	110	-	(109)		(36)
Total REBS performance			(81)	113	1	(109)		(86)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(12)
Under-delivery of train performance requirements (CaSL)								(5)
Missed ORBIS milestones								(2)
Total adjustment for under delivery of outputs and reduced sustainability								(19)
Cumulative performance to end of 2016-17								(105)
Less cumulative outperformance recognised up to the end of 2015-16								(54)
Net REBS performance for 2016-17								(51)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, East Midlands

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	231	230	1	689	683	6	232
Franchised track access income							
Fixed charges	17	17	-	53	52	1	16
Variable charges							
Variable usage charge	10	9	1	31	29	2	11
Traction electricity charges	8	11	(3)	25	28	(3)	8
Electrification asset usage charge	1	1	-	3	2	1	1
Capacity charge	27	26	1	82	78	4	28
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	11	11	-	40	40	-	13
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	57	58	(1)	181	177	4	61
Total franchised track access income	74	75	(1)	234	229	5	77
Total franchised track access and grant income	305	305	-	923	912	11	309
Other single till income							
Property income	6	2	4	11	5	6	3
Freight income	4	6	(2)	11	14	(3)	4
Open access income	-	-	-	-	-	-	-
Stations income	8	10	(2)	25	29	(4)	8
Facility and financing charges	14	10	4	24	24	-	7
Depots Income	4	2	2	10	8	2	3
Other income	-	-	-	-	-	-	-
Total other single till income	36	30	6	81	80	1	25
Total income	341	335	6	1,004	992	12	334

Statement 6a: Analysis of income, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is higher than the regulator expected this year mainly as a result of providing additional services to operators at stations this year and extra property rental income partly offset by lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity) and lower freight income (as a result of structural declines in the coal transportation market).
- (3) Grant income - grant income in the control period to date is higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, East Midlands – continued

in £m 2016-17 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Property income – this is higher than the determination due to additional rental income generated from Network Rail's commercial estate. In the control period to date, net income from property sales have been in line with regulatory determination. Property rental income is higher than the previous year reflecting improved demand in this area.
- (6) Freight income – this is below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (7) Facility and financing charges – this is higher than the determination following the provision of extra services to train operators, including the backdating of certain charges following conclusion of discussions. The extra in come in the year negates the lower income witnessed in the opening two years of the control period.

Statement 6b: Analysis of other single till income, East Midlands

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	6	3	3	11	7	4	3
Property sales	-	-	-	-	1	(1)	-
Adjustment for commercial opex	-	(1)	1	-	(3)	3	-
Total property income	6	2	4	11	5	6	3
Freight income							
Freight variable usage charge	3	5	(2)	9	13	(4)	3
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	1	(1)	-	-	-	-
Freight capacity charge	-	-	-	1	1	-	1
Freight only line charge	-	-	-	-	-	-	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	1	-	1	1	-	1	-
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	4	6	(2)	11	14	(3)	4
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	-	1	(1)	-	2	(2)	-
Qualifying expenditure	-	1	(1)	1	4	(3)	-
Total managed stations income	-	2	(2)	1	6	(5)	-
Franchised stations income							
Long term charge	4	4	-	12	11	1	4
Stations lease income	4	4	-	12	12	-	4
Total franchised stations income	8	8	-	24	23	1	8
Total stations income	8	10	(2)	25	29	(4)	8
Facility and financing charges							
Facility charges	14	10	4	24	24	-	7
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	14	10	4	24	24	-	7
Depots income	4	2	2	10	8	2	3
Other	-	-	-	-	-	-	-
Total other single till income	36	30	6	81	80	1	25

Statement 6b: Analysis of other single till income (unaudited), East Midlands – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	16	9	(7)	51	29	(22)	16
Signalling shift managers	-	1	1	2	2	-	-
Local operations managers	1	-	(1)	3	2	(1)	1
Controllers	2	1	(1)	5	4	(1)	2
Electrical control room operators	-	-	-	-	1	1	-
Total signaller expenditure	19	11	(8)	61	38	(23)	19
Non-signaller expenditure							
Mobile operations managers	-	1	1	-	4	4	-
Managed stations	-	1	1	-	5	5	-
Performance	1	2	1	-	2	2	-
Customer relationship executives	-	-	-	1	1	-	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	2	2	-
Other	3	-	(3)	9	2	(7)	4
Operations delivery	2	-	(2)	4	-	(4)	2
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	2	1	(1)	4	4	-	2
Other operating income	(1)	(1)	-	(1)	(3)	(2)	(1)
Total non-signaller expenditure	7	5	(2)	17	17	-	7
Total network operations expenditure	26	16	(10)	78	55	(23)	26
Support costs							
Core support costs							
Human resources	1	3	2	4	9	5	1
Information management	3	3	-	10	10	-	3
Government and corporate affairs	-	1	1	1	3	2	-
Group strategy	1	2	1	3	4	1	1
Finance	2	1	(1)	3	4	1	1
Business services	1	1	-	3	3	-	1
Accommodation	3	1	(2)	6	1	(5)	1
Utilities	2	2	-	6	7	1	2
Insurance	-	3	3	6	8	2	3
Legal and inquiry	-	-	-	-	1	1	-
Safety and sustainable development	1	1	-	3	1	(2)	1
Strategic sourcing	(1)	(1)	-	-	1	1	-
Business change	-	-	-	-	1	1	-
Other corporate functions	-	-	-	-	1	1	-
Core support costs	13	17	4	45	54	9	14
Other support costs							
Asset management services	2	3	1	7	8	1	3
Network Rail telecoms	1	2	1	6	6	-	2
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(1)	-	1	(3)	-	3	(1)
Commercial property	-	-	-	(1)	-	1	-
Group costs	(1)	-	1	(6)	(1)	5	(2)
Total other support costs	1	5	4	3	14	11	2
Total support costs	14	22	8	48	68	20	16
Traction electricity, industry costs and rates							
Traction electricity	8	10	2	27	29	2	9
Business rates	10	9	(1)	27	26	(1)	10
British transport police costs	5	4	(1)	15	13	(2)	6
RSSB costs	-	-	-	1	1	-	-
ORR licence fee and railway safety levy	2	1	(1)	5	3	(2)	1
Reporters fees	1	1	-	-	-	-	-
Other industry costs	-	-	-	1	-	(1)	1
Total traction electricity, industry costs and rates	26	25	(1)	76	72	(4)	27
Total network operations expenditure, support costs, traction electricity, industry costs and rates	66	63	(3)	202	195	(7)	69

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year.

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

in £m 2016-17 prices unless stated

- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources - are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Insurance - costs are favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (8) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.

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

in £m 2016-17 prices unless stated

- (9) Asset Management Services – costs are higher than the determination expected for the control period to date. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (10) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.
- (11) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower reorganisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).
- (12) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. Costs in the control period to date are higher than expected as higher British Transport Police and Business rates have more than offset Traction electricity savings.

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

in £m 2016-17 prices unless stated

- (13) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise.
- (14) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (15) British Transport Police costs - expenses in the control period to date are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, East Midlands

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	14	15	12	12
MOMS	1	-	-	-
Control	2	1	1	1
Planning & Performance Staff Costs	2	-	-	-
Managed Stations Staff Costs	1	-	-	1
Operations Management Staff Costs	1	-	-	-
Other	6	8	13	12
Total operations & customer services costs	27	24	26	26
Total Network Operations	27	24	26	26
Support				
Human resources				
Functional support	3	2	2	1
Training (inc Westwood)	1	-	-	-
Graduates	-	-	-	-
Apprenticeships	-	-	-	-
Other	-	-	-	-
Total human resources	4	2	2	1
Information management				
Support	-	-	-	-
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	3	4	3	3
Other	-	-	-	-
Total information management	3	4	3	3
Finance	1	1	1	2
Business Change	-	-	-	-
Contracts & Procurement	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	(1)
Planning & development	1	1	1	1
Safety & compliance	1	-	-	-
Other corporate services	3	1	-	-
Commercial property	6	1	2	3
Infrastructure Projects	(3)	(1)	(1)	(1)
Route Services	1	-	-	-
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	9	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	2	2	2
Network Rail Telecoms	-	4	2	1
Digital Railway	-	1	1	1
Safety Technical & Engineering	-	2	3	2
Government & Corporate Affairs	-	1	-	-
Business Services	-	1	1	1
Route Asset Management	-	(1)	-	-
Legal and inquiry	-	-	-	-
Group/central				
Pensions	-	-	-	-
Insurance	2	3	3	-
Redundancy/reorganisation costs	4	1	-	1
Staff incentives/Bonus Reduction	-	(1)	-	-
Accommodation & Support Recharges	-	(2)	(1)	(1)
Commercial claims settlements	-	-	-	-
ORR financial penalty	4	(1)	-	-
Other	-	-	(1)	(1)
Total group/central costs	10	-	1	(1)
Total support	36	19	18	14
Total network operations and support costs	63	43	44	40

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), East Midlands – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	26	23	(3)	75	73	(2)	25
Signalling	10	8	(2)	30	24	(6)	11
Civils	18	7	(11)	30	20	(10)	7
Buildings	5	1	(4)	10	6	(4)	5
Electrical power and fixed plant	3	5	2	10	13	3	3
Telecoms	1	1	-	4	2	(2)	1
Other network operations	6	10	4	28	32	4	11
Asset management services	9	2	(7)	23	7	(16)	5
National Delivery Service	(1)	3	4	(1)	8	9	-
Property	-	-	-	3	1	(2)	-
Group	(1)	(1)	-	(3)	(3)	-	(2)
Total maintenance expenditure	76	59	(17)	209	183	(26)	66

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year. This has mostly been due to extra reactive maintenance costs and higher civils inspection expenditure than the regulator assumed. Costs for the control period to date are largely driven by the current year overspends, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to extra reactive maintenance works and civils inspection costs.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. In the year and the control period to date costs are higher than the determination. This is due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. These factors have been partly offset by a transfer of some responsibilities to the Asset management services heading to reflect local organisational structures and accountabilities. The reasons outlined above also account for the higher costs in the control period to date.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The increase in costs compared to the previous year are also due to a combination of increased reactive maintenance and inspection costs.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, which has also created the control period to date variance. These variances are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – some efficiencies have been made in this category, continuing the trend of the earlier years of the control period. This has been achieved through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. In addition, certain responsibilities have been moved to Asset management services operations which has increased costs in that category. Costs are broadly in line with the previous year.
- (7) Other network operations – costs for the current year are lower than the regulator's expectation which is mostly due to a transfer of activity from this category to Asset management services. The in year variance has largely driven the control period to date saving. This transfer has mitigated extra costs incurred earlier in the control period within Other network operations following some one-off costs earlier in the control period. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. There was significant investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower than the previous year as a result of the aforementioned switch of responsibility to the Asset management services category.
- (8) Asset management services – costs are higher than the regulator's assumption this year and in the control period to date. This is due a multitude of factors including: transfer of responsibilities from Electrical power and fixed plant (which has contributed to the saving in that category), Track and Other network operations as well as additional activity undertaken by the routes to understand and manage the assets in their area. The same factors are responsible for the extra spend in the control period to date. Costs have increased compared to the previous year mainly due to a transfer of certain responsibilities from Other network operations to the Asset management services teams within the routes as part of Network Rail's commitment to devolution to enable more tactical decisions to be made closer to the passenger.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (9) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (10) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, East Midlands

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	64	39	(25)	219	131	(88)	58
Signalling	22	43	21	67	99	32	26
Civils	31	24	(7)	73	75	2	34
Buildings	3	6	3	12	17	5	3
Electrical power and fixed plant	5	4	(1)	10	16	6	2
Telecoms	2	2	-	7	9	2	1
Wheeled plant and machinery	3	6	3	14	22	8	5
Information Technology	6	5	(1)	20	14	(6)	5
Property	-	-	-	1	-	(1)	1
Other renewals	5	6	1	17	(3)	(20)	6
Total renewals expenditure	141	135	(6)	440	380	(60)	141

Statement 9a: Summary analysis of renewals expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is broadly in line with the determination's expectation. However, this is due to efficient overspends (notably in Track, Signalling and Civils) offset by net deferrals of activity. Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is broadly in line with the previous year.
- (2) Track – costs are higher than the regulator assumed as net deferrals of activity have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was higher than the previous year. Non-volume work was higher due to the extra slab track project (Kentish Town) and higher High output costs (mostly as a result of delivering extra volumes).

Statement 9a: Summary analysis of renewals expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is broadly in line with the determination expectation. This comprises higher like-for-like costs offset by reprofiling of activity. The higher like-for-like costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Detailed analysis of renewals expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional costs for Fixed plant. As noted in the previous year's Regulatory financial statements, Fixed plant expenditure in 2015/16 was suppressed by delays in purchasing equipment arising from commercial considerations.

Statement 9a: Detailed analysis of renewals expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- (7) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was lower expenditure on Road vehicles and On track plant items than the regulator expected. As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is less than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (8) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver.
- (9) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity.

Statement 9a: Detailed analysis of renewals expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the control period to date current year largely for FTN and ORBIS. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, East Midlands

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	22	10	(12)	60	38	(22)
High output renewal	13	9	(4)	69	37	(32)
Plain line refurbishment	2	1	(1)	8	3	(5)
S&C renewal	14	13	(1)	44	30	(14)
S&C refurbishment	4	1	(3)	13	6	(7)
Track non-volume	5	2	(3)	9	8	(1)
Off track	4	3	(1)	16	9	(7)
Total track	64	39	(25)	219	131	(88)
Signalling						
Full conventional resignalling	4	-	(4)	7	1	(6)
Modular resignalling	-	6	6	19	14	(5)
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	9	18	9	18	32	14
Targeted component renewal	-	1	1	-	3	3
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	2	-	4	6	2
Level crossings	3	11	8	5	22	17
Minor works	4	3	(1)	12	14	2
Centrally managed costs	1	2	1	2	7	5
Other	(1)	-	1	-	-	-
Total signalling	22	43	21	67	99	32
Civils						
Underbridges	14	10	(4)	33	35	2
Overbridges	8	3	(5)	16	7	(9)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	3	-	(3)
Tunnels	2	2	-	7	5	(2)
Other assets	3	1	(2)	7	5	(2)
Structures other	(1)	3	4	(1)	8	9
Earthworks	4	5	1	7	15	8
Other	1	-	(1)	1	-	(1)
Total civils	31	24	(7)	73	75	2
Buildings						
Managed stations	-	1	1	-	2	2
Franchised stations	1	4	3	6	11	5
Light maint depots	-	-	-	2	1	(1)
Depot plant	-	1	1	-	2	2
Lineside buildings	-	-	-	1	-	(1)
MDU buildings	2	-	(2)	3	1	(2)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	3	6	3	12	17	5

Statement 9b: Detailed analysis of renewals expenditure, East Midlands - continued

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	1	1	-	5	5	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	1	1
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	1	1	-	4	4
Fixed plant	4	2	(2)	5	6	1
Total electrical power and plant	5	4	(1)	10	16	6
Telecoms						
Operational communications	-	-	-	-	1	1
Network	-	-	-	-	-	-
SISS	-	1	1	1	4	3
Projects and other	-	1	1	-	1	1
Non-route capital expenditure	2	-	(2)	6	3	(3)
Total telecoms	2	2	-	7	9	2
Wheeled plant and machinery						
High output	1	2	1	5	6	1
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	1	-	2	5	3
Materials delivery	-	-	-	3	1	(2)
On track plant	-	1	1	1	3	2
Seasonal	-	-	-	-	2	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	-	2	2	2	3	1
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	3	6	3	14	22	8
Information Technology						
IM delivered renewals	5	4	(1)	18	13	(5)
Traffic management	1	1	-	2	1	(1)
Total information technology	6	5	(1)	20	14	(6)
Property						
MDUs/offices	-	-	-	1	-	(1)
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	-	-	-	1	-	(1)
Other renewals						
Asset information strategy	3	3	-	7	8	1
Intelligent infrastructure	-	1	1	1	3	2
Faster isolations	-	2	2	-	6	6
LOWS	-	-	-	-	-	-
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(1)	(1)	-	(22)	(22)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	1	-	(1)	8	-	(8)
Other	1	-	(1)	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	5	6	1	17	(3)	(20)
Total renewals	141	135	(6)	440	380	(60)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), East Midlands – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, East Midlands

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	8	10	2	29	40	11	9
Access charge supplement Income	(11)	(12)	(1)	(40)	(40)	-	(13)
Net (income)/cost	(3)	(2)	1	(11)	-	11	(4)
Schedule 8							
Performance element income	-	-	-	(1)	-	1	(1)
Performance element costs	14	-	(14)	35	1	(34)	8
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	14	-	(14)	34	1	(33)	7

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	1	5	3
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	1	3	2
RSSB Costs	(1)	-	-
ORR licence fee and railway safety levy	1	2	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	2	10	5

Statement 10: Other information, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are broadly in line with the determination assumption. This is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are lower than the regulatory assumption due to better possession planning and having fewer changes to the planned possession regime.

Statement 10: Other information, East Midlands – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017), damage to overhead line electrification equipment (Luton) and damage to a bridge following engineering work (Barrow on Soar). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum currently shows a net gain for this year which is primarily due to the Volume incentive (see Statement 12) and differences in rates and industry costs (see Statement 7a). The control period to date position comprises outperformance generated through the Volume incentive, Business rates costs and ORR fees.

Statement 11

Statement 11 is not required for East Midlands

Statement 12: Volume incentives, East Midlands

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	0	0	16	16	0.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	3	1	558	520	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	1	0	2	1	1.5%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	2	0	1,909	1,689	1.8%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	6	1					

The cumulative volume incentive is determined by the following calculation: $[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$

Where:
A_t = Actual in year quantity
B = 2016-17 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has outperformed the regulator's targets and has recognised a gain as a result, augmenting the gains made in earlier in the control period (as shown in Statement 10). This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5). Outperformance this year is due to higher Passenger farebox income reflecting increased demand for rail travel in excess of the regulator's assumption.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	38	20	33	50	660
	High Output Renewal	km	26	15	15	26	577
	Plain line Refurbishment	km	7	2	3	9	333
	S&C Renewal/Refurbishment	point ends	94	12	17	145	117
	Track Drainage	lm	3,707	1	1	3,707	0
	Fencing	km	20	1	2	39	51
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	29	2	3	47	64
	Other		-	-	-	-	-
Total			3,921	53	74	4,023	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-
	Modular Resignalling	SEU	38	-	32	57	561
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	9	11	-	-
	Targeted Component Renewal	SEU	2	-	-	2	-
	ERTMS Train Fitment		-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-
	Level Crossings	No.	7	3	5	11	455
	Minor Works		-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-
Total			47	12	48	70	-
Civils	Underbridges	m ²	10,685	14	29	17,256	2
	Overbridges (incl BG3)	m ²	1,427	8	10	1,468	7
	Major Structures		-	-	-	-	-
	Tunnels	m ²	446	1	6	23,197	0
	Culverts	m ²	564	-	1	564	2
	Footbridges	m ²	185	1	3	185	16
	Coastal & Estuarial Defences	m	-	-	-	-	-
	Retaining Walls	m ²	46	-	-	46	-
	Structures Other		-	-	-	-	-
	Earthworks	5-chain	145	3	11	193	57
	EW Drainage	m	6,900	1	3	7,630	0
	Other		-	-	-	-	-
Total			20,398	28	63	50,539	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-
	Buildings (FS)	m ²	-	-	-	-	-
	Platforms (FS)	m ²	-	-	-	-	-
	Canopies (FS)	m ²	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-
	Other (FS)		200	-	1	200	5
	Light Maintenance Depots	m ²	6,725	-	1	6,725	0
	Depot Plant		-	-	-	-	-
	Lineside Buildings	m ²	198	-	-	198	-
	MDU Buildings	m ²	754	1	1	754	1
	NDS Depot		-	-	-	-	-
	Other		-	-	-	-	-
Total			7,877	1	3	7,877	-

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	10	-	3	10	300
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	2	-	-	2	-
	Signalling Supply Points	No.	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-
Total			12	-	3	12	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			-	-	-	-	-

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	313	312	1	940	932	8	315
Fixed Income	22	22	-	71	71	-	21
Variable Income	87	100	(13)	270	286	(16)	94
Other Single Till Income	99	100	(1)	278	296	(18)	88
Opex memorandum account	3	-	3	8	-	8	3
Total Income	524	534	(10)	1,567	1,585	(18)	521
Operating expenditure							
Network operations	48	33	(15)	134	105	(29)	44
Support costs	19	37	18	69	122	53	15
Traction electricity, industry costs and rates	61	75	14	188	203	15	64
Network maintenance	110	77	(33)	304	238	(66)	94
Schedule 4	8	17	9	50	52	2	28
Schedule 8	30	-	(30)	80	-	(80)	28
Total operating expenditure	276	239	(37)	825	720	(105)	273
Capital expenditure							
Renewals	216	189	(27)	690	640	(50)	233
PR13 enhancement expenditure	542	539	(3)	1,654	1,691	37	573
Non PR13 enhancement expenditure	-	-	-	8	-	(8)	1
Total capital expenditure	758	728	(30)	2,352	2,331	(21)	807
Other expenditure							
Financing costs	179	204	25	436	503	67	134
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	179	204	25	436	503	67	134
Total expenditure	1,213	1,171	(42)	3,613	3,554	(59)	1,214

Statement 1: Summary regulatory financial performance, Kent – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in control period to date is higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity income too. Income is lower than previous year, mainly due to contractual changes driving movements in Schedule 4 Access charge supplement income. These variances are set out in more detail in Statement 6a.
- (4) Income – Other single till income in the year is higher than the determination to higher Stations income which includes offering additional facilities to operators but also to the finalisation of contractual disputes as well as continued strong performance by Network Rail High Speed 1 which was partly offset by lower property income owing to lower growth in yields than the regulator expected. The control period to date position reflects lower property income offset by income from offering extra station facilities. These variances are set out in more detail in Statement 6a.
- (5) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The current year and control period to date position mainly comprises differences arising from Network Rail High Speed 1 income compared to the regulatory assumption. The variances are set out in more detail in Statement 10.
- (6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from investing in performance improvement schemes and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are higher than the previous year reflecting additional investment in performance improvement initiatives. Network Operations costs are discussed in more detail in Statement 7a.
- (7) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are slightly higher than the previous year mainly as a result of a different composition of the aforementioned non-recurring savings in Group this year compared to last. Support costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs. The savings made in the control period to date are also due to this. Traction electricity, industry costs are discussed in more detail in Statement 7a

Statement 1: Summary regulatory financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (9) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity has contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are lower than the determination mostly as a result of reduced delivery of renewals which require network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year, but resulted in a favourable variance in the current year once the claims were settled. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is broadly in step and is dominated by the Thameslink programme. The control period to date position is broadly similar to the baseline but comprises lower expenditure on Crossrail and higher expenditure on Thameslink. Investment is lower than the previous year reflecting the progress on the Thameslink programme. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Kent

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,836	4,747	89
Indexation to 2015-16 prices	280	274	6
Opening RAB for the year (2015-16 prices)	5,116	5,021	95
Indexation for the year	112	110	2
Opening RAB (2016-17 prices)	5,228	5,131	97
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	194	189	5
PR13 enhancements	525	498	27
Non-PR13 enhancements	-	-	-
Total enhancements	525	498	27
Amortisation	(203)	(203)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2017	5,744	5,615	129

RAB Regulatory financial position - cumulative, Kent

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	3,974	4,643	5,228	3,974
Adjustments for the actual capital expenditure outturn in CP4	111	-	-	111
Renewals	223	216	194	633
PR13 enhancements	525	566	525	1,616
Non-PR13 enhancements	6	1	-	7
Total enhancements	531	567	525	1,623
Amortisation	(196)	(198)	(203)	(597)
Adjustments for under-delivery of regulatory outputs	-	-	-	-
Closing RAB	4,643	5,228	5,744	5,744

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.
- (4) Renewals – renewals added to the RAB was broadly in line with the regulatory assumption. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

in £m 2016-17 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Kent

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	230	221	189	640
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	37	-	-	37
Capitalised financing on CP4 deferrals	1	2	2	5
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	268	223	191	682
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(103)	(67)	(63)	(233)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(6)	(9)	(17)
Adjustments for efficient overspend	74	78	89	241
Capitalised financing on efficient overspend	1	5	9	15
25% retention of efficient overspend	(18)	(19)	(22)	(59)
Capitalised financing on efficient overspend 25% retention	-	(1)	(2)	(3)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	3	1	9
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	(1)	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	223	216	194	633
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	-	-	-
Adjustment for 25% retention of efficient overspend	20	19	22	61
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	(2)	(2)	-	(4)
Total actual renewals expenditure (see statement 9)	241	233	216	690

Statement 2b: RAB - reconciliation of expenditure, Kent - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	546	554	498	1,598
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	4	(4)	-	-
Capitalised financing on CP4 deferrals	-	-	-	-
Baseline adjustments	-	53	41	94
Capitalised financing on Baseline adjustments	-	1	3	4
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	550	604	542	1,696
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(81)	(79)	(133)	(293)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(10)	(17)
Adjustments for efficient underspend	-	-	(6)	(6)
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	2	2
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for efficient overspend	-	-	-	-
Capitalised financing on efficient overspend	-	-	-	-
25% retention of efficient overspend	-	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	68	50	142	260
agreements - retention of efficient overspend	(11)	(7)	(19)	(37)
Capitalised financing relating to projects with tailored protocols or fixed price	1	4	7	12
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	(1)	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	525	566	525	1,616
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	7	1	-	8
overspend	(1)	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	1	-	7
Total enhancements (added to the RAB - see statement 2a)	531	567	525	1,623
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	1	-	-	1
Adjustment for 25% retention of efficient overspend	12	7	17	36
Other Adjustments	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	3	3	6	12
Other adjustments	1	-	-	1
Total actual enhancement expenditure (see statement 3)	548	577	548	1,673

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).

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

in £m 2016-17 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and subsequent Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (12) Enhancements – Adjustments for efficient underspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient underspend. This means that Network Rail can add 25 per cent of the underspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the efficient underspend, with notable contributions from Kent power supply upgrade. Efficient underspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient underspend – following on from the above comment, this heading represents the 25 per cent of the underspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	3	1	5	7	2
Stations - Access for All (AfA)	2	6	4	17	20	3
Development	1	-	(1)	3	2	(1)
Level crossing safety	2	5	3	5	7	2
Passenger journey improvement	1	-	(1)	2	1	(1)
The strategic rail freight network	-	-	-	-	-	-
Total funds	8	14	6	32	37	5
Committed projects						
Crossrail	62	66	4	144	225	81
Thameslink	399	390	(9)	1,222	1,137	(85)
Total committed projects	461	456	(5)	1,366	1,362	(4)
HLOS capacity metric schemes						
East Kent resignalling phase 2	10	-	(10)	53	55	2
New Cross Grid	2	12	10	5	15	10
Kent traction power supply upgrade	8	12	4	18	23	5
Total HLOS capacity metric schemes	20	24	4	76	93	17
CP4 project rollovers						
Kent power supply upgrade (CP4)	7	17	10	62	72	10
Package 4: Gravesend Train Lengthening	-	(1)	(1)	-	(1)	(1)
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	7	16	9	62	71	9
Other projects						
Seven day railway projects	2	1	(1)	4	5	1
ERTMS Cab fitment	-	-	-	-	1	1
R&D allowance	-	-	-	1	1	-
Depots and stabling	1	2	1	3	4	1
Income generating property schemes	43	26	(17)	110	117	7
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	46	29	(17)	118	128	10
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	542	539	(3)	1,654	1,691	37
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	-	-	-	5	-	(5)
Total Government sponsored schemes	-	-	-	5	-	(5)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	-	-	-	3	-	(3)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	-	-	-
Total non PR13 enhancement expenditure	-	-	-	8	-	(8)
Total Network Rail funded enhancements (see Statement 1)	542	539	(3)	1,662	1,691	29
Third Party PAYG	6	-	(6)	11	-	(11)
Total enhancements (see statement 2b)	548	539	(9)	1,673	1,691	18

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £542m (as shown in Statement 1). This comprises the total enhancement figure in the table above £548m less the PAYG schemes funded by third parties (£6m).
- (5) Investment expenditure this year was slightly lower than the previous year. This is a combination of increases and decreases across a wide range of programmes.

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2016-17 prices unless stated

- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:
- (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is less than the baseline in the current year and the control period to date but is expected to match the baseline by the end of CP5. Underspends in the current year largely were driven from work to prioritise delivery of portfolio and concentration by the organisation on other programmes.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure in the current year is lower than the baseline as activity has been reprofiled.
 - (c) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was noticeably lower than the determination in this year and is much lower for the control period to date largely as a result of contractor disputes leading to delays. Discussions appear to have reached a mutually agreed conclusion so the level of expenditure is expected to increase over the remainder of the control period.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is in line with the baseline, although this is mainly due to higher programme costs being offset by reprofiling of activity. The following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is consistent with the baseline but is higher in the control period to date. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator's determination in the year and control period to date as some of the work has been accelerated from future years into the current year to help meet the programme milestones. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2016-17 prices unless stated

- (8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline. This is the net variances across a number of schemes with the largest contribution from New Cross Grid. The following notable variances between expenditure and baselines are set out below:
- (a) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure this year was higher than the baseline. The Hendy review baselines assumed that the programme would have been finished by the end of 2015/16 and hence no allowance was made for expenditure in 2016/17. However, activity was re-profiled into the current year, causing the overspend. For the control period to date, expenditure is broadly in line with the baseline and the project is substantially complete.
 - (b) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure is lower than the baseline in the current year. The most appropriate way to progress this project is still being discussed with stakeholders, with milestones currently being re-assessed. The variance in the control period to date is largely the result of the underspend in the current year.
 - (c) Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure is slightly lower than the baseline as the project has been reprofiled into 2017/18. The variance in the control period to date is largely the result of the underspend in the current year.
- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is lower than the baseline which is mostly due to savings on Kent power supply upgrade. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was lower than the baseline assumed which is largely due to savings made by the project resulting in financial outperformance (Statement 5c). The project is largely complete and delivery risks have been successfully managed, resulting in decreased expected final costs. The variance in the control period to date is largely the result of the underspend in the current year.

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2016-17 prices unless stated

- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is higher than the baseline mainly due to additional income generating schemes. Notable variances to the baseline include:
- (a) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Major investment this year was undertaken at London Bridge to coincide with the Thameslink redevelopment works. This extra investment helps offset some of the underspends from earlier years of the control period.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
 - (b) PAYGO – Significant programmes in this category in the current year include: Ashford to Canterbury West line speed improvements and Access for All projects which aim to make station facilities available to all members of society. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Kent

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	3,895	3,827	(68)	2,590	2,530	(60)
Income						
Grant income	(313)	(312)	1	(923)	(915)	8
Fixed charges	(22)	(22)	-	(70)	(70)	-
Variable charges	(87)	(100)	(13)	(266)	(282)	(16)
Other single till income	(99)	(100)	(1)	(273)	(288)	(15)
Total income	(521)	(534)	(13)	(1,532)	(1,555)	(23)
Expenditure						
Network operations	48	33	(15)	130	103	(27)
Support costs	19	37	18	68	117	49
Traction electricity, industry costs and rates	61	75	14	185	199	14
Network maintenance	110	77	(33)	299	234	(65)
Schedule 4	8	17	9	49	52	3
Schedule 8	30	-	(30)	78	-	(78)
Renewals	216	189	(27)	675	626	(49)
PR13 enhancement	542	498	(44)	1,624	1,569	(55)
Non-PR13 enhancement	-	-	-	8	-	(8)
Total expenditure	1,034	926	(108)	3,116	2,900	(216)
Financing						
Interest expenditure on nominal debt - FIM covered	40	67	27	114	163	49
Interest expenditure on index linked debt - FIM covered	24	29	5	66	73	7
Expenditure on the FIM	30	47	17	92	117	25
Interest expenditure on government borrowing	41	-	(41)	75	-	(75)
Interest on cash balances held by Network Rail	(1)	(2)	(1)	(3)	(4)	(1)
Total interest costs	134	141	7	344	349	5
Accretion on index linked debt - FIM covered	45	63	18	85	154	69
Total financing costs	179	204	25	429	503	74
Corporation tax	-	-	-	-	-	-
Other	28	-	(28)	12	45	33
Movement in net debt	720	596	(124)	2,025	1,893	(132)
Closing net debt	4,615	4,423	(192)	4,615	4,423	(192)

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	0.49	0.46	0.32	0.63
FFO/interest	2.37	2.20	1.83	2.07
Net debt/RAB (gearing)	72.6%	76.1%	80.4%	78.8%
FFO/debt	7.3%	6.2%	5.3%	6.6%
RCF/debt	4.2%	3.4%	2.4%	3.4%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the Kent route has increased by £0.7bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure (notably the Thameslink programme). Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt at 31 March 2017 attributable to the Kent route is £0.2bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review and subsequent Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator did not expect Network Rail to cover its interest costs through its trading profits (including an assumption for steady state renewals) and so the shortfall, along with any emerging risks, is absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is higher than the regulatory comparative which is mainly due to higher overall capital spend (mainly due to efficient capital overspend) and higher net operational costs partly offset by interest savings. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator's expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of efficient overspends. The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Kent

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to: Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	313	312	1	1	-	-	-	-
Fixed Income	22	22	-	-	-	-	-	-
Variable Income	46	48	(2)	-	-	-	(2)	(2)
Other Single Till Income	99	100	(1)	(4)	-	-	3	3
Opex memorandum account	3	-	3	4	-	-	(1)	(1)
Total Income	483	482	1	1	-	-	-	-
Expenditure								
Network operations	48	33	(15)	(5)	-	-	(10)	(10)
Support costs	19	37	18	-	-	-	18	18
Industry costs and rates	19	19	-	-	-	-	-	-
Traction electricity	1	4	3	-	-	-	3	3
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	110	77	(33)	-	(15)	-	(18)	(18)
Schedule 4 costs	8	17	9	-	7	-	2	2
Schedule 8 costs	30	-	(30)	-	-	-	(30)	(30)
Renewals	216	189	(27)	-	62	-	(89)	(22)
PR13 Enhancements	542	539	(3)	-	133	-	(136)	(17)
Non PR13 Enhancements	-	-	-	-	-	-	-	-
Financing Costs	179	204	25	25	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,172	1,119	(53)	20	187	-	(260)	(74)
Total:			(52)	21	187		(260)	(74)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(74)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(13)
Under-delivery of train performance requirements (CaSL)								(5)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(3)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(21)
Total financial out / (under) performance to be recognised								(95)

Statement 5a: Total financial performance, Kent - continued

in £m 2016-17 prices unless stated

Cumulative								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in total financial performance Due to:	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	940	932	8	8	-	-	-	-
Fixed Income	71	71	-	-	-	-	-	-
Variable Income	145	148	(3)	-	-	-	(3)	(3)
Other Single Till Income	278	296	(18)	(8)	-	-	(10)	(10)
Opex memorandum account	8	-	8	9	-	-	(1)	(1)
Total Income	1,442	1,447	(5)	9	-	-	(14)	(14)
Expenditure								
Network operations	134	105	(29)	(5)	-	-	(24)	(24)
Support costs	69	122	53	2	-	-	51	51
Industry costs and rates	54	53	(1)	-	-	-	(1)	(1)
Traction electricity	8	11	3	-	-	-	3	3
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	304	238	(66)	-	(15)	-	(51)	(51)
Schedule 4 costs	50	52	2	-	12	-	(10)	(10)
Schedule 8 costs	80	-	(80)	-	-	-	(80)	(80)
Renewals	690	640	(50)	-	186	-	(236)	(58)
PR13 Enhancements	1,654	1,691	37	-	291	-	(254)	(35)
Non PR13 Enhancements	8	-	(8)	-	(8)	-	-	-
Financing Costs	436	503	67	67	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	3,488	3,416	(72)	64	466	-	(602)	(205)
Total:			(77)	73	466	-	(616)	(219)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(219)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(44)
Under-delivery of train performance requirements (CaSL)								(14)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(3)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(61)
Total financial out / (under) performance to be recognised								(280)

2016-17				Cumulative			
Breakdown of variance not included in total financial performance - Variable income:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance	
Adjustments for external traction electricity	(41)	(52)	- 11	(125)	(138)	- 13	
Total variance not included in total	(41)	(52)	- 11	(125)	(138)	- 13	
Breakdown of variance not included in total financial performance - Support costs:							
Release of CP4 long distance financial penalty provision	-	-	-	2	-	-	2
Total variance not included in total	-	-	-	2	-	-	2
Breakdown of variance not included in total financial performance - Network operations:							
Southern resilience fund	(5)	-	-	(5)	-	-	(5)
Total variance not included in total	(5)	-	(5)	(5)	-	(5)	
Breakdown of variance not included in total financial performance - Traction electricity:							
Adjustments for external traction	41	52	- (11)	125	138	- (13)	
Total variance not included in total	41	52	- (11)	125	138	- (13)	

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Variable income – financial underperformance for the year is mostly due to lower capacity charges than the regulator expected. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (3) Other single till income – an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. Income in the current year is due to higher Stations income which includes offering additional facilities to operators but also to the finalisation of contractual disputes as well as continued strong performance by Network Rail High Speed 1 which was partly offset by lower property income owing to lower growth in yields than the regulator expected. The control period to date position is broadly in line with the regulatory expectation comprising the benefits of the aforementioned stations facilities and Network Rail High Speed 1 performance partly offset by lower property income (both sales, which are dependent upon wider market demand, and rental income, which were assumed to increase significantly in CP5). Other single till income is set out in more detail in Statement 6a.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Growth has been generally in line with the regulatory target this control period. The volume incentive is set out in more detail in Statement 12.

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (5) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs, notably following the redevelopment of London Bridge (although this does lead to extra income (refer to Statement 6a)). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the behest of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it was been agreed with the regulator that this fund will be outside the scope of the FPM.

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (6) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (7) Industry costs and rates – the negative FPM in the control period to date is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation.

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (9) Network maintenance –The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (10) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated. The current year benefits from the favourable settlement of claims relating to Dover sea wall collapse in 2015/16, reversing some of the underperformance reported in the previous year.

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (11) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as the derailment of a freight train near Lewisham. Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (12) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Kent – continued

in £m 2016-17 prices unless stated

- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme although the in year and control period to date position is dominated by the Thameslink programme. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which give rise to financial outperformance or underperformance this year or in the control period to date.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction in its financial performance for this missed output.

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

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(12)	17	(29)	(7)		(7)	-	-
Signalling	(7)	9	(16)	(4)		(4)	-	-
Civils	(21)	15	(36)	(9)		(8)	(1)	-
Buildings	1	5	(4)	(1)		-	(1)	-
Electrical power and fixed plant	2	7	(5)	(1)		(1)	-	-
Telecoms	8	8	-	-		-	-	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	(1)	(1)	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	(2)	(3)	1	-		-	-	-
Total	(27)	62	(89)	(22)		(20)	(2)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	5	59	(54)	(13)		(12)	(1)	-
Signalling	(14)	39	(53)	(13)		(14)	1	-
Civils	(34)	46	(80)	(20)		(17)	(3)	-
Buildings	(23)	5	(28)	(7)		(3)	(4)	-
Electrical power and fixed plant	52	70	(18)	(4)		(2)	(2)	-
Telecoms	15	15	-	-		-	-	-
Wheeled plant and machinery	11	11	-	-		-	-	-
IT	(8)	(8)	-	-		-	-	-
Property	8	8	-	-		-	-	-
Other renewals	(62)	(59)	(3)	(1)		1	(2)	-
Total	(50)	186	(236)	(58)		(47)	(11)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, notable East Kent resignalling scheme where contractor tenders were much higher than the determination assumed. Despite the unfavourable costs, given the asset condition and potential performance impact, the scheme needed to continue. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. The main cause of the financial underperformance this year was remedial works following a collapse of a sea wall in Dover. The unit rates on these type of emergency jobs are higher than usual given the time critical nature of the incidents. The complex nature of the Dover restoration works also added to the project costs. Financial performance has also been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. The underperformance in the control period to date is largely due to the same factors.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition contractor performance has been below expectation. The underperformance in the control period to date is largely due to the same factors.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. Extra volumes have been required on certain projects (notably for conductor rail) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

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

in £m 2016-17 prices unless stated

- (7) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of some of these projects is expected to exceed the amounts made available by the regulator, notably FTN, resulting in underperformance reported in the control period to date for this.

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

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(9)	130	-	(139)	(18)
Kent traction power supply upgrade	10	4	-	6	2
Crossrail	4	7	-	(3)	(1)
Seven day railway	(1)	(1)	-	-	-
Other Enhancements	(7)	(7)	-	-	-
Total	(3)	133	-	(136)	(17)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(85)	164	-	(249)	(33)
Kent traction power supply upgrade	10	4	-	6	2
Crossrail	81	92	-	(11)	(4)
Seven day railway	1	1	-	-	-
Other Enhancements	22	22	-	-	-
Total	29	283	-	(254)	(35)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.
- (2) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the year and the control period to date due to lower programme costs which have been identified this year. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs.

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

in £m 2016-17 prices unless stated

- (3) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of design delay. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.
- (4) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Kent

in £m 2016-17 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2016-17 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	35	33	2	-	-	-	2
Capacity charge	59	64	(5)	-	-	-	(5)
Electricity asset utilisation charge	3	4	(1)	-	-	-	(1)
Property income	115	124	(9)	-	-	-	(9)
Expenditure							
Network operations	134	99	(35)	-	-	-	(35)
Support costs	69	132	63	-	2	-	61
RSSB and BT Police	18	16	(2)	-	-	-	(2)
Network maintenance	304	243	(61)	(15)	-	-	(46)
Schedule 4 costs	50	56	6	16	-	-	(10)
Schedule 8 costs	80	-	(80)	-	-	-	(80)
Renewals	690	592	(98)	138	-	(177)	(59)
Total REBS performance			(220)	139	2	(177)	(184)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(44)
Under-delivery of train performance requirements (CaSL)							(14)
Missed ORBIS milestones							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(61)
Cumulative performance to end of 2016-17							(245)
Less cumulative outperformance recognised up to the end of 2014-15							(168)
Net REBS performance for 2016-17							(77)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	313	312	1	940	932	8	315
Franchised track access income							
Fixed charges	22	22	-	71	71	-	21
Variable charges							
Variable usage charge	10	10	-	31	29	2	11
Traction electricity charges	41	52	(11)	125	138	(13)	42
Electrification asset usage charge	1	1	-	3	3	-	1
Capacity charge	19	21	(2)	59	64	(5)	20
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	16	16	-	52	52	-	20
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	87	100	(13)	270	286	(16)	94
Total franchised track access income	109	122	(13)	341	357	(16)	115
Total franchised track access and grant income	422	434	(12)	1,281	1,289	(8)	430
Other single till income							
Property income	43	50	(7)	121	145	(24)	37
Freight income	1	2	(1)	5	8	(3)	3
Open access income	-	-	-	-	-	-	-
Stations income	36	29	7	94	87	7	30
Facility and financing charges	-	1	(1)	-	2	(2)	-
Depots Income	7	7	-	21	21	-	6
Other income	12	11	1	37	33	4	12
Total other single till income	99	100	(1)	278	296	(18)	88
Total income	521	534	(13)	1,559	1,585	(26)	518

Statement 6a: Analysis of income, Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity) lower freight income (as a result of structural declines in the coal transportation market) and lower property rental income. These shortfalls have been partly offset by extra income earned from offering additional services to operators.
- (3) Grant income - grant income in the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Kent – continued

in £m 2016-17 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge – income is lower than the determination which is partly due to lower traffic growth than the regulator planned, continuing the trend from earlier in the control period. In addition, the current year was adversely impacted by the well-publicised industrial action that occurred in Southern England which reduced the number of services that ran and, therefore, the revenue Network Rail generated from train operators.
- (6) Property income – this is lower than the determination due to lower rental income. The regulatory determination assumed that, following investment in property development schemes, the level of income would increase significantly in this route. However, these expectations have proven to be overoptimistic, especially with the level of occupancy and the rents that could be achieved at the new London Bridge station facilities. Property income is higher than the previous year mainly due to higher property sales and extra rental revenue. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property rental income is higher than the previous year which reflects the buoyant market conditions for many of areas that Network Rail operates in as well as offering premises that meet customers' demand.
- (7) Freight income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (8) Stations income – revenue earned this year is higher than the regulator expected. This is mostly due to extra income earned following redevelopment of London Bridge station. Whilst this has increased income it has also led to higher running costs for this station and so higher costs in Statement 7a. In addition, during the year there has been a successful resolution of commercial disputes which suppressed income in 2015/16.

Statement 6a: Analysis of income, Kent – continued

in £m 2016-17 prices unless stated

- (9) Other income - in line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed 1 operations. The quinquennial regulatory control period for High Speed 1 does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed 1 set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed 1 determination.

Statement 6b: Analysis of other single till income, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	37	48	(11)	112	139	(27)	35
Property sales	6	6	-	9	19	(10)	2
Adjustment for commercial opex	-	(4)	4	-	(13)	13	-
Total property income	43	50	(7)	121	145	(24)	37
Freight income							
Freight variable usage charge	1	1	-	4	5	(1)	2
Freight traction electricity charges	-	1	(1)	-	2	(2)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	-	-	-
Freight only line charge	-	-	-	-	-	-	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	1	-	1	1
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	1	2	(1)	5	8	(3)	3
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	3	3	-	9	9	-	3
Qualifying expenditure	11	5	6	21	14	7	6
Total managed stations income	14	8	6	30	23	7	9
Franchised stations income							
Long term charge	14	13	1	40	39	1	13
Stations lease income	8	8	-	24	25	(1)	8
Total franchised stations income	22	21	1	64	64	-	21
Total stations income	36	29	7	94	87	7	30
Facility and financing charges							
Facility charges	-	1	(1)	-	2	(2)	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	-	1	(1)	-	2	(2)	-
Depots income	7	7	-	21	21	-	6
Other	12	11	1	37	33	4	12
Total other single till income	99	100	(1)	278	296	(18)	88

Statement 6b: Analysis of other single till income (unaudited), Kent – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	15	17	2	43	55	12	16
Signalling shift managers	1	1	-	6	3	(3)	1
Local operations managers	1	1	-	6	4	(2)	2
Controllers	2	3	1	5	8	3	2
Electrical control room operators	3	1	(2)	8	3	(5)	3
Total signaller expenditure	22	23	1	68	73	5	24
Non-signaller expenditure							
Mobile operations managers	3	3	-	9	8	(1)	3
Managed stations	6	3	(3)	15	9	(6)	5
Performance	-	1	1	3	3	-	2
Customer relationship executives	-	1	1	-	2	2	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	7	1	(6)	22	5	(17)	7
Other	-	1	1	2	3	1	-
Operations delivery	-	-	-	1	-	(1)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	6	-	(6)	7	-	(7)	1
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	7	2	(5)	15	7	(8)	5
Other operating income	(3)	(2)	1	(8)	(5)	3	(3)
Total non-signaller expenditure	26	10	(16)	66	32	(34)	20
Total network operations expenditure	48	33	(15)	134	105	(29)	44
Support costs							
Core support costs							
Human resources	1	5	4	7	15	8	3
Information management	4	5	1	10	16	6	4
Government and corporate affairs	1	1	-	2	4	2	1
Group strategy	1	1	-	2	4	2	-
Finance	1	2	1	4	7	3	1
Business services	3	1	(2)	4	4	-	1
Accommodation	7	11	4	36	35	(1)	14
Utilities	-	3	3	5	9	4	2
Insurance	(1)	3	4	6	10	4	3
Legal and inquiry	-	-	-	2	1	(1)	1
Safety and sustainable development	1	1	-	5	2	(3)	2
Strategic sourcing	1	1	-	2	2	-	-
Business change	-	-	-	1	1	-	1
Other corporate functions	1	-	(1)	4	1	(3)	2
Core support costs	20	34	14	90	111	21	35
Other support costs							
Asset management services	2	2	-	6	4	(2)	2
Network Rail telecoms	2	2	-	8	9	1	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(11)	-	11	(8)
Commercial property	-	(1)	(1)	(4)	(2)	2	(3)
Group costs	(3)	-	3	(20)	(1)	19	(14)
Total other support costs	(1)	3	4	(21)	11	32	(20)
Total support costs	19	37	18	69	122	53	15
Traction electricity, industry costs and rates							
Traction electricity	42	56	14	133	149	16	46
Business rates	10	11	1	31	32	1	10
British transport police costs	6	5	(1)	16	15	(1)	6
RSSB costs	-	1	1	2	2	-	-
ORR licence fee and railway safety levy	2	1	(1)	5	4	(1)	2
Reporters fees	-	-	-	1	1	-	-
Other industry costs	1	1	-	-	-	-	-
Total traction electricity, industry costs and rates	61	75	14	188	203	15	64
Total network operations expenditure, support costs, traction electricity, industry costs and rates	128	145	17	391	430	39	123

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher Network operations costs as savings assumed in the PR13 have not been realised and extra investment in performance has been undertaken.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.

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

in £m 2016-17 prices unless stated

- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs, notably following the redevelopment of London Bridge (although this does lead to extra income (refer to Statement 6a)). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are higher than the previous year mainly due to additional investment in performance funds as reported in the media this year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources -costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.

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

in £m 2016-17 prices unless stated

- (7) Accommodation – these property expenses were lower than the determination this year reversing the trend of the first two years of the control period to date. These lower costs were mainly due to some favourable one-off settlements on certain London properties for rates and occupancy levels. In addition, the some parts of the office have been sublet to other tenants, including parts of Network Rail responsible for delivering capital projects. These factors contribute to the lower costs in the current year compared to 2015/16. The cost reduction compared to the previous year is also driven by the transfer of property costs relating to Network Rail's central development and training centre in Westwood. This facility houses the front line engineering apprentices Network Rail recruit every year to be the next generation of staff in the rail industry. Responsibility for apprentices now resides within Business services and so the costs of the Westwood facility have also been moved to this heading to offer greater transparency over the costs of apprentice activity.
- (8) Insurance - costs are favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (9) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.
- (10) Other corporate functions – costs are higher than the determination assumed this in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

in £m 2016-17 prices unless stated

- (11) Asset Management Services – costs are higher than the determination expected for the control period to date. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (12) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (13) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower re-organisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).
- (14) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the determination expected mainly due to lower traction electricity costs.
- (15) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise.

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

in £m 2016-17 prices unless stated

- (16) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (17) British Transport Police costs - expenses in the control period to date are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year's costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	19	17	17	17
MOMS	4	3	3	3
Control	3	2	5	5
Planning & Performance Staff Costs	3	2	1	1
Managed Stations Staff Costs	1	2	2	2
Operations Management Staff Costs	2	-	1	1
Other	11	15	14	19
Total operations & customer services costs	43	41	43	48
Total Network Operations	43	41	43	48
Support				
Human resources				
Functional support	2	-	1	1
Training (inc Westwood)	1	2	1	-
Graduates	-	-	-	-
Apprenticeships	-	1	1	-
Other	1	1	-	-
Total human resources	4	4	3	1
Information management				
Support	1	-	-	-
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	3	3	4	4
Other	-	-	-	-
Total information management	4	3	4	4
Finance	1	1	1	1
Business Change	-	-	1	-
Contracts & Procurement	1	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	-	1
Planning & development	1	1	-	1
Safety & compliance	1	-	-	-
Other corporate services	3	1	2	1
Commercial property	8	14	10	7
Infrastructure Projects	(3)	(1)	(8)	(2)
Route Services	1	1	-	-
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	10	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	3	2	-
Network Rail Telecoms	-	3	4	2
Digital Railway	-	1	1	1
Safety Technical & Engineering	-	4	3	2
Government & Corporate Affairs	-	1	1	1
Business Services	-	1	1	3
Route Asset Management	-	(2)	-	-
Legal and inquiry	-	-	1	-
Group/central				
Pensions	-	-	-	-
Insurance	2	3	3	(1)
Redundancy/reorganisation costs	5	1	1	1
Staff incentives/Bonus Reduction	-	(2)	-	-
Accommodation & Support Recharges	-	(2)	(2)	(2)
Commercial claims settlements	-	-	(11)	-
ORR financial penalty	5	(2)	-	-
Other	-	1	(1)	(2)
Total group/central costs	12	(1)	(10)	(4)
Total support	43	35	16	19
Total network operations and support costs	86	76	59	67

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	44	27	(17)	122	83	(39)	39
Signalling	15	12	(3)	48	38	(10)	16
Civils	8	10	2	28	32	4	12
Buildings	20	4	(16)	29	11	(18)	1
Electrical power and fixed plant	6	5	(1)	21	16	(5)	8
Telecoms	4	2	(2)	8	7	(1)	2
Other network operations	11	11	-	40	35	(5)	14
Asset management services	3	2	(1)	8	8	-	3
National Delivery Service	(1)	3	4	(2)	10	12	(1)
Property	1	1	-	5	2	(3)	2
Group	(1)	-	1	(3)	(4)	(1)	(2)
Total maintenance expenditure	110	77	(33)	304	238	(66)	94

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year mainly due to extra reactive maintenance works.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date.
- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

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

in £m 2016-17 prices unless stated

- (4) Civils – costs were lower than the determination mainly as a result of higher than expected reactive maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are lower than the determination mainly due to less reactive maintenance required than expected so far in control period 5. The decrease in costs compared to the previous year is mostly due to decreased reactive maintenance requirements.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, which accounts for most of the control period to date variance. These variances are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Other network operations – costs for the current year are largely in line with the regulator's expectation. For the control period to date, however, costs are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. Investment was undertaken in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.

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

in £m 2016-17 prices unless stated

- (7) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (8) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	68	56	(12)	165	170	5	53
Signalling	37	30	(7)	156	142	(14)	54
Civils	45	24	(21)	128	94	(34)	39
Buildings	11	12	1	60	37	(23)	28
Electrical power and fixed plant	29	31	2	75	127	52	28
Telecoms	3	11	8	11	26	15	2
Wheeled plant and machinery	5	9	4	16	27	11	6
Information Technology	7	6	(1)	26	18	(8)	8
Property	2	3	1	4	12	8	1
Other renewals	9	7	(2)	49	(13)	(62)	14
Total renewals expenditure	216	189	(27)	690	640	(50)	233

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is broadly in line the regulatory assumption. This is due to higher underlying costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was higher than the previous year reflecting declining financial performance as the volumes delivered were largely lower than in 2015/16.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected. This was mainly due to the extra costs incurred to deliver the required workbank output, notably extra costs for the East Kent resignalling programme which was originally planned to be completed earlier in the control period. This was partly offset by lower expenditure on the Level crossing programmes which have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are lower than the previous year with the largest contribution from Level Crossings programme and East Kent resignalling. Expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated. This was mainly due to the costs incurred to remediate Dover sea wall following its partial collapse in the face of an extreme weather event. The costs of these type of emergency jobs are higher than usual given the time critical nature of the incidents. In addition, there were other higher underlying costs continuing the trend of the previous year. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected mainly due to the aforementioned unforeseen costs remediating Dover sea wall but also from beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is higher than the previous year, reflecting the extra costs incurred on the Dover sea wall works.

Statement 9a: Detailed analysis of renewals expenditure, Kent – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was broadly in line with the regulator's expectation but this included the impact of higher like-for-like costs being partly offset by reprofiling of activity. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year mainly due to lower investment at Franchised stations with planned packages of works delivered in 2015/16.
- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year. However, the underlying story is one of higher costs mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for conductor rail) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was broadly in line with the previous year.
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. This is mostly due to lower SISS (Station Information & Security Systems). Expenditure for the control period to date is lower than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period and beyond. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is higher than the previous year which was impacted by delays in delivery of key projects as noted in last year's Regulatory financial statements and from increased activity on GSMR activities.

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

in £m 2016-17 prices unless stated

- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven.

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

in £m 2016-17 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity.
- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints and re-prioritisation of workbank. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure this year was in line with the determination but is lower in the control period to date as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.

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

in £m 2016-17 prices unless stated

- e. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the control period is spread across FTN, signalling and ORBIS. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Kent

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	28	15	(13)	68	55	(13)
High output renewal	4	9	5	5	9	4
Plain line refurbishment	5	4	(1)	12	11	(1)
S&C renewal	16	11	(5)	45	42	(3)
S&C refurbishment	4	5	1	12	15	3
Track non-volume	3	3	-	6	11	5
Off track	8	9	1	17	27	10
Total track	68	56	(12)	165	170	5
Signalling						
Full conventional resignalling	28	1	(27)	125	47	(78)
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	1	12	11	1	23	22
Targeted component renewal	-	2	2	-	15	15
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	2	-	5	9	4
Level crossings	-	5	5	11	21	10
Minor works	5	5	-	13	17	4
Centrally managed costs	1	3	2	1	10	9
Other	-	-	-	-	-	-
Total signalling	37	30	(7)	156	142	(14)
Civils						
Underbridges	26	5	(21)	45	37	(8)
Overbridges	1	2	1	6	4	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	4	4	3	4	1
Tunnels	3	1	(2)	5	10	5
Other assets	8	3	(5)	23	9	(14)
Structures other	(1)	4	5	3	11	8
Earthworks	8	5	(3)	43	19	(24)
Other	-	-	-	-	-	-
Total civils	45	24	(21)	128	94	(34)
Buildings						
Managed stations	-	5	5	13	11	(2)
Franchised stations	8	7	(1)	39	22	(17)
Light maint depots	1	-	(1)	2	-	(2)
Depot plant	-	-	-	-	2	2
Lineside buildings	2	-	(2)	5	1	(4)
MDU buildings	-	-	-	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	11	12	1	60	37	(23)

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	1	-	(1)
Overhead Line	-	-	-	-	-	-
DC distribution	11	16	5	29	67	38
Conductor rail	4	5	1	12	17	5
SCADA	4	3	(1)	4	10	6
Energy efficiency	-	-	-	-	-	-
System capability / capacity	1	-	(1)	6	16	10
Other electrical power	4	1	(3)	13	4	(9)
Fixed plant	5	6	1	10	13	3
Total electrical power and plant	29	31	2	75	127	52
Telecoms						
Operational communications	-	1	1	-	2	2
Network	-	3	3	1	4	3
SISS	-	7	7	1	16	15
Projects and other	-	-	-	-	1	1
Non-route capital expenditure	3	-	(3)	9	3	(6)
Total telecoms	3	11	8	11	26	15
Wheeled plant and machinery						
High output	2	1	(1)	6	7	1
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	1	1	-
Intervention	1	1	-	2	7	5
Materials delivery	-	-	-	3	1	(2)
On track plant	1	2	1	2	3	1
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	1	1
Road vehicles	-	4	4	1	4	3
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	5	9	4	16	27	11
Information Technology						
IM delivered renewals	6	5	(1)	24	16	(8)
Traffic management	1	1	-	2	2	-
Total information technology	7	6	(1)	26	18	(8)
Property						
MDUs/offices	1	2	1	2	9	7
Commercial estate	1	1	-	2	3	1
Corporate services	-	-	-	-	-	-
Total property	2	3	1	4	12	8
Other renewals						
Asset information strategy	3	2	(1)	8	9	1
Intelligent infrastructure	-	3	3	1	4	3
Faster isolations	2	2	-	3	8	5
LOWS	1	-	(1)	1	-	(1)
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(1)	(1)	-	(36)	(36)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	3	-	(3)	35	-	(35)
Other	-	-	-	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	9	7	(2)	49	(13)	(62)
Total renewals	216	189	(27)	690	640	(50)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Kent

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	8	17	9	50	52	2	28
Access charge supplement Income	(16)	(16)	-	(53)	(53)	-	(21)
Net (income)/cost	(8)	1	9	(3)	(1)	2	7
Schedule 8							
Performance element income	(1)	-	1	-	-	-	-
Performance element costs	31	-	(31)	80	-	(80)	28
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	30	-	(30)	80	-	(80)	28

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	(1)	(1)	(1)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(1)	(1)	(1)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	2	1
Reporters fees	-	-	-
Other industry costs	-	1	-
Network Rail HS1	4	8	4
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	3	8	3

Statement 10: Other information, Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). The current year benefitted from favourable settlement of costs relating to line closure following the collapse of Dover sea wall in the face of extreme weather. Costs in the control period to date are broadly in line with the regulatory assumption. This is a combination of undertaking less renewals activity more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which included the costs associated with the aforementioned Dover sea wall collapse which inflated costs in 2015/16. The current year benefits from the favourable settlement, and so reversal, of some of these costs. The prior year also included possession costs relating to the delivery of signalling projects.

Statement 10: Other information, Kent – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as the derailment of a freight train near Lewisham. Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum currently shows a net gain for this year which is primarily due to the differences in income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 will be added to the Opex memorandum. The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6. For the control period to date, gains made on the volume incentive and High Speed 1 compensation have been partly offset by the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4 as well as losses recognised under the Volume incentive mechanism.

Statement 11

Statement 11 is not required for Kent

Statement 12: Volume incentives, Kent

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	0	21	20	0.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	(2)	(1)	876	866	3.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	0	0	1.6%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	425	466	2.2%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(3)	(1)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has performed slightly below the regulator's growth trajectory targets for Passenger farebox income. This resulted in the recognition of a loss this year, augmenting losses from earlier in the control period (as shown in Statement 10). The current year was adversely impacted by the well-publicised industrial action in the South East which impacted the number of trains that could be run on the network for the travelling public.

Statement 14: Renewals volumes, unit costs and expenditure, Kent

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	38	26	50	139	360
	High Output Renewal	km	3	5	5	3	1,667
	Plain line Refurbishment	km	11	5	15	55	273
	S&C Renewal/Refurbishment	point ends	77	16	34	230	148
	Track Drainage	lm	8,622	3	8	23,254	0
	Fencing	km	37	3	9	126	71
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	180	2	7	345	20
	Other		-	-	-	-	-
Total			8,968	60	128	24,152	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-
	Minor Works		-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-
Accelerated Renewals Signalling (CP6)			-	-	-	-	-
Other			-	-	-	-	-
Total			-	-	-	-	-
Civils	Underbridges	m ²	6,441	25	36	9,355	4
	Overbridges (incl BG3)	m ²	704	1	4	704	6
	Major Structures		-	-	-	-	-
	Tunnels	m ²	536	2	4	536	7
	Culverts	m ²	579	3	6	734	8
	Footbridges	m ²	189	1	2	189	11
	Coastal & Estuarial Defences	m	1,550	3	10	1,550	6
	Retaining Walls	m ²	180	-	-	180	-
	Structures Other		-	-	-	-	-
	Earthworks	5-chain	125	5	13	203	64
	EW Drainage	m	11,452	1	4	21,975	0
	Other		-	-	-	-	-
Total			21,756	41	79	35,426	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-
	Buildings (FS)	m ²	140	-	1	316	3
	Platforms (FS)	m ²	-	-	-	-	-
	Canopies (FS)	m ²	5,789	1	6	8,566	1
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	870	3	9	1,745	5
	Lifts & Escalators (FS)		-	-	-	-	-
	Other (FS)		1,560	1	2	13,101	0
	Light Maintenance Depots	m ²	-	-	-	-	-
	Depot Plant		-	-	-	-	-
	Lineside Buildings	m ²	3,152	2	3	9,475	0
	MDU Buildings	m ²	-	-	-	-	-
	NDS Depot		-	-	-	-	-
	Other		-	-	-	-	-
Total			11,511	7	21	33,203	-

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	12	3	11	36	306
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	17	1	5	23	217
	HV cables DC	km	7	3	9	12	750
	LV cables DC	km	6	4	17	18	944
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	8	2	10	48	208
	Protection Relays DC	No.	-	-	-	-	-
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	19	1	2	19	105
	Signalling Power Cables	km	1	1	1	1	1,000
	Signalling Supply Points	No.	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-
Total			70	15	55	157	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			-	-	-	-	-

Statement 14: Renewals volumes, unit costs and expenditure, Kent – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	757	755	2	2,262	2,241	21	759
Fixed Income	54	54	-	173	171	2	51
Variable Income	179	185	(6)	536	532	4	183
Other Single Till Income	116	110	6	319	310	9	102
Opex memorandum account	4	-	4	11	-	11	9
Total Income	1,110	1,104	6	3,301	3,254	47	1,104
Operating expenditure							
Network operations	82	71	(11)	254	234	(20)	88
Support costs	60	70	10	200	226	26	70
Traction electricity, industry costs and rates	85	87	2	251	245	(6)	87
Network maintenance	209	161	(48)	547	496	(51)	183
Schedule 4	22	41	19	79	115	36	31
Schedule 8	13	1	(12)	11	3	(8)	7
Total operating expenditure	471	431	(40)	1,342	1,319	(23)	466
Capital expenditure							
Renewals	414	446	32	1,462	1,348	(114)	551
PR13 enhancement expenditure	127	302	175	509	670	161	119
Non PR13 enhancement expenditure	(13)	-	13	7	-	(7)	(1)
Total capital expenditure	528	748	220	1,978	2,018	40	669
Other expenditure							
Financing costs	278	313	35	773	907	134	238
Corporation tax (received)/paid	1	-	(1)	-	1	1	-
Total other expenditure	279	313	34	773	908	135	238
Total expenditure	1,278	1,492	214	4,093	4,245	152	1,373

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the control period to date is slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure) partly offset by higher Capacity charges. The control period to date variance is due to the same factors. Income is broadly in line with the previous year. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is higher than the determination mainly due to extra property sales and additional station and depot facilities provided to operators offsetting lower freight income. The same factors explain the control period to date variance. Income is higher than the previous year mainly due to extra depots facilities offered to operators. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The variance in the current year and the control period to date is mostly due to differences in Business rates. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are lower than the previous year which included some non-recurring items. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2016-17 prices unless stated

- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The variance in the control period to date are also due to these factors. Costs are broadly in line with the previous year. Traction electricity, industry costs are discussed in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year and additional structures inspections costs have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination mostly as a result of reduced delivery of renewals which require network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and also includes expenditure on projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes but with notable contributions from North Trans Pennine electrification east and IEP Programme. The control period to date variance is also largely caused by these programmes. Investment is broadly similar to the previous year. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2016-17 prices unless stated

- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, London North East

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	9,064	8,944	120
Indexation to 2015-16 prices	524	517	7
Opening RAB for the year (2015-16 prices)	9,588	9,461	127
Indexation for the year	210	208	2
Opening RAB (2016-17 prices)	9,798	9,669	129
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	374	446	(72)
PR13 enhancements	115	248	(133)
Non-PR13 enhancements	(12)	-	(12)
Total enhancements	103	248	(145)
Amortisation	(459)	(459)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2017	9,816	9,904	(88)

RAB Regulatory financial position - cumulative, London North East

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	9,029	9,600	9,798	9,029
Adjustments for the actual capital expenditure outturn in CP4	258	-	-	258
Renewals	475	522	374	1,371
PR13 enhancements	258	114	115	487
Non-PR13 enhancements	18	1	(12)	7
Total enhancements	276	115	103	494
Amortisation	(438)	(439)	(459)	(1,336)
Adjustments for under-delivery of regulatory outputs	-	-	-	-
Closing RAB	9,600	9,798	9,816	9,816

Statement 2a: RAB - Regulatory financial position, London North East – continued

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. This has been partly offset by lower amounts added to the RAB in the first two years of the control period relating to enhancement expenditure which was lower than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) coupled with re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This is mainly due to the lower than expected investment across a range of projects compared to the original PR13 assumptions (i.e. pre-Hendy adjustments).
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in the current year were lower than in earlier years of the control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

Statement 2a: RAB - Regulatory financial position, London North East – continued

in £m 2016-17 prices unless stated

- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, London North East

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	430	472	446	1,348
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	16	-	-	16
Capitalised financing on CP4 deferrals	-	1	1	2
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	446	473	447	1,366
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(33)	(55)	(201)	(289)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(3)	(8)	(12)
Adjustments for efficient overspend	70	127	167	364
Capitalised financing on efficient overspend	2	6	13	21
25% retention of efficient overspend	(17)	(32)	(44)	(93)
Capitalised financing on efficient overspend 25% retention	-	(1)	(3)	(4)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	9	6	2	17
Capitalised financing on efficient overspend through spend to save framework	-	2	1	3
Retention of efficient overspend through spend to save framework	(2)	(1)	-	(3)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	1	-	-	1
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	475	522	374	1,371
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(1)	(5)	(4)	(10)
Adjustment for 25% retention of efficient overspend	20	33	44	97
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	3	1	-	4
Total actual renewals expenditure (see statement 9)	497	551	414	1,462

Statement 2b: RAB - reconciliation of expenditure, London North East - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	296	316	248	860
Adjustments to the PR13 determination	-	-	-	-
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	87	(87)	-	-
Capitalised financing on CP4 deferrals	2	2	-	4
Baseline adjustments	-	(244)	54	(190)
Capitalised financing on Baseline adjustments	-	(5)	(9)	(14)
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	385	(18)	293	660
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(128)	131	(175)	(172)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(3)	(4)	(10)
Adjustments for efficient overspend / (underspend)	4	(4)	1	1
Capitalised financing on efficient overspend / (underspend)	-	-	-	-
25% retention of efficient overspend / (underspend)	(1)	1	1	1
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	9	(1)	8
agreements - retention of efficient overspend	-	(1)	-	(1)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	258	114	115	487
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	18	-	(13)	5
overspend	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	1	1	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	18	1	(12)	7
Total enhancements (added to the RAB - see statement 2a)	276	115	103	494
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	1	5	12	18
Adjustment for 25% retention of efficient overspend	1	-	(1)	-
Other Adjustments	2	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	36	59	60	155
Other adjustments	1	-	-	1
Total actual enhancement expenditure (see statement 3)	317	179	174	670

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than the required cost to deliver them. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and subsequent Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Capacity relief to the ECML. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (16) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (17) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. The credit balance this year is due to agreed changes in the funding mechanism for certain government sponsored projects (such as Tram Train) which have now moved to be directly funded, having been classified as eligible for RAB addition in earlier years of the control period.

Statement 3: Analysis of enhancement capital expenditure, London North East

in £m 2016-17 prices unless stated

	2016-17			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	27	50	23	54	77	23
Stations - National Station Improvement Programme (NSIP)	1	-	(1)	4	3	(1)
Stations - Access for All (AfA)	4	1	(3)	7	4	(3)
Development	1	(2)	(3)	10	18	8
Level crossing safety	1	-	(1)	2	7	5
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	-	15	15	11	28	17
Total funds	34	64	30	88	137	49
Committed projects						
Northern Hub	6	3	(3)	8	5	(3)
IEP Programme	21	88	67	128	202	74
North Trans Pennine electrification east	49	105	56	75	130	55
Micklefield - Selby electrification	-	-	-	-	-	-
Thameslink	-	4	4	68	43	(25)
Total committed projects	76	200	124	279	380	101
Named schemes						
The Electric Spine						
DfT Sofa Amount	-	-	-	2	1	(1)
Total Electric Spine projects	-	-	-	2	1	(1)
Yorkshire						
Huddersfield station capacity improvement	(3)	1	4	(1)	1	2
Total Yorkshire Projects	(3)	1	4	(1)	1	2
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	1	1	-	2	2
Stevenage and Gordon Hill turnbacks	-	2	2	3	5	2
Bradford Mill Lane capacity	(1)	1	2	-	2	2
Leeds station capacity	-	1	1	-	2	2
LNE routes traction power supply upgrade	1	7	6	1	8	7
Total HLOS capacity metric schemes	-	12	12	4	19	15
CP4 Project Rollovers						
Capacity relief to the ECML	7	3	(4)	81	78	(3)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	7	3	(4)	81	78	(3)
Other projects						
Seven day railway projects	5	3	(2)	22	19	(3)
ERTMS Cab fitment	5	19	14	19	29	10
R&D allowance	1	-	(1)	3	2	(1)
Depots and stabling	-	-	-	-	-	-
Income generating property schemes	2	-	(2)	12	4	(8)
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	13	22	9	56	54	(2)
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	127	302	175	509	670	161

Statement 3: Analysis of enhancement capital expenditure, London North East - continued

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
OCSLNE SCPF Newcastle Station	-	-	-	7	-	(7)
Tram Train Project	(7)	-	7	(7)	-	7
Other government sponsored schemes	(6)	-	6	(1)	-	1
Total Government sponsored schemes	(13)	-	13	(1)	-	1
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	5	-	(5)
Total Network Rail spend to save schemes	-	-	-	5	-	(5)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	3	-	(3)
Total non PR13 enhancement expenditure	(13)	-	13	7	-	(7)
Total Network Rail funded enhancements (see Statement 1)	114	302	188	516	670	154
Third Party PAYG	60	-	(60)	154	-	(154)
Total enhancements (see statement 2b)	174	302	128	670	670	-

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £114m (as shown in Statement 1). This comprises the total enhancement figure in the table above £174m less the PAYG schemes funded by third parties (£60m).
- (5) Investment expenditure this year was broadly in line with the previous year.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2016-17 prices unless stated

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

- (a) East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure in the current year is lower than the baseline as some of the activity on this fund has now been deferred from the current control period to CP6. Reduced expenditure in the current year is partly due to delays implementing the North Allerton to Newcastle freight loops project. The underspend for the control period to date arises from the variance in the current year.
- (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure in the current year was higher than the baseline as funding was accelerated from later years of the control period into the current year which has also caused the variance in the control period to date expenditure.
- (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding and the Innovation Fund. Expenditure in the current year is higher in the baseline which compensates for some of the underspend present at the end of the previous year.
- (d) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure in the current year was broadly in line with the baseline but remains lower than the target for the control period to date.
- (e) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline this year but a catch up is planned over the remainder of the control period. Underspend this year includes rescheduling of activity to coincide with other projects to gain delivery synergies (such as the Transpennine Route Upgrade programme), insufficient access to instigate change and more challenge on tender price bids. The current year variance accounts for the vast majority of saving in the control period to date.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is significantly lower than the baseline, mainly due to North Trans Pennine electrification east and IEP Programme. The following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is lower than the baseline reflecting acceleration in earlier years of the control period. The control period to date costs are higher than the baseline reflecting acceleration of parts of the programmes but also higher like-for-like costs expected on the programme. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Expenditure in the current year is slightly higher than the baseline as certain projects within the programme portfolio have been accelerated in the current year. The control period to date variance is largely the result of the underspend in the current year
 - (c) IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is lower than the baseline as activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme. In addition, there are some modest reductions in programme cost which have resulted in financial outperformance being recognised this year (refer to Statement 5a). The control period to date variance is largely the result of the underspend in the current year
 - (d) North Trans Pennine Electrification East - this programmes facilitates the introduction of electric train operation on passenger and freight services in the north of England. Investment in the current year is significantly higher than the previous year but is still less than the baseline as parts of the programme have been re-profiled into future years. Delays have been caused by re-organisation of various projects under a single programme team to improve accountability and planning synergies. The control period to date variance is largely the result of the underspend in the current year
- (8) PR13 funded schemes – named schemes - expenditure in the year is slightly lower than the baseline mainly due to Huddersfield station capacity improvement programme. The following notable variances between expenditure and baselines are set out below:
- (a) Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. There is a credit balance against this project this year as the activity previously classified as Huddersfield station capacity improvement has been moved to North Trans Pennine Electrification East to reflect changes in the programme management. By combining different parts of the programme under one management team, project management costs can be saved, works can be planned more effectively to minimise passenger disruption and other synergies can be achieved.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline with the largest contribution from London North East routes traction power supply upgrade. The following notable variances between expenditure and baselines are set out below:
- (a) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. There has been minimal activity on this programme this year owing to restrictions in suitable resource and access. The variance in the control period to date is largely the result of the underspend in the current year.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is higher than the baseline mainly due to extra costs on Capacity relief to the ECML. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Capacity relief to the ECML (East Coast Main Line) – The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was higher than the baseline due to some unexpected costs incurred in finishing the project and finalising claims from contractors. As a result, financial underperformance has been recognised in the current year (refer to Statement 5c).
- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in ERTMS cab fitment programme. Notable variances to the baseline include:
- (a) Seven day railway projects – The key project in this fund is the Mobile Maintenance System. Expenditure in the year and the control period to date are largely consistent with the baseline.
- (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure this year is significantly lower than the baseline which includes the impact of activity being accelerated into 2015/16 last year. Also, lead suppliers on certain projects within the programme have been re-tendered to achieve improved costs and capabilities. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs. The variance in the control period to date is largely the result of the underspend in the current year.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (c) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Expenditure is expected to reduce towards the end of the control period and the total investment over the control period is expected to be lower than the PR13 assumption.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
 - (a) Government sponsored – the credits in this category this year relate to projects is due to an agreed change of funding as part of the project is now being funded through the PAYGO category.
 - (b) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
 - (c) PAYGO – significant programmes in this category in the current year include Tram Train project and depot works. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, London North East

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	6,476	6,688	212	5,886	5,746	(140)
Income						
Grant income	(757)	(755)	2	(2,221)	(2,203)	18
Fixed charges	(54)	(54)	-	(169)	(167)	2
Variable charges	(179)	(185)	(6)	(526)	(522)	4
Other single till income	(116)	(110)	6	(314)	(307)	7
Total income	(1,106)	(1,104)	2	(3,230)	(3,199)	31
Expenditure						
Network operations	82	71	(11)	248	227	(21)
Support costs	60	70	10	196	221	25
Traction electricity, industry costs and rates	85	87	2	247	243	(4)
Network maintenance	209	161	(48)	539	487	(52)
Schedule 4	22	41	19	76	112	36
Schedule 8	13	1	(12)	11	3	(8)
Renewals	414	446	32	1,433	1,328	(105)
PR13 enhancement	127	248	121	496	845	349
Non-PR13 enhancement	(13)	-	13	5	-	(5)
Total expenditure	999	1,125	126	3,251	3,466	215
Financing						
Interest expenditure on nominal debt - FIM covered	62	104	42	208	292	84
Interest expenditure on index linked debt - FIM covered	37	45	8	119	135	16
Expenditure on the FIM	46	72	26	164	207	43
Interest expenditure on government borrowing	64	-	(64)	127	-	(127)
Interest on cash balances held by Network Rail	(1)	(4)	(3)	(5)	(8)	(3)
Total interest costs	208	217	9	613	626	13
Accretion on index linked debt - FIM covered	70	96	26	146	281	135
Total financing costs	278	313	35	759	907	148
Corporation tax	1	-	(1)	-	1	1
Other	7	-	(7)	(11)	101	112
Movement in net debt	179	334	155	769	1,276	507
Closing net debt	6,655	7,022	367	6,655	7,022	367

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	1.11	0.96	0.85	0.95
FFO/interest	3.15	3.15	3.05	3.06
Net debt/RAB (gearing)	67.8%	67.6%	67.8%	71.0%
FFO/debt	10.4%	9.5%	9.6%	9.5%
RCF/debt	7.1%	6.5%	6.4%	6.4%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the London North East route has increased by £0.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt attributable to the London North East route at 31 March 2017 is £0.4bn lower than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of lower investment in the railway network (especially enhancements), financing costs savings and favourable working capital movements have driven the lower debt levels.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, London North East – continued

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- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, London North East – continued

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- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to not be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) and instead absorb the shortfall through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accruing debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is lower than the regulatory comparative which is mainly due to lower overall capital spend (notably enhancements). Lower overall capital spend means that the absolute values of the debt and the RAB increase at the same rate but as the total RAB value exceeds the total debt value, lower increases in both elements of the equation by the same absolute amount will result in a lower ratio.
- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The value is in line with the regulatory assumption. Funds from operations is lower than the regulator assumed (due to higher operating costs than planned, notably Maintenance and Network operations). This is offset by lower than expected debt as capital works (especially enhancements) have not progressed at the rate the determination assumed.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

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2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in total financial performance Due to:	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	757	755	2	2	-	-	-	-
Fixed Income	54	54	-	-	-	-	-	-
Variable Income	145	141	4	-	-	-	4	4
Other Single Till Income	116	110	6	(1)	-	-	7	7
Opex memorandum account	4	-	4	7	-	-	(3)	(3)
Total Income	1,076	1,060	16	8	-	-	8	8
Expenditure								
Network operations	82	71	(11)	-	-	-	(11)	(11)
Support costs	60	70	10	1	-	-	9	9
Industry costs and rates	51	41	(10)	(8)	-	-	(2)	(2)
Traction electricity	-	1	1	-	-	-	1	1
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	209	161	(48)	-	(18)	-	(30)	(30)
Schedule 4 costs	22	41	19	-	15	-	4	4
Schedule 8 costs	13	1	(12)	-	-	-	(12)	(12)
Renewals	414	446	32	-	199	-	(167)	(44)
PR13 Enhancements	127	302	175	-	175	-	-	1
Non PR13 Enhancements	(13)	-	13	-	13	-	-	-
Financing Costs	278	313	35	35	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	1	-	(1)	-	(1)	-	-	-
Total Expenditure	1,244	1,448	204	28	384	-	(208)	(84)
Total:			220	36	384	-	(200)	(76)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(76)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(4)
Under-delivery of train performance requirements (CaSL)								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(6)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(10)
Total financial out / (under) performance to be recognised								(86)

Statement 5a: Total financial performance, London North East - continued

in £m 2016-17 prices unless stated

	Cumulative								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to: total financial performance	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F			
Income									
Grant Income	2,262	2,241	21	21	-	-	-	-	-
Fixed Income	173	171	2	2	-	-	-	-	-
Variable Income	433	415	18	-	-	-	18	18	18
Other Single Till Income	319	310	9	-	-	-	9	9	9
Opex memorandum account	11	-	11	11	-	-	-	-	-
Total Income	3,198	3,137	61	34	-	-	27	27	27
Expenditure									
Network operations	254	234	(20)	-	-	-	(20)	(20)	(20)
Support costs	200	226	26	5	-	-	21	21	21
Industry costs and rates	143	124	(19)	(14)	-	-	(5)	(5)	(5)
Traction electricity	4	2	(2)	-	-	-	(2)	(2)	(2)
Reporter's fees	1	2	1	-	1	-	-	-	-
Network maintenance	547	496	(51)	-	(11)	-	(40)	(40)	(40)
Schedule 4 costs	79	115	36	-	15	-	21	21	21
Schedule 8 costs	11	3	(8)	-	-	-	(8)	(8)	(8)
Renewals	1,462	1,348	(114)	-	252	-	(366)	(91)	(91)
PR13 Enhancements	509	670	161	-	166	-	(5)	1	1
Non PR13 Enhancements	7	-	(7)	-	(7)	-	-	-	-
Financing Costs	773	907	134	134	-	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	1	-	-	-	-
Total Expenditure	3,990	4,128	138	125	417	-	(404)	(123)	(123)
Total:			199	159	417	-	(377)	(96)	(96)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments									
(96)									
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(12)
Under-delivery of train performance requirements (CaSL)									(2)
Missed milestones for Offering Rail Better Information Services (ORBIS)									(6)
Missed Enhancement milestones									-
Total adjustment for under-delivery outputs									(20)
Total financial out / (under) performance to be recognised									
(116)									
2016-17				Cumulative					
Breakdown of variance not included in total financial performance - Variable income:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance			
Adjustments for external traction electricity	(34)	(44)	- 10	(103)	(117)	- 14			
Total variance not included in total	(34)	(44)	- 10	(103)	(117)	- 14			
Breakdown of variance not included in total financial performance - OSTI:									
Adjustment for Crossrail finance charge	-	1	(1)	-	-	-			
Total variance not included in total	-	1	(1)	-	-	-			
Breakdown of variance not included in total financial performance - Support costs:									
Spend to save adjustment	1	-	- 1	1	-	- 1			
Release of CP4 long distance financial penalty provision	-	-	-	4	-	- 4			
Total variance not included in total	1	-	- 1	5	-	5			
Breakdown of variance not included in total financial performance - Traction electricity:									
Adjustments for external traction	34	44	(10)	103	117	(14)			
Total variance not included in total	34	44	(10)	103	117	(14)			
Breakdown of variance not included in total financial performance - Renewals:									
Investment of CP4 long distance	(1)	-	(1)	(1)	-	(1)			
Total variance not included in total financial performance:	(1)	-	(1)	(1)	-	(1)			

Statement 5a: Total financial performance, London North East – continued

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Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Fixed income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.

Statement 5a: Total financial performance, London North East – continued

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- (3) Variable income – financial outperformance for the year and the control period to date has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – financial outperformance this year is mainly due to extra property sales and additional station and depot facilities provided to operators offsetting lower freight income. The same factors explain the control period to date variance. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Financial underperformance has been recognised this year which negates the gains made earlier in the control period. Whilst passenger growth has been better than the ORR expected, freight income has struggled. The determination assumed a significant increase in haulage as a result of demand from the Drax power station which has not fully materialised. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the CP5. Therefore, none of the variance has been included as FPM in the current year.

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- (11) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). Reductions in late changes to possession plans this control period has enabled savings to be made. Route management have enacted strategies to ensure that possessions need to be set in advance in order to secure maximum discounts with renewals works being planned to coincide with this prearranged access. Financial underperformance has been reported for the control period to date for the reasons noted above.

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in £m 2016-17 prices unless stated

- (13) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17, negating the outperformance generated earlier in the control period. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as damage to overhead line electrification equipment (Ranskill Loop and Eves Lane). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all of the main asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, London North East – continued

in £m 2016-17 prices unless stated

- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme. Higher Thameslink programme costs has been the main reason for the underperformance recognised this control period. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which give rise to financial outperformance or underperformance this year or in the control period to date.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.
- (18) Corporation tax – income tax payments have been made this year. Given the uncertainty of when income taxes are payable and the immaterial value, the arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction in its financial performance for this missed output.

Statement 5a: Total financial performance, London North East – continued

in £m 2016-17 prices unless stated

- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were achieved in 2016/17, so no adjustment is required for the current year, although as targets were missed earlier in the control period an adjustment is made to the cumulative position.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

Statement 5b: Total financial performance - renewals variance analysis, London North East

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(33)	57	(90)	(23)		(23)	-	-
Signalling	68	81	(13)	(3)		(3)	-	-
Civils	(13)	41	(54)	(13)		(11)	(2)	-
Buildings	18	19	(1)	(1)		-	(1)	-
Electrical power and fixed plant	(18)	(7)	(11)	(3)		(1)	(2)	-
Telecoms	-	-	-	(1)		(1)	-	-
Wheeled plant and machinery	8	8	-	-		-	-	-
IT	(2)	(2)	-	-		-	-	-
Property	(1)	(1)	-	-		-	-	-
Other renewals	5	3	2	-		1	(1)	-
Total	32	199	(167)	(44)		(38)	(6)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(142)	63	(205)	(51)		(51)	-	-
Signalling	144	215	(71)	(18)		(17)	(1)	-
Civils	(47)	7	(54)	(13)		(10)	(3)	-
Buildings	3	5	(2)	-		1	(1)	-
Electrical power and fixed plant	(14)	14	(28)	(7)		(5)	(2)	-
Telecoms	1	5	(4)	(1)		-	(1)	-
Wheeled plant and machinery	26	26	-	-		-	-	-
IT	(21)	(21)	-	-		-	-	-
Property	(4)	(4)	-	-		-	-	-
Other renewals	(60)	(58)	(2)	(1)		2	(3)	-
Total	(114)	252	(366)	(91)		(80)	(11)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Around one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Activity was also compromised by available access and unsuitable ground conditions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

in £m 2016-17 prices unless stated

- (4) Civils – financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Worse than expected asset condition on different parts of the network has also necessitated greater levels of investment to rectify. The underperformance in the control period to date is largely due to the same factors.
- (5) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. Activity has also been more expensive due to plant shortages, with re-wiring trains being used elsewhere on the Great Britain network to deliver strategically important enhancements programmes meaning that delivery methods are more manual, thus increasing costs. The underperformance in the control period to date is largely due to the same factors.
- (6) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with the largest contributions from FTN.

Statement 5c: Total financial performance - enhancement variance analysis, London North East

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	-	5	-	(5)	(1)
Thameslink	(11)	1	-	(12)	(2)
Seven day railway	-	(1)	-	1	-
Other Enhancements	(11)	(11)	-	-	-
Total	(22)	(6)	-	(16)	(3)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	-	5	-	(5)	(1)
Thameslink	(36)	(15)	-	(21)	(3)
Seven day railway	(1)	(2)	-	1	-
Other Enhancements	(27)	(27)	-	-	-
Total	(64)	(39)	-	(25)	(4)

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.
- (2) Capacity relief to the ECML – programme expenditure for this project is expected to be higher than the baseline due to some unexpected costs incurred in finishing the project and finalising claims from contractors.

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

in £m 2016-17 prices unless stated

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

Statement 5d: REBS Reconciliation, London North East

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2016-17		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	135	152	(17)	-	-	-	(17)	
Capacity charge	242	221	21	-	-	-	21	
Electricity asset utilisation charge	8	8	-	-	-	-	-	
Property income	95	85	10	-	-	-	10	
Expenditure								
Network operations	254	224	(30)	-	-	-	(30)	
Support costs	200	229	29	-	4	-	25	
RSSB and BT Police	45	40	(5)	-	-	-	(5)	
Network maintenance	547	506	(41)	(9)	-	-	(32)	
Schedule 4 costs	79	111	32	11	-	-	21	
Schedule 8 costs	11	-	(11)	-	-	-	(11)	
Renewals	1,462	1,309	(153)	213	-	(273)	(93)	
Total REBS performance			(165)	215	4	(273)	(111)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(12)	
Under-delivery of train performance requirements (CaSL)							(2)	
Missed ORBIS milestones							(6)	
Total adjustment for under delivery of outputs and reduced sustainability							(20)	
Cumulative performance to end of 2016-17								(131)
Less cumulative outperformance recognised up to the end of 2015-16							(54)	
Net REBS performance for 2016-17								(77)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	757	755	2	2,262	2,241	21	759
Franchised track access income							
Fixed charges	54	54	-	173	171	2	51
Variable charges							
Variable usage charge	28	30	(2)	86	90	(4)	28
Traction electricity charges	34	44	(10)	103	117	(14)	35
Electrification asset usage charge	3	3	-	8	8	-	3
Capacity charge	78	72	6	235	214	21	78
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	36	36	-	104	103	1	39
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	179	185	(6)	536	532	4	183
Total franchised track access income	233	239	(6)	709	703	6	234
Total franchised track access and grant income	990	994	(4)	2,971	2,944	27	993
Other single till income							
Property income	43	32	11	100	88	12	34
Freight income	14	25	(11)	57	66	(9)	16
Open access income	13	12	1	36	36	-	12
Stations income	30	29	1	92	87	5	30
Facility and financing charges	1	4	(3)	3	7	(4)	1
Depots Income	14	8	6	28	24	4	8
Other income	1	-	1	3	2	1	1
Total other single till income	116	110	6	319	310	9	102
Total income	1,106	1,104	2	3,290	3,254	36	1,095

Statement 6a: Analysis of income, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is higher than the regulator expected this year mainly as a result of higher property sales, variable track income and depot income offsetting lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity) and lower freight income (as a result of structural declines in the coal transportation market).
- (3) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, London North East – continued

in £m 2016-17 prices unless stated

- (4) Fixed charges – fixed charge income was slightly higher than the determination in the control period to date. This is attributable to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5).
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (6) Capacity charge – once more income in the current year is favourable to the determination. This is because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive this control period (refer to Statement 12).
- (7) Property income – this is higher than the determination with additional property sales and higher revenue generated from Network Rail's commercial estate. Extra property rental income has been generated from offering desirable premises, notably at Kings Cross and Leeds stations. Freight rental income has also contributed following the integration of investments made under Project Mountfield. Property income for the control period to date is favourable with higher property rental income (as noted above) partly offset by lower property sales. Property income is higher than the previous year mainly due to extra property sales income. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (8) Freight income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The regulatory determination assumed a significant increase in materials transported to the Drax power station but this has not materialised, exacerbating revenue shortfalls. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date. The decline in freight income compared to the previous year is due to further decline in coal transportation as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.

Statement 6a: Analysis of income, London North East – continued

in £m 2016-17 prices unless stated

- (9) Depots income - revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. Income has improved since last year following extra services offered and the successful resolution of commercial disputes.

Statement 6b: Analysis of other single till income, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	36	33	3	93	91	2	33
Property sales	7	3	4	7	10	(3)	1
Adjustment for commercial opex	-	(4)	4	-	(13)	13	-
Total property income	43	32	11	100	88	12	34
Freight income							
Freight variable usage charge	10	20	(10)	41	56	(15)	12
Freight traction electricity charges	-	1	(1)	3	3	-	1
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	2	2	-	4	4	-	1
Freight only line charge	1	2	(1)	4	2	2	1
Freight specific charge	-	-	-	-	-	-	-
Freight other income	1	-	1	1	-	1	-
Freight coal spillage charge	-	-	-	4	1	3	1
Total freight income	14	25	(11)	57	66	(9)	16
Open access income							
Variable usage charge income	3	2	1	8	7	1	3
Open access capacity charge	1	1	-	3	3	-	1
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	9	9	-	25	26	(1)	8
Open access other income	-	-	-	-	-	-	-
Total open access income	13	12	1	36	36	-	12
Stations income							
Managed stations income							
Long term charge	5	5	-	16	16	-	5
Qualifying expenditure	8	7	1	23	20	3	8
Total managed stations income	13	12	1	39	36	3	13
Franchised stations income							
Long term charge	9	11	(2)	32	32	-	10
Stations lease income	8	6	2	21	19	2	7
Total franchised stations income	17	17	-	53	51	2	17
Total stations income	30	29	1	92	87	5	30
Facility and financing charges							
Facility charges	1	3	(2)	3	7	(4)	1
Crossrail finance charge	-	1	(1)	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	4	(3)	3	7	(4)	1
Depots income	14	8	6	28	24	4	8
Other	1	-	1	3	2	1	1
Total other single till income	116	110	6	319	310	9	102

Statement 6b: Analysis of other single till income, London North East (unaudited) – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	48	38	(10)	145	124	(21)	50
Signalling shift managers	2	2	-	9	8	(1)	3
Local operations managers	5	3	(2)	12	8	(4)	4
Controllers	5	6	1	15	17	2	5
Electrical control room operators	1	1	-	3	6	3	1
Total signaller expenditure	61	50	(11)	184	163	(21)	63
Non-signaller expenditure							
Mobile operations managers	5	6	1	16	17	1	6
Managed stations	9	6	(3)	26	21	(5)	8
Performance	3	2	(1)	9	8	(1)	3
Customer relationship executives	-	-	-	3	4	1	2
Route enhancement managers	-	-	-	-	-	-	-
Weather	3	3	-	9	10	1	3
Other	8	2	(6)	22	7	(15)	11
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	(3)	5	8	(3)	15	18	(3)
Other operating income	(4)	(3)	1	(12)	(11)	1	(5)
Total non-signaller expenditure	21	21	-	70	71	1	25
Total network operations expenditure	82	71	(11)	254	234	(20)	88
Support costs							
Core support costs							
Human resources	3	9	6	20	33	13	8
Information management	10	11	1	34	35	1	12
Government and corporate affairs	2	3	1	7	10	3	2
Group strategy	-	1	1	3	5	2	1
Finance	5	5	-	10	16	6	3
Business services	4	2	(2)	8	7	(1)	2
Accommodation	12	5	(7)	28	16	(12)	8
Utilities	10	7	(3)	25	21	(4)	8
Insurance	(1)	8	9	17	24	7	9
Legal and inquiry	1	1	-	3	3	-	1
Safety and sustainable development	3	1	(2)	11	5	(6)	4
Strategic sourcing	1	2	1	3	5	2	1
Business change	-	1	1	1	2	1	1
Other corporate functions	5	2	(3)	16	1	(15)	5
Core support costs	55	58	3	186	183	(3)	65
Other support costs							
Asset management services	5	8	3	17	27	10	6
Network Rail telecoms	5	5	-	21	18	(3)	7
National delivery service	-	-	-	-	2	2	-
Infrastructure Projects	(4)	-	4	(9)	-	9	(3)
Commercial property	(1)	-	1	(1)	(1)	-	-
Group costs	-	(1)	(1)	(14)	(3)	11	(5)
Total other support costs	5	12	7	14	43	29	5
Total support costs	60	70	10	200	226	26	70
Traction electricity, industry costs and rates							
Traction electricity	34	45	11	107	119	12	37
Business rates	33	25	(8)	91	75	(16)	33
British transport police costs	14	11	(3)	41	35	(6)	13
RSSB costs	2	2	-	4	5	1	2
ORR licence fee and railway safety levy	1	3	2	4	8	4	1
Reporters fees	-	1	1	1	2	1	-
Other industry costs	1	-	(1)	3	1	(2)	1
Total traction electricity, industry costs and rates	85	87	2	251	245	(6)	87
Total network operations expenditure, support costs, traction electricity, industry costs and rates	227	228	1	705	705	-	245

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are in step with the determination assumption this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities offset by higher signaller costs as savings assumed in the PR13 have not been realised and higher business rates costs.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are lower than previous year reflecting some efficiency plans that have been successfully enacted.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2016-17 prices unless stated

- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Government and corporate affairs – costs are lower than the determination in the control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising.
- (8) Finance – costs were lower than the determination for the control period to date. This is mainly due to the process of devolution as central activities have been 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. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year.
- (9) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. These extra costs have been partly offset by a transfer of some contract & procurement staff to Other corporate services to give greater local autonomy over this support function and also from some efficiencies made by amalgamating management teams.
- (10) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. The regulator assumed cost savings would be made in this area although the costs are driven by market rates.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2016-17 prices unless stated

- (11) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (12) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area. This control period there has been significant investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.
- (13) Strategic sourcing – costs are lower than the determination assumptions for the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category.
- (14) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.
- (15) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2016-17 prices unless stated

- (16) Network Rail telecoms – costs for the control period to date are higher than the determination assumed. This was mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (17) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year.
- (18) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower re-organisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).
- (19) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is broadly in step with the determination assumption but consists of lower traction electricity costs offset by extra British Transport Police costs and higher Business rates. The same factors explain the variance to the regulator's targets for the control period to date.
- (20) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are lower than the prior year reflecting lower market prices which is offset by lower income in Statement 6a.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2016-17 prices unless stated

- (21) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (22) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	41	54	58	54
MOMS	4	5	5	5
Control	7	9	6	6
Planning & Performance Staff Costs	5	4	5	-
Managed Stations Staff Costs	4	2	2	4
Operations Management Staff Costs	4	2	1	3
Other	20	7	12	10
Total operations & customer services costs	85	83	89	82
Total Network Operations	85	83	89	82
Support				
Human resources				
Functional support	4	4	3	3
Training (inc Westwood)	3	2	2	-
Graduates	-	-	1	-
Apprenticeships	1	2	2	-
Other	2	1	-	-
Total human resources	10	9	8	3
Information management				
Support	1	1	-	1
Projects	-	-	1	-
Licences	-	-	-	-
Business operations	10	10	10	9
Other	-	-	-	-
Total information management	11	11	11	10
Finance	3	3	3	5
Business Change	1	-	1	-
Contracts & Procurement	1	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	1
Planning & development	2	1	1	-
Safety & compliance	2	-	-	-
Other corporate services	8	2	3	3
Commercial property	16	7	8	11
Infrastructure Projects	(10)	(1)	(3)	(4)
Route Services	2	3	2	2
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	21	-	-	-
National delivery service	1	-	-	-
Private party	-	-	-	-
Utilities	-	7	8	10
Network Rail Telecoms	-	9	7	5
Digital Railway	-	3	4	3
Safety Technical & Engineering	-	7	6	5
Government & Corporate Affairs	-	3	2	2
Business Services	-	2	2	4
Route Asset Management	-	1	-	-
Legal and inquiry	-	1	1	1
Group/central				
Pensions	-	-	-	-
Insurance	7	9	9	(1)
Redundancy/reorganisation costs	11	3	2	2
Staff incentives/Bonus Reduction	2	(5)	(1)	-
Accommodation & Support Recharges	(1)	(4)	(4)	(4)
Commercial claims settlements	-	-	(1)	-
ORR financial penalty	12	(4)	-	-
Other	-	1	(1)	2
Total group/central costs	31	-	4	(1)
Total support	99	69	69	60
Total network operations and support costs	184	152	158	142

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), London North East – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	78	63	(15)	217	194	(23)	70
Signalling	29	24	(5)	80	74	(6)	27
Civils	37	19	(18)	76	59	(17)	29
Buildings	14	7	(7)	20	21	1	5
Electrical power and fixed plant	15	12	(3)	43	38	(5)	13
Telecoms	4	3	(1)	11	8	(3)	4
Other network operations	16	23	7	76	71	(5)	28
Asset management services	20	5	(15)	38	16	(22)	12
National Delivery Service	(1)	7	8	(3)	20	23	(1)
Property	1	1	-	1	2	1	-
Group	(4)	(3)	1	(12)	(7)	5	(4)
Total maintenance expenditure	209	161	(48)	547	496	(51)	183

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year. Reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. In addition, efficiencies assumed by the regulator in the determination have not been delivered. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to extra reactive maintenance works and civils inspection costs, changes in government legislation affecting pension arrangements, partly offset by reductions in project expenditure on initiatives that are now complete (vegetation management and tidy railway).
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (3) Signalling – costs are higher than the determination in the current year. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred partly offset by a transfer of activity to Asset management services. The increase in costs compared to the previous year are also due to a combination of increased reactive maintenance and inspection costs.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reversing the trend witnessed in earlier years of the control period so that costs in the control period to date are in line with the level the regulator assumed. Variances arising from reactive maintenance are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Other network operations – costs for the current year are lower than the regulator's expectation. For the control period to date, however, costs are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. Investment was undertaken on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower than the previous year as a result of the completion of the aforementioned projects and the transfer of activity from this category to other headings within this statement (notably Asset management services) as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (7) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils and Other network operations, additional activity undertaken by the routes to understand and manage the assets in their area, additional expenditure on specialist contractors and consultants. The same factors are responsible for the extra spend in the control period to date. Costs have increased compared to the previous year mainly due to a transfer of certain responsibilities from Other network operations to the Asset management services teams within the routes as part of Network Rail's commitment to devolution to enable more tactical decisions to be made closer to the passenger.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (9) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in the control period to date due to additional vehicle purchases completed towards the end of the previous control period. Future plans for sourcing the company's vehicle requirements (leasing from a third party as opposed to outright capital purchase) may mean that the level of notional income recognised will decrease in the latter years of the control period.

Statement 9a: Summary analysis of renewals expenditure, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	171	138	(33)	550	408	(142)	209
Signalling	80	148	68	332	476	144	133
Civils	82	69	(13)	272	225	(47)	101
Buildings	4	22	18	57	60	3	27
Electrical power and fixed plant	30	12	(18)	62	48	(14)	14
Telecoms	11	11	-	35	36	1	8
Wheeled plant and machinery	10	18	8	35	61	26	15
Information Technology	14	12	(2)	61	40	(21)	23
Property	3	2	(1)	11	7	(4)	4
Other renewals	9	14	5	47	(13)	(60)	17
Total renewals expenditure	414	446	32	1,462	1,348	(114)	551

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and also includes expenditure on projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was lower than the previous year mainly due to lower delivery of Conventional plain line and High output volumes compared to 2015/16.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was much lower than the determination expected, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, in 2015/16, over £50m was invested in the North Lincolnshire programme but, as this programme was substantially complete in that year, expenditure in the current year was only around £5m.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected. The higher expenditure is due to a combination of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Detailed analysis of renewals expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The lower activity in the year compensates for the higher level of activity in the first two years of the control period. The decrease compared to the previous year is also due to how activity has been reported with a higher proportion of minor works undertaken this year being classified as maintenance in line with Network Rail's cost and volume reporting policies. This meant lower Buildings renewals, but higher Buildings maintenance (as shown in Statement 8a). When setting baseline there is always an element of uncertainty over whether remedial work will qualify as Maintenance (Statement 8a) or Renewals (this statement) under accounting rules.
- (6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year. This has a combination of higher like-for-like costs and increased activity. The increased activity was mainly due to a catch up of slower delivery from earlier in the control period. The higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably to comply with safety standards) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Plant availability (the re-wiring train planned to be utilised is now being used elsewhere on the network to facilitate the delivery of enhancements) has also led to increased manual working which is more expensive and slower. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is higher than the determination anticipated mainly due to the additional costs in the current year. Investment was higher than the previous year with additional costs for Overhead line mostly relating to additional works on East Coast Main Line resilience.

Statement 9a: Detailed analysis of renewals expenditure, London North East – continued

in £m 2016-17 prices unless stated

- (7) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (8) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity. Expenditure was lower than the previous year as programme milestones are delivered.

Statement 9a: Detailed analysis of renewals expenditure, London North East – continued

in £m 2016-17 prices unless stated

- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.
- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.

Statement 9a: Detailed analysis of renewals expenditure, London North East – continued

in £m 2016-17 prices unless stated

- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the control period to date is spread across FTN and ORBIS. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, London North East

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	50	48	(2)	163	112	(51)
High output renewal	42	26	(16)	160	101	(59)
Plain line refurbishment	10	4	(6)	33	9	(24)
S&C renewal	34	28	(6)	89	82	(7)
S&C refurbishment	15	7	(8)	41	21	(20)
Track non-volume	6	11	5	17	34	17
Off track	14	14	-	47	49	2
Total track	171	138	(33)	550	408	(142)
Signalling						
Full conventional resignalling	18	22	4	128	118	(10)
Modular resignalling	-	1	1	-	8	8
ERTMS resignalling	-	20	20	17	31	14
Partial conventional resignalling	10	44	34	11	95	84
Targeted component renewal	7	4	(3)	7	12	5
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	5	4	(1)	36	21	(15)
Operating strategy other capital expenditure	5	-	(5)	24	14	(10)
Level crossings	10	27	17	37	78	41
Minor works	15	18	3	60	75	15
Centrally managed costs	10	8	(2)	12	24	12
Other	-	-	-	-	-	-
Total signalling	80	148	68	332	476	144
Civils						
Underbridges	35	33	(2)	102	120	18
Overbridges	10	6	(4)	60	15	(45)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	3	3	13	9	(4)
Tunnels	3	3	-	9	9	-
Other assets	11	7	(4)	32	19	(13)
Structures other	(1)	4	5	9	11	2
Earthworks	24	13	(11)	46	42	(4)
Other	-	-	-	1	-	(1)
Total civils	82	69	(13)	272	225	(47)
Buildings						
Managed stations	-	5	5	6	16	10
Franchised stations	4	10	6	36	28	(8)
Light maint depots	-	1	1	3	3	-
Depot plant	-	2	2	1	4	3
Lineside buildings	-	1	1	8	2	(6)
MDU buildings	-	3	3	3	6	3
NDS depots	-	-	-	-	1	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	4	22	18	57	60	3

Statement 9b: Detailed analysis of renewals expenditure, London North East - continued

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	3	3
Overhead Line	18	2	(16)	28	9	(19)
DC distribution	1	-	(1)	2	-	(2)
Conductor rail	-	-	-	-	-	-
SCADA	1	-	(1)	1	5	4
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	(1)	3	4	1	9	8
Fixed plant	11	7	(4)	30	22	(8)
Total electrical power and plant	30	12	(18)	62	48	(14)
Telecoms						
Operational communications	3	4	1	6	6	-
Network	2	5	3	7	14	7
SISS	-	-	-	-	8	8
Projects and other	-	1	1	1	2	1
Non-route capital expenditure	6	1	(5)	21	6	(15)
Total telecoms	11	11	-	35	36	1
Wheeled plant and machinery						
High output	4	2	(2)	13	17	4
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	1	-	3	1	(2)
Intervention	2	2	-	5	15	10
Materials delivery	-	1	1	5	1	(4)
On track plant	1	4	3	3	8	5
Seasonal	-	-	-	2	6	4
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	3	3
Road vehicles	-	7	7	2	9	7
S&C delivery	2	-	(2)	2	-	(2)
Total wheeled plant and machinery	10	18	8	35	61	26
Information Technology						
IM delivered renewals	13	11	(2)	57	36	(21)
Traffic management	1	1	-	4	4	-
Total information technology	14	12	(2)	61	40	(21)
Property						
MDUs/offices	3	1	(2)	7	5	(2)
Commercial estate	-	1	1	4	2	(2)
Corporate services	-	-	-	-	-	-
Total property	3	2	(1)	11	7	(4)
Other renewals						
Asset information strategy	7	6	(1)	19	23	4
Intelligent infrastructure	1	4	3	4	8	4
Faster isolations	1	6	5	2	18	16
LOWS	-	-	-	-	1	1
Small plant	-	1	1	2	5	3
Research and development	-	-	-	-	-	-
Phasing overlay	-	(3)	(3)	-	(68)	(68)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	1	-	(1)	21	-	(21)
Other	(1)	-	1	(1)	-	1
West Coast	-	-	-	-	-	-
Total other renewals	9	14	5	47	(13)	(60)
Total renewals	414	446	32	1,462	1,348	(114)

Statement 9b: Detailed analysis of renewals expenditure, London North East (unaudited) – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North East

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	22	41	19	79	115	36	31
Access charge supplement Income	(36)	(36)	-	(104)	(103)	1	(38)
Net (income)/cost	(14)	5	19	(25)	12	37	(7)
Schedule 8							
Performance element income	(5)	-	5	(23)	-	23	(1)
Performance element costs	18	1	(17)	34	3	(31)	8
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	13	1	(12)	11	3	(8)	7

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	(3)	-	2
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	8	16	8
RSSB Costs	1	-	-
ORR licence fee and railway safety levy	(2)	(4)	(1)
Reporters fees	(1)	(1)	-
Other industry costs	1	1	-
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	4	11	9

Statement 10: Other information, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Statement 10: Other information, London North East – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This is the case in the current year. The minor control period to date variance is a factor of the difference between the inflation rates used to uplift the contractual payments and the inflation rates used to uplift the regulator's PR13 targets. Performance element costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are lower than the regulatory assumption which is a combination of undertaking less renewals activity more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Track - Plain line, S&C renewals and Signalling - Full conventional resignalling), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as damage to overhead line electrification equipment (Ranskill Loop and Eves Lane). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.

Statement 10: Other information, London North East – continued

in £m 2016-17 prices unless stated

- (3) The opex memorandum shows a net gain for this year which is due to higher amounts paid for Business rates offset by losses made through the Volume Incentive (see Statement 12). The control period to date position suggests Network Rail will receive additional funding in CP6 (subject to overall funding and financing considerations). This has arisen from higher Business rates costs partly offset by lower ORR fees as well as from the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

Statement 11:

No Statement 11 is required for London North East

Statement 12: Volume incentives, London North East

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	8	2	48	47	1.0%	1.50	pence per passenger train mile
Passenger farebox (millions)	6	1	1,428	1,332	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(13)	(3)	4	4	10.5%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(13)	(3)	4,270	4,698	13.8%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(12)	(3)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. The determination assumed that there would be significant increases in the level of biomass transport to the Drax power station. These assumptions have proved overoptimistic. In addition, as this is dependent upon the business strategy of a single third party entity with no realistic option of substitution Network Rail is unable to exert much influence over this. Despite the difficulties encountered by the freight element of the business, passenger growth has once more exceeded the regulatory target and resulted in gains under the Passenger train miles and Passenger farebox metrics. This reflects the popularity of rail growth in this areas which has led to the extra passenger traffic. For the control period to date, there is no overall variance arising from the Volume incentive measure with increases in passenger growth offsetting issues with freight growth.

Statement 14: Renewals volumes, unit costs and expenditure, London North East

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Total AFC	Total AFV	Unit Cost	
			£k/unit	£m	unit	£k	
Track	Conventional plain line Renewal	km	93	48	67	166	404
	High Output Renewal	km	58	43	61	76	803
	Plain line Refurbishment	km	63	9	18	164	110
	S&C Renewal/Refurbishment	point ends	271	30	45	487	92
	Track Drainage	lm	29,925	7	19	113,185	0
	Fencing	km	116	6	18	443	41
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	65	3	7	119	59
	Other		-	-	-	-	-
	Total		30,591	146	235	114,640	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	19	9	11	19	579
	Targeted Component Renewal	SEU	14	4	4	14	286
	ERTMS Train Fitment		-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-
	Minor Works		-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-
	Other		-	-	-	-	-
	Total		33	13	15	33	-
Civils	Underbridges	m ²	26,831	34	76	30,417	2
	Overbridges (incl BG3)	m ²	2,880	11	21	3,213	7
	Major Structures		-	-	-	-	-
	Tunnels	m ²	4,865	2	6	4,865	1
	Culverts	m ²	1,554	2	3	1,554	2
	Footbridges	m ²	533	2	5	1,095	5
	Coastal & Estuarial Defences	m	-	-	-	-	-
	Retaining Walls	m ²	6,606	5	5	6,606	1
	Structures Other		-	-	-	-	-
	Earthworks	5-chain	647	20	47	1,204	39
	EW Drainage	m	15,820	2	2	15,822	0
	Other		-	-	-	-	-
	Total		59,736	78	165	64,776	-
Buildings	Buildings (MS)	m ²	85	-	-	85	-
	Platforms (MS)		-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-
	Buildings (FS)	m ²	3,918	2	7	3,968	2
	Platforms (FS)	m ²	635	-	-	1,850	-
	Canopies (FS)	m ²	10,777	-	2	48,068	0
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	60	-	-	60	-
	Lifts & Escalators (FS)		-	-	-	-	-
	Other (FS)		12,074	-	2	18,604	0
	Light Maintenance Depots	m ²	3,645	-	1	3,645	0
	Depot Plant		-	-	-	-	-
	Lineside Buildings	m ²	35	-	-	46	-
	MDU Buildings	m ²	435	-	-	545	-
	NDS Depot		-	-	-	-	-
	Other		-	-	-	-	-
	Total		31,664	2	12	76,871	-

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume £k/unit	Cost unit	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k
Electrical power and fixed plant	Wiring	Wire runs	20	5	22	37	595
	Mid-life refurbishment	Wire runs	5	1	9	5	1,800
	Structure renewals	No.	-	-	-	-	-
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	5	-	-	5	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	5	1	1	5	200
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	12	3	4	12	333
	Signalling Supply Points	No.	6	2	17	23	739
	Other Fixed Plant		-	-	-	-	-
Total			53	12	53	87	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	6,116	1	1	7,204	0
	Processor Controlled Concentrator	No. lines	14	-	-	30	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	11	-	1	34	29
	HMI Small		-	-	-	-	-
	HMI Large	No.	60	-	-	695	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			6,201	1	2	7,963	-

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	1,019	1,014	5	3,042	3,015	27	1,016
Fixed Income	91	73	18	279	230	49	86
Variable Income	278	297	(19)	829	849	(20)	278
Other Single Till Income	178	177	1	560	512	48	218
Opex memorandum account	(3)	-	(3)	(5)	-	(5)	(1)
Total Income	1,563	1,561	2	4,705	4,606	99	1,597
Operating expenditure							
Network operations	129	103	(26)	381	321	(60)	136
Support costs	78	102	24	274	325	51	98
Traction electricity, industry costs and rates	135	154	19	398	426	28	135
Network maintenance	320	282	(38)	941	866	(75)	317
Schedule 4	45	45	-	155	142	(13)	54
Schedule 8	4	2	(2)	32	4	(28)	9
Total operating expenditure	711	688	(23)	2,181	2,084	(97)	749
Capital expenditure							
Renewals	592	520	(72)	1,964	1,597	(367)	725
PR13 enhancement expenditure	585	851	266	1,796	2,162	366	538
Non PR13 enhancement expenditure	16	-	(16)	260	-	(260)	207
Total capital expenditure	1,193	1,371	178	4,020	3,759	(261)	1,470
Other expenditure							
Financing costs	396	398	2	1,043	1,142	99	320
Corporation tax (received)/paid	1	-	(1)	-	1	1	-
Total other expenditure	397	398	1	1,043	1,143	100	320
Total expenditure	2,301	2,457	156	7,244	6,986	(258)	2,539

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to the aforementioned additional services offered to operators.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity income. Income is broadly in line with the previous year, with a marginal decrease mostly due to lower electricity income. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is in line with the regulatory expectation as additional property sales have mitigated declines in the freight transportation market. Income in the control period is variable mainly due to income earned in 2015/16 following the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. The benefit from this explains the decrease in this category of income in the current year. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The negative amount reported in the current year is largely due to gains recognised on the volume incentive offset by other costs. The variance to the previous year is mostly due to differences in ORR and Reporter costs partly offset by amounts earned under the Volume incentive. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are lower than the previous year which included the impact of some non-recurring items. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2016-17 prices unless stated

- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The savings made in the control period to date are also due to these two factors. Costs are broadly in line with the previous year. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, higher civils inspections costs have contributed to the extra expense. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are in line with the determination although this reflects reduced delivery of renewals which require network possessions offset by higher like-for-like costs. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are lower than the previous year due as a number of improvement strategies and investment undertaken by the route team are engendering better train performance. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination with increased expenditure across almost all asset categories. Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes but with a notable contribution from Northern Hub. The control period to date variance also includes a significant impact from this programme. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2016-17 prices unless stated

- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period to date is axiomatic. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, London North West

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	12,089	11,275	814
Indexation to 2015-16 prices	699	652	47
Opening RAB for the year (2015-16 prices)	12,788	11,927	861
Indexation for the year	280	262	18
Opening RAB (2016-17 prices)	13,068	12,189	879
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	547	520	27
PR13 enhancements	571	448	123
Non-PR13 enhancements	35	-	35
Total enhancements	606	448	158
Amortisation	(572)	(572)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2017	13,649	12,585	1,064

RAB Regulatory financial position - cumulative, London North West

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	11,155	12,219	13,068	11,155
Adjustments for the actual capital expenditure outturn in CP4	317	-	-	317
Renewals	602	662	547	1,811
PR13 enhancements	666	547	571	1,784
Non-PR13 enhancements	30	190	35	255
Total enhancements	696	737	606	2,039
Amortisation	(550)	(550)	(572)	(1,672)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	(1)
Closing RAB	12,219	13,068	13,649	13,649

Statement 2a: RAB - Regulatory financial position, London North West – continued

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. The largest contributor to this is the additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in the first two years of the control period relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

Statement 2a: RAB - Regulatory financial position, London North West – continued

in £m 2016-17 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, London North West

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	539	538	520	1,597
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	30	-	-	30
Capitalised financing on CP4 deferrals	1	2	1	4
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	570	540	521	1,631
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(109)	(86)	(152)	(347)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(7)	(12)	(21)
Adjustments for efficient overspend	172	261	221	654
Capitalised financing on efficient overspend	4	13	24	41
25% retention of efficient overspend	(44)	(65)	(54)	(163)
Capitalised financing on efficient overspend 25% retention	(2)	(4)	(6)	(12)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	15	11	3	29
Capitalised financing on efficient overspend through spend to save framework	-	2	2	4
Retention of efficient overspend through spend to save framework	(3)	(2)	-	(5)
Capitalised financing on efficient overspend through spend to save framework retention	-	(1)	-	(1)
Other adjustments	1	-	-	1
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	602	662	547	1,811
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(1)	(4)	(9)	(14)
Adjustment for 25% retention of efficient overspend	46	67	54	167
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	-	-
Total actual renewals expenditure (see statement 9)	647	725	592	1,964

Statement 2b: RAB - reconciliation of expenditure, London North West - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	497	556	448	1,501
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	62	(62)	-	-
Capitalised financing on CP4 deferrals	2	1	-	3
Baseline adjustments	-	258	403	661
Capitalised financing on Baseline adjustments	-	5	20	25
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	(1)	-	-	(1)
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	560	758	871	2,189
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	67	(208)	(352)	(493)
Capitalised financing on acceleration / (deferrals) of expenditure	1	(1)	(14)	(14)
Adjustments for efficient overspend / (underspend)	45	(4)	86	127
Capitalised financing on efficient overspend / (underspend)	1	3	4	8
25% retention of efficient overspend / (underspend)	(11)	1	(23)	(33)
Capitalised financing of 25% efficient overspend / (underspend)	-	(1)	(1)	(2)
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-
agreements - retention of efficient overspend	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	2	-	-	2
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	666	547	571	1,784
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	30	196	25	251
overspend	(1)	(11)	-	(12)
Capitalised financing on non-PR13 enhancements expenditure	1	5	10	16
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	30	190	35	255
Total enhancements (added to the RAB - see statement 2a)	696	737	606	2,039
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(4)	(12)	(19)	(35)
Adjustment for 25% retention of efficient overspend	12	11	23	46
Other Adjustments	8	10	(9)	9
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	112	14	70	196
Other adjustments	(2)	-	-	(2)
Total actual enhancement expenditure (see statement 3)	822	760	671	2,253

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than they cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and subsequent Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with a notable contribution from Northern Hub. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reversed in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.
- (15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (16) Non-PR13 enhancements – Other adjustments (including discretionary investment) – almost all of the expenditure for the control period to date relates to Manchester Victoria station redevelopment. Expenditure on this programme was funded through the regulator's investment framework but the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5). The credit balance this year relates to favourable settlement of commercial claims, reducing the overall expenditure on the programme.

Statement 3: Analysis of enhancement capital expenditure, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	7	6	10	17	7
Stations - Access for All (AfA)	5	6	1	19	22	3
Development	6	1	(5)	21	22	1
Level crossing safety	1	9	8	9	18	9
Passenger journey improvement	2	33	31	3	34	31
The strategic rail freight network	13	29	16	23	40	17
Total funds	28	85	57	85	153	68
Committed projects						
East West Rail (committed scheme)	49	12	(37)	199	170	(29)
Northern Hub	339	508	169	756	927	171
IEP Programme	-	-	-	1	-	(1)
North Trans Pennine electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Stafford area improvement scheme	21	22	1	163	154	(9)
West coast power supply upgrade	42	55	13	158	172	14
Total committed projects	451	597	146	1,274	1,423	149
Named schemes						
The Electric Spine:						
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	6	6	-	6	6
DfT Sofa amount	4	1	(3)	11	15	4
Total Electric Spine projects	4	7	3	11	21	10
Midlands						
Walsall to Rugeley electrification	14	24	10	47	65	18
Total Midlands Projects	14	24	10	47	65	18
HLOS capacity metric schemes						
Chiltern Main Line Train Lengthening	1	-	(1)	16	12	(4)
North West train lengthening	-	10	10	-	10	10
Total HLOS capacity metric schemes	1	10	9	16	22	6
CP4 project rollovers						
Birmingham New St Gateway	18	9	(9)	180	223	43
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	30	41	11	45	56	11
Redditch Branch Enhancement	-	-	-	17	17	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	48	50	2	242	296	54
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	3	3
R&D allowance	2	-	(2)	4	5	1
Depots and stabling	33	72	39	83	129	46
Income generating property schemes	4	6	2	34	45	11
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	39	78	39	121	182	61
Total PR13 funded enhancements (see statement 2b)	585	851	266	1,796	2,162	366

Statement 3: Analysis of enhancement capital expenditure, London North West - continued

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
NHub Huyton & Roby	-	-	-	-	-	-
NW Electrification	15	-	(15)	96	-	(96)
Other government sponsored schemes	1	-	(1)	2	-	(2)
Total Government sponsored schemes	16	-	(16)	98	-	(98)
Network Rail spend to save schemes						
Mountfield	1	-	(1)	8	-	(8)
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	1	-	(1)	8	-	(8)
East West Rail (committed scheme)	8	-	(8)	142	-	(142)
Other	-	-	-	1	-	1
Total Schemes promoted by third parties	8	-	(8)	143	-	(143)
Discretionary Investment	(9)	-	9	11	-	(11)
Total non PR13 enhancement expenditure	16	-	(16)	260	-	(260)
Total Network Rail funded enhancements (see Statement 1)	601	851	250	2,056	2,162	106
Third Party PAYG	70	-	(70)	197	-	(197)
Total enhancements (see statement 2b)	671	851	180	2,253	2,162	(91)

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £601m (as shown in Statement 1). This comprises the total enhancement figure in the table above £671m less the PAYG schemes funded by third parties (£70m).
- (5) Investment expenditure this year was lower than the previous year. This is a combination of increases and decreases across a wide range of programmes.
- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is less than the baseline in the current year and the control period to date but is expected to match the baseline by the end of CP5. Underspends in the current year were largely driven from work to prioritise delivery of portfolio and concentration by the organisation on other programmes.
- (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure in the current year and the control period to date is broadly in line with the baseline.
- (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is higher than the baseline reflecting a catch up of activity deferred from 2015/16. The control period to date position is consistent with the baseline.
- (d) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was noticeably lower than the determination in this year and is much lower for the control period to date largely as a result of contractor disputes leading to delays. Discussions appear to have reached a mutually agreed conclusion so the level of expenditure is expected to increase over the remainder of the control period. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land.
- (e) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is significantly lower than the baseline this year although a ramp up on activity is expected in future years. The current year variance accounts for the saving in the control period to date.
- (f) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline this year but a catch up is planned over the remainder of the control period. Underspend this year includes rescheduling of activity to coincide with other projects to gain delivery synergies, insufficient access to instigate change and more challenge on tender price bids. The current year variance accounts for the vast majority of saving in the control period to date.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is higher than the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline this year (such as East West Rail) and some which have spent less (such as Northern Hub). The following notable variances between expenditure and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (a) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Despite the ramp up in activity in the current year, investment is significantly lower than the baseline. This is due to a combination of factors including: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries) have necessitated alternative designs, amalgamation of various disparate projects to generate programme overhead reductions and better link projects to minimise passenger disruption and contractor performance issues. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review. The control period to date variance is largely the result of the underspend in the current year
 - (b) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is consistent with the baseline. The programme has spent slightly more than the baseline in the control period to date due to work being brought forward from later in the control period.
 - (c) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the current year are lower than the baseline. Despite this, financial underperformance has been recognised (refer to Statement 5c) as a result of expected increases in the total programme costs. There has been deferral of certain parts of this scheme this year with revised delivery timetables agreed with DfT and also descoping of the final outputs of the programme as certain elements, such as the section of the line between Whitmore and Weaver, are no longer required. The variance in the control period to date is largely caused by the underspend in the current year.
- (8) PR13 funded schemes – named schemes - expenditure in the year is lower than the baseline mainly due to the Walsall to Rugeley programme. The following notable variances between expenditure and baselines are set out below:
- (a) Oxford-Bletchley-Bedford electrification - This project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year has been minimal compared to the baseline as other parts of the company's electrification programme have received priority. The control period to date variance stems from the current year underspend.
 - (b) Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is higher than the baseline this year as deferrals from earlier in the control period have been partly caught up.
 - (c) Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure is lower than the baseline as work has been deferred into future years due to slower progress by contractors and identification of a number of historic mine works found underneath the line. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. As a result financial underperformance has been recognised in the current year (refer to Statement 5c).

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

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- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline mainly due to North West train lengthening. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:
- (a) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs are generally in line with plan but the total programme costs are expected to be slightly higher than the baseline which has resulted in financial underperformance (refer to Statement 5c).
 - (b) North West train lengthening - This project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. There has been minimal work so far on this programme which has caused a variance in the current year and the control period to date. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is lower than the baseline which is mostly due to savings on Bromsgrove electrification partly offset by additional spend on Birmingham Gateway. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period to date are lower than the agreed Hendy baseline as a result of more of the programme being funded through cash contributions from third party (included in the PAYG category of this statement) but this has been treated as neutral when assessing financial performance. The Hendy baseline assumed that the programme would have progressed further by the end of 2015/16 but there remains certain outstanding elements of the programme.
 - (b) Bromsgrove Elec - Midlands Improvements Programme - This project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. Expenditure in the current year is lower than the baseline. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. The variance in the control period to date is largely the result of the underspend in the current year.
 - (c) Redditch branch enhancement – this project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure for the control period to date is in line with the baseline and this programme is substantially complete.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in Depots & stabling programme. Notable variances to the baseline include:
- (a) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is lower than the baseline as activity has been deferred. This includes works at Banbury depot where asbestos discovered on site and wildlife considerations have delayed the project. Securing appropriately priced agreements with suppliers has also lead to delays in awarding contracts. The variance in the control period to date is largely the result of the underspend in the current year.
 - (b) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and the control period to date is lower than the baseline as fewer suitable projects have been identified than the regulator assumed. Schemes are only pursued if they have a taut business case which will generate a positive economic inflow for the industry.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was North West Electrification, building on the trend of earlier years of the control period.
 - (b) Network Rail Spend to save – the main project this control period is Project Mountfield which related to the acquisition of freight sites and paths.
 - (c) Schemes promoted by third parties – as with last year the main item in this category which accounts for the majority of the expenditure was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and in, earlier in the control period, to CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). Manchester Victoria costs in the previous year included an assessment of contractor claims and disputes. However, further negotiation and challenge has resulted in a reduction in the costs of the project as the claims were largely successfully rebutted. This has meant that some of the financial underperformance recognised in previous years has been reversed out this year (refer to Statement 5c).
- (e) PAYGO – as noted above, in the control period this includes works to support HS2 development. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. As HS2 development progresses this is expected to result in additional investment in this category.

Statement 4: Net debt and financial ratios, London North West

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	8,996	8,440	(556)	7,271	7,100	(171)
Income						
Grant income	(1,019)	(1,014)	5	(2,989)	(2,961)	28
Fixed charges	(91)	(73)	18	(274)	(226)	48
Variable charges	(278)	(297)	(19)	(812)	(835)	(23)
Other single till income	(178)	(177)	1	(551)	(504)	47
Total income	(1,566)	(1,561)	5	(4,626)	(4,526)	100
Expenditure						
Network operations	129	103	(26)	375	316	(59)
Support costs	78	102	24	269	321	52
Traction electricity, industry costs and rates	135	154	19	391	420	29
Network maintenance	320	282	(38)	926	850	(76)
Schedule 4	45	45	-	152	139	(13)
Schedule 8	4	2	(2)	32	4	(28)
Renewals	592	520	(72)	1,926	1,566	(360)
PR13 enhancement	585	448	(137)	1,763	1,475	(288)
Non-PR13 enhancement	16	-	(16)	256	-	(256)
Total expenditure	1,904	1,656	(248)	6,090	5,091	(999)
Financing						
Interest expenditure on nominal debt - FIM covered	89	132	43	279	368	89
Interest expenditure on index linked debt - FIM covered	52	57	5	160	168	8
Expenditure on the FIM	66	92	26	220	263	43
Interest expenditure on government borrowing	91	-	(91)	173	-	(173)
Interest on cash balances held by Network Rail	(1)	(5)	(4)	(5)	(9)	(4)
Total interest costs	297	276	(21)	827	790	(37)
Accretion on index linked debt - FIM covered	99	122	23	198	352	154
Total financing costs	396	398	2	1,025	1,142	117
Corporation tax	1	-	(1)	-	1	1
Other	30	-	(30)	1	125	124
Movement in net debt	765	493	(272)	2,490	1,833	(657)
Closing net debt	9,761	8,933	(828)	9,761	8,933	(828)

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	1.01	1.12	0.96	1.09
FFO/interest	3.00	3.15	2.88	3.16
Net debt/RAB (gearing)	69.3%	70.3%	71.5%	71.0%
FFO/debt	9.7%	9.2%	8.8%	9.8%
RCF/debt	6.5%	6.3%	5.7%	6.7%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the London North West route has increased by £0.8bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt attributable to the London North West route at 31 March 2017 is £0.8bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of bonds under this category of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accruing debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is slightly higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, London North West

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	1,019	1,014	5	5	-	-	-	-
Fixed Income	91	73	18	18	-	-	-	-
Variable Income	215	217	(2)	-	-	-	(2)	(2)
Other Single Till Income	178	177	1	-	-	-	1	1
Opex memorandum account	(3)	-	(3)	(4)	-	-	1	1
Total Income	1,500	1,481	19	19	-	-	-	-
Expenditure								
Network operations	129	103	(26)	-	-	-	(26)	(26)
Support costs	78	102	24	1	-	-	23	23
Industry costs and rates	64	61	(3)	3	-	-	(6)	(6)
Traction electricity	8	12	4	-	-	-	4	4
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	320	282	(38)	-	3	-	(41)	(41)
Schedule 4 costs	45	45	-	-	18	-	(18)	(18)
Schedule 8 costs	4	2	(2)	-	-	-	(2)	(2)
Renewals	592	520	(72)	-	149	-	(221)	(54)
PR13 Enhancements	585	851	266	-	352	-	(86)	(23)
Non PR13 Enhancements	16	-	(16)	-	(25)	-	9	9
Financing Costs	396	398	2	2	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	1	-	(1)	-	(1)	-	-	-
Total Expenditure	2,238	2,377	139	6	497	-	(364)	(134)
Total:			158	25	497	-	(364)	(134)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(134)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(22)
Under-delivery of train performance requirements (CaSL)								(3)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(10)
Missed milestones for Enhancements								-
Total adjustment for under-delivery outputs								(35)
Total financial out / (under) performance to be recognised								(169)

Statement 5a: Total financial performance, London North West - continued

in £m 2016-17 prices unless stated

	Cumulative								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to: total financial performance	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F			
Income									
Grant Income	3,042	3,015	27	27	-	-	-	-	-
Fixed Income	279	230	49	49	-	-	-	-	-
Variable Income	642	642	-	-	-	-	-	-	-
Other Single Till Income	560	512	48	-	-	-	48	48	48
Opex memorandum account	(5)	-	(5)	(10)	-	-	5	5	5
Total Income	4,518	4,399	119	66	-	-	53	53	
Expenditure									
Network operations	381	321	(60)	-	-	-	(60)	(60)	(60)
Support costs	274	325	51	8	-	-	43	43	43
Industry costs and rates	189	186	(3)	5	-	-	(8)	(8)	(8)
Traction electricity	22	31	9	-	-	-	9	9	9
Reporter's fees	-	2	2	-	2	-	-	-	-
Network maintenance	941	866	(75)	-	9	-	(84)	(84)	(84)
Schedule 4 costs	155	142	(13)	-	32	-	(45)	(45)	(45)
Schedule 8 costs	32	4	(28)	-	-	-	(28)	(28)	(28)
Renewals	1,964	1,597	(367)	-	286	-	(653)	(165)	(165)
PR13 Enhancements	1,796	2,162	366	-	493	-	(127)	(33)	(33)
Non PR13 Enhancements	260	-	(260)	-	(249)	-	(11)	(11)	(11)
Financing Costs	1,043	1,142	99	99	-	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	1	-	-	-	-
Total Expenditure	7,057	6,779	(278)	112	574	-	(964)	(382)	
Total:			(159)	178	574	-	(911)	(329)	
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments									
(329)									
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(54)
Under-delivery of train performance requirements (CaSL)									(9)
Missed milestones for Offering Rail Better Information Services (ORBIS)									(10)
Missed milestones for Enhancements									(1)
Total adjustment for under-delivery outputs									(74)
Total financial out / (under) performance to be recognised									
(403)									

Statement 5a: Total financial performance, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this. The remaining variance relates to additional income network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.
- (3) Variable income – financial underperformance for current year offsets the outperformance recognised in the first two years of the control period. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income variances are set out in more detail in Statement 6a.

Statement 5a: Total financial performance, London North West – continued

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- (4) Other single till income – the variances this year are mainly due to higher than expected property sales as Network Rail have successfully exploited commercial opportunities offset by lower freight income as a result of structural decline in the coal transportation market. The outperformance for the control period to date included the benefit generated in 2015/16 from the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham as reported in last year's Regulatory financial statements. Other single till income variances are set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Slow freight growth owing to structural changes has been offset by continued growth in passenger demand which has resulted in financial outperformance being recognised both in this year and in the control period to date. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as some stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra running costs. These extra costs are offset by supplementary income (refer to Statement 6a). Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7a. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is mainly caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. The variances for the control period to date arises from similar causes.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target in the current year and the control period to date which is largely offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance).
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of CP5. Therefore, none of the variance has been included as FPM in the current year.

Statement 5a: Total financial performance, London North West – continued

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- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

Statement 5a: Total financial performance, London North West – continued

in £m 2016-17 prices unless stated

- (13) Schedule 8 costs – costs are higher than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as excessive rainfall causing a train derailment near Watford (September 2016) and storm Doris (February 2017) as well as the collapse of a wall outside Liverpool Lime Street station after it was hit by a van (February 2017). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Despite all of the contributory factors noted above, performance was only marginally worse than the ORR target and was better than the previous year. A number of strategies enacted by the management team surrounding asset resilience and rapid response teams as well as improved maintenance regimes all contributed to this noticeable improvement.

Statement 5a: Total financial performance, London North West – continued

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- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Network work damage caused by adverse weather also led to financial underperformance this year to rectify damage on the Settle-Carlisle line. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with a notable contribution this year and in the control period to date from and Northern Hub following anticipated programme increases. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, London North West – continued

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- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The FPM recognised in the current year and the control period to date all relate to one project: Manchester Victoria. At the end of 2015/16 contractor claims were included in the cost of the programme, which had substantially completed. The size of these claims caused the costs of the project to exceed the baseline agreed with the regulator, resulting in the recognition of financial underperformance. Following favourable settlement of these claims some of this underperformance has been mitigated in the current year.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.
- (18) Corporation tax – income tax payments have been made in the control period to date. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction in its financial performance for this missed output.

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- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

Statement 5b: Total financial performance - renewals variance analysis, London North West

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(38)	22	(60)	(15)		(15)	-	-
Signalling	3	32	(29)	(7)		(7)	-	-
Civils	(52)	36	(88)	(22)		(16)	(6)	-
Buildings	(11)	12	(23)	(6)		(4)	(2)	-
Electrical power and fixed plant	9	35	(26)	(6)		(1)	(5)	-
Telecoms	12	14	(2)	-		-	-	-
Wheeled plant and machinery	11	11	-	-		-	-	-
IT	(3)	(3)	-	-		-	-	-
Property	(7)	(12)	5	1		1	-	-
Other renewals	4	2	2	1		1	-	-
Total	(72)	149	(221)	(54)		(41)	(13)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(204)	19	(223)	(56)		(57)	1	-
Signalling	(69)	66	(135)	(34)		(26)	(8)	-
Civils	(89)	93	(182)	(46)		(25)	(21)	-
Buildings	(15)	37	(52)	(13)		(7)	(6)	-
Electrical power and fixed plant	64	118	(54)	(13)		(1)	(12)	-
Telecoms	32	38	(6)	(2)		(2)	-	-
Wheeled plant and machinery	39	39	-	-		-	-	-
IT	(36)	(36)	-	-		-	-	-
Property	(4)	(9)	5	1		1	-	-
Other renewals	(85)	(79)	(6)	(2)		4	(6)	-
Total	(367)	286	(653)	(165)		(113)	(52)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Network work damage caused by adverse weather also led to financial underperformance this year to rectify damage on the Settle-Carlisle line. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately 10 per cent of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output and S&C. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets, continuing the trend of the first two years of the control period. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost on Bromsgrove and Weaver to Wavertree. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. This year significant costs were incurred restoring the Carlisle-Settle line. The underperformance in the control period to date is largely due to the same factors.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle or to pre-emptively address safety concerns raised by train operators. The underperformance in the control period to date is largely due to the same factors.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Extra volumes have been required following decisions to invest in performance improvement schemes notably in the Bletchley area. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

in £m 2016-17 prices unless stated

- (7) Telecoms – financial underperformance has been reported this year, continuing the trend from the previous year. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units. The underperformance in the control period to date is largely due to the same factors.
- (8) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with a notable contribution from FTN.

Statement 5c: Total financial performance - enhancement variance analysis, London North West

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	(37)	(41)	-	4	1
West coast power supply upgrade	13	28	-	(15)	(4)
Walsall to Rugeley electrification	10	24	-	(14)	(4)
Chiltern Main Line Train Lengthening	(1)	2	-	(3)	(1)
Manchester Victoria	9	-	-	9	9
Northern Hub	169	227	-	(58)	(15)
IEP Programme	-	-	-	-	-
Other Enhancements	87	87	-	-	-
Total	250	327	-	(77)	(14)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	(29)	(12)	-	(17)	(4)
West coast power supply upgrade	14	29	-	(15)	(4)
Walsall to Rugeley electrification	18	32	-	(14)	(4)
Chiltern Main Line Train Lengthening	(4)	(1)	-	(3)	(1)
Manchester Victoria	(10)	1	-	(11)	(11)
Northern Hub	171	249	-	(78)	(20)
IEP Programme	(1)	(1)	-	-	-
Other Enhancements	(53)	(53)	-	-	-
Total	106	244	-	(138)	(44)

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period to date. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays. Anticipated programme costs have decreased slightly this year resulting in some minor financial outperformance being recognised this year to mitigate some of the financial underperformance reported in 2015/16.
- (2) West coast power supply upgrade – since the end of last year, the anticipated final costs of the programme have increased resulting in financial underperformance being recognised in the current year and the control period to date. Costs have increased due in part of delays in a number of sectional commissionings due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required.

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

in £m 2016-17 prices unless stated

- (3) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in 2016/17 and in the control period to date. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project.
- (4) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. This led to negative FPM being declared in the opening two years of the control period as programme costs have continued to increase, including contractor variation orders received after the programme was substantially complete. In the current year, most of these contractor claims recognised last year have been successfully refuted, allowing outperformance to be recognised this year, to partly mitigate the underperformance reported last year. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.
- (5) Northern Hub – underperformance has been recognised this year and for the control period to date following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is mainly due to increased scope arising from worse than expected asset condition necessitating extra remediation costs. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints and higher than expected supply chain costs have added extra cost pressures.
- (6) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements..

Statement 5d: REBS Reconciliation, London North West

in £m 2016-17 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2016-17 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	181	192	(11)	-	-	-	(11)
Capacity charge	370	376	(6)	-	-	-	(6)
Electricity asset utilisation charge	14	15	(1)	-	-	-	(1)
Property income	223	154	69	-	-	-	69
Expenditure	-	-	-	-	-	-	-
Network operations	381	362	(19)	-	-	-	(19)
Support costs	274	316	42	-	6	-	36
RSSB and BT Police	67	58	(9)	-	-	-	(9)
Network maintenance	941	828	(113)	18	-	-	(131)
Schedule 4 costs	155	129	(26)	19	-	-	(45)
Schedule 8 costs	32	-	(32)	-	-	-	(32)
Renewals	1,964	1,552	(412)	241	-	(490)	(163)
Total REBS performance			(518)	278	6	(490)	(312)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(54)
Under-delivery of train performance requirements (CaSL)							(9)
Missed ORBIS milestones							(10)
Total adjustment for under delivery of outputs and reduced sustainability							(73)
Cumulative performance to end of 2016-17							(385)
Less cumulative outperformance recognised up to the end of 2016-17							(205)
Net REBS performance for 2016-17							(180)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance

Statement 6a: Analysis of income, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	1,019	1,014	5	3,042	3,015	27	1,016
Franchised track access income							
Fixed charges	91	73	18	279	230	49	86
Variable charges							
Variable usage charge	47	48	(1)	141	142	(1)	48
Traction electricity charges	63	80	(17)	187	207	(20)	62
Electrification asset usage charge	5	5	-	14	13	1	4
Capacity charge	123	124	(1)	367	370	(3)	124
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	40	40	-	120	117	3	40
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	278	297	(19)	829	849	(20)	278
Total franchised track access income	369	370	(1)	1,108	1,079	29	364
Total franchised track access and grant income	1,388	1,384	4	4,150	4,094	56	1,380
Other single till income							
Property income	68	58	10	232	165	67	112
Freight income	18	28	(10)	54	78	(24)	17
Open access income	1	1	-	2	3	(1)	-
Stations income	67	62	5	197	186	11	65
Facility and financing charges	12	15	(3)	36	43	(7)	12
Depots Income	11	12	(1)	36	35	1	11
Other income	1	1	-	3	2	1	1
Total other single till income	178	177	1	560	512	48	218
Total income	1,566	1,561	5	4,710	4,606	104	1,598

Statement 6a: Analysis of income, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income exceeded the regulatory expectation this year mainly as a result of extra property sales, higher track access income (from offering new services to operators) partly offset by lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity) and lower freight income (as a result of structural declines in the coal transportation market).

Statement 6a: Analysis of income, London North West – continued

in £m 2016-17 prices unless stated

- (3) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

- (4) Fixed charges – fixed charge income was slightly higher than the determination in both the year and the control period to date. This is partly attributable to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators continuing the trend of supplementary income received in earlier years of the control period. Fixed charges are higher than last year but this is mostly due to the expectation in the determination.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, London North West – continued

in £m 2016-17 prices unless stated

- (6) Property income – this is higher than the determination due to additional property sales. Property income for the control period to date is favourable which is also due to property sales, notably the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham reported in last year's Regulatory financial statements. Property income is lower than the previous year mainly due to less property sales income. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. As reported in last year's Regulatory financial statements, there were significant benefits in 2015/16 from the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. Property rental income is higher than the previous year which reflects the buoyant market conditions for many of areas that Network Rail operates in as well as offering premises that meet customers' demand. Also, some of the new facilities (such as the revamped Birmingham New Street station and inclusion of a mezzanine level at London Euston) were in place for the full year for the first time this year which has helped generate more income as well as deliver a better experience for the passenger.
- (7) Freight income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (8) Stations income – revenue earned this year is higher than the regulator expected. Extra income has been earned following redevelopment of Birmingham New Street station and improvements to Euston station. Whilst this generates additional turnover it does increase the costs for the organisation.
- (9) Facility and financing charges – income is in line with previous years but lower than the determination anticipated, continuing the trend witnessed earlier in the control period. Fewer schemes have been identified and implemented than was expected at the start of the control period.

Statement 6b: Analysis of other single till income, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	54	59	(5)	144	166	(22)	48
Property sales	14	6	8	88	19	69	64
Adjustment for commercial opex	-	(7)	7	-	(20)	20	-
Total property income	68	58	10	232	165	67	112
Freight income							
Freight variable usage charge	13	17	(4)	40	50	(10)	13
Freight traction electricity charges	3	6	(3)	10	16	(6)	3
Freight electrification asset usage charge	-	-	-	-	1	(1)	-
Freight capacity charge	1	2	(1)	3	6	(3)	1
Freight only line charge	-	1	(1)	1	3	(2)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	1	2	(1)	-	2	(2)	-
Total freight income	18	28	(10)	54	78	(24)	17
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	1	1	-	2	3	(1)	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	1	1	-	2	3	(1)	-
Stations income							
Managed stations income							
Long term charge	7	7	-	21	22	(1)	6
Qualifying expenditure	20	15	5	57	44	13	18
Total managed stations income	27	22	5	78	66	12	24
Franchised stations income							
Long term charge	34	34	-	100	102	(2)	35
Stations lease income	6	6	-	19	18	1	6
Total franchised stations income	40	40	-	119	120	(1)	41
Total stations income	67	62	5	197	186	11	65
Facility and financing charges							
Facility charges	12	15	(3)	36	43	(7)	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	12	15	(3)	36	43	(7)	12
Depots income	11	12	(1)	36	35	1	11
Other	1	1	-	3	2	1	1
Total other single till income	178	177	1	560	512	48	218

Statement 6b: Analysis of other single till income (unaudited), London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	62	54	(8)	182	170	(12)	62
Signalling shift managers	3	3	-	9	11	2	3
Local operations managers	4	4	-	12	12	-	4
Controllers	7	8	1	22	24	2	7
Electrical control room operators	2	3	1	9	8	(1)	2
Total signaller expenditure	78	72	(6)	234	225	(9)	78
Non-signaller expenditure							
Mobile operations managers	12	8	(4)	33	23	(10)	11
Managed stations	17	9	(8)	48	29	(19)	17
Performance	2	3	1	8	11	3	3
Customer relationship executives	1	2	1	8	5	(3)	3
Route enhancement managers	-	-	-	5	-	(5)	-
Weather	-	5	5	-	14	14	-
Other	3	3	-	9	8	(1)	3
Operations delivery	-	-	-	-	-	-	1
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	22	6	(16)	60	21	(39)	26
Other operating income	(6)	(5)	1	(24)	(15)	9	(6)
Total non-signaller expenditure	51	31	(20)	147	96	(51)	58
Total network operations expenditure	129	103	(26)	381	321	(60)	136
Support costs							
Core support costs							
Human resources	4	15	11	24	48	24	8
Information management	16	15	(1)	53	42	(11)	17
Government and corporate affairs	3	5	2	9	15	6	3
Group strategy	-	1	1	1	4	3	1
Finance	7	7	-	16	23	7	5
Business services	6	3	(3)	15	10	(5)	3
Accommodation	15	12	(3)	43	40	(3)	15
Utilities	12	10	(2)	32	31	(1)	10
Insurance	(2)	11	13	23	35	12	13
Legal and inquiry	2	2	-	7	5	(2)	2
Safety and sustainable development	5	2	(3)	18	7	(11)	6
Strategic sourcing	2	2	-	5	8	3	2
Business change	-	1	1	1	3	2	-
Other corporate functions	6	1	(5)	21	3	(18)	8
Core support costs	76	87	11	268	274	6	93
Other support costs							
Asset management services	8	9	1	25	27	2	9
Network Rail telecoms	7	8	1	30	29	(1)	10
National delivery service	-	1	1	-	2	2	-
Infrastructure Projects	(6)	-	6	(15)	-	15	(3)
Commercial property	(2)	(1)	1	(5)	(2)	3	(3)
Group costs	(5)	(2)	3	(29)	(5)	24	(8)
Total other support costs	2	15	13	6	51	45	5
Total support costs	78	102	24	274	325	51	98
Traction electricity, industry costs and rates							
Traction electricity	71	92	21	209	238	29	73
Business rates	37	38	1	114	113	(1)	38
British transport police costs	21	17	(4)	61	52	(9)	19
RSSB costs	3	2	(1)	6	7	1	2
ORR licence fee and railway safety levy	2	3	1	5	12	7	2
Reporters fees	-	1	1	-	2	2	-
Other industry costs	1	1	-	3	2	(1)	1
Total traction electricity, industry costs and rates	135	154	19	398	426	28	135
Total network operations expenditure, support costs, traction electricity, industry costs and rates	342	359	17	1,053	1,072	19	369

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. There are also some extra managed stations costs as some stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra running costs. These extra costs are offset by supplementary income (refer to Statement 6a). Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2016-17 prices unless stated

- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Government and corporate affairs – costs are lower than the determination in the control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising.
- (8) Finance – costs are lower than the determination in the control period to date. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16 and part of the Group strategy team during the current year.
- (9) Business services – costs in this category are higher than the determination assumed mainly due to transfers of responsibilities from other categories within this statement. Responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date. Costs in the year are higher than the previous year for the reasons noted above.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2016-17 prices unless stated

- (10) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (11) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area. Costs in the control period to date include investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.
- (12) Strategic sourcing – costs are lower than the determination assumptions for the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category.
- (13) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2016-17 prices unless stated

- (14) Asset Management Services – costs are higher than the determination expected for the control period to date. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).
- (15) Network Rail telecoms – costs are lower than the previous year due to renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (16) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position would be achieved by 2017/18.
- (17) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (18) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower re-organisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2016-17 prices unless stated

- (19) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the previous year mainly due to lower traction electricity costs partly offset by extra British Transport Police costs. The same factors explain the variance to the regulator’s targets for the current year and the control period to date.
- (20) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are lower than the prior year reflecting lower market prices which is offset by lower income in Statement 6a. The overall net Traction electricity costs are lower than the previous year. As noted in the 2015/16 Regulatory financial statements the position in that year included recognition of losses on settlements of commercial claims.
- (21) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.
- (22) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year’s costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	58	64	63	64
MOMS	6	11	11	12
Control	11	14	12	12
Planning & Performance Staff Costs	7	10	11	15
Managed Stations Staff Costs	4	6	7	12
Operations Management Staff Costs	6	13	14	10
Other	31	(2)	16	4
Total operations & customer services costs	123	116	134	129
Total Network Operations	123	116	134	129
Support				
Human resources				
Functional support	7	5	3	4
Training (inc Westwood)	5	2	1	-
Graduates	1	-	1	-
Apprenticeships	2	2	2	-
Other	1	2	1	-
Total human resources	16	11	8	4
Information management				
Support	1	1	-	2
Projects	2	1	-	-
Licences	-	-	-	-
Business operations	11	19	16	14
Other	-	-	-	-
Total information management	14	21	16	16
Finance	3	4	5	7
Business Change	2	2	-	-
Contracts & Procurement	2	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	2	2
Planning & development	4	-	1	-
Safety & compliance	5	-	-	-
Other corporate services	14	4	4	4
Commercial property	26	13	11	13
Infrastructure Projects	(14)	(5)	(3)	(6)
Route Services	2	4	4	4
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	36	-	-	-
National delivery service	2	-	-	-
Private party	-	-	-	-
Utilities	-	9	10	12
Network Rail Telecoms	-	12	10	7
Digital Railway	-	4	5	4
Safety Technical & Engineering	-	10	10	8
Government & Corporate Affairs	-	4	3	3
Business Services	-	5	3	6
Route Asset Management	-	-	(1)	(1)
Legal and inquiry	-	3	2	2
Group/central				
Pensions	1	-	-	-
Insurance	9	12	13	(2)
Redundancy/reorganisation costs	16	4	3	3
Staff incentives/Bonus Reduction	2	(6)	(2)	-
Accommodation & Support Recharges	(2)	(7)	(7)	(7)
Commercial claims settlements	(1)	-	(2)	-
ORR financial penalty	19	(6)	-	-
Other	1	-	-	(1)
Total group/central costs	45	(3)	5	(7)
Total support	157	99	95	78
Total network operations and support costs	280	215	229	207

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	149	109	(40)	439	338	(101)	150
Signalling	51	36	(15)	146	111	(35)	47
Civils	41	34	(7)	99	105	6	33
Buildings	8	12	4	20	33	13	6
Electrical power and fixed plant	28	24	(4)	85	73	(12)	27
Telecoms	6	4	(2)	18	12	(6)	6
Other network operations	32	47	15	121	147	26	41
Asset management services	11	8	(3)	31	25	(6)	12
National Delivery Service	(2)	11	13	(5)	32	37	(2)
Property	1	1	-	5	3	(2)	3
Group	(5)	(4)	1	(18)	(13)	5	(6)
Total maintenance expenditure	320	282	(38)	941	866	(75)	317

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to higher civils inspection costs being partly offset by lower reactive maintenance activity.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16 with some extra expenses resulting from changes in government legislation affecting pensions and the transfer of certain activities from Other network operations to Track to improve local accountability and cost control offset by some modest efficiencies.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting pension legislation changes and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are lower than the determination mainly due to a transfer of responsibility to Asset management services partly offset by higher asset inspection costs incurred. The increase in costs compared to the previous year are due to higher inspection costs partly offset by reduced reactive maintenance requirements.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is lower than the regulator assumed, continuing the trend witnessed in earlier years of the control period. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – costs are higher than the PR13 target in the current year and control period to date largely due to efficiency assumptions not being achieved. Costs are broadly in line with the previous year.
- (7) Telecoms – costs are higher than the regulatory assumption this year. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. The control period to date position is higher than the regulator's assumption mostly due to difficulties in achieving the targeted cost savings.
- (8) Other network operations – costs for the current year are lower than the regulator's expectation mainly due to transfers of activity and responsibility to other categories in this statements (notably Track and Signalling). For the control period to date costs are lower than the PR13 target despite additional expenditure on one-off items in the opening two years of the control period. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. Investment was undertaken on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower than the previous year as a result of the completion of the aforementioned projects and the transfer of activity from this category to other headings within this statement (notably Track and Signalling) as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (9) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils and Other network operations and additional activity undertaken by the routes to understand and manage the assets in their area. The same factors are responsible for the extra spend in the control period to date.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (11) Property – costs in the control period to date are higher than the regulatory assumption mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail's rental estate following tenant's bankruptcy which left Network Rail to bear the costs of site clearance.
- (12) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in the control period to date due to additional vehicle purchases completed towards the end of the previous control period. Future plans for sourcing the company's vehicle requirements (leasing from a third party as opposed to outright capital purchase) may mean that the level of notional income recognised will decrease in the latter years of the control period.

Statement 9a: Summary analysis of renewals expenditure, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	160	122	(38)	597	393	(204)	221
Signalling	119	122	3	448	379	(69)	175
Civils	148	96	(52)	401	312	(89)	152
Buildings	52	41	(11)	147	132	(15)	54
Electrical power and fixed plant	31	40	9	69	133	64	20
Telecoms	15	27	12	51	83	32	15
Wheeled plant and machinery	17	28	11	56	95	39	23
Information Technology	21	18	(3)	97	61	(36)	34
Property	10	3	(7)	17	13	(4)	2
Other renewals	19	23	4	81	(4)	(85)	29
Total renewals expenditure	592	520	(72)	1,964	1,597	(367)	725

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination with increased expenditure across almost all asset categories. Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was lower than the previous year with the main contribution arising from lower High output volumes delivered in the current year.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was broadly in line with the regulatory target. However, this was due to higher like-for-like costs being offset by deferral of activity into future years. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Bromsgrove. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. As a result of higher overall costs, some projects, such as Birmingham New Street re-modelling have had to be postponed until future control periods. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. The previous year included substantial amounts relating to Gresty Lane, Stafford and Watford Junction which were all substantially completed by the end of 2015/16.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout the London North West route, including significant costs for the repair of a bridge on the Settle-Carlisle line. Whilst the remediation works were a success and the assets' capability restored the unforeseen works resulted in extra costs. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with the largest contribution from the aforementioned emergency works on the Settle-Carlisle line. In addition, there are higher underlying costs, largely from a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is broadly similar to the previous year.

Statement 9a: Detailed analysis of renewals expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was higher than the regulator anticipated as a result of lower volumes of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is in step with the previous year.
- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year. However, the underlying story is one of higher costs partly more than offset by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably on investment in performance improvement schemes) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional costs for Overhead line and Fixed plant.
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Most of the underspend in the control period to date is expected to be caught up in the remaining years of the control period as further programmes are designed and delivered. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is less than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Expenditure is higher than the previous year which was impacted by delays in delivery of key projects as noted in last year's Regulatory financial statements and from increased activity on GSMR activities.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2016-17 prices unless stated

- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is higher than the determination assumed continuing the trend of the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are higher than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are higher in the current year compared to 2015/16 as this year included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2016-17 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Small plant – once more expenditure is lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway.

Statement 9a: Detailed analysis of renewals expenditure, London North West – continued

in £m 2016-17 prices unless stated

- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the control period is spread across FTN and ORBIS. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, London North West

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	81	47	(34)	202	143	(59)
High output renewal	11	9	(2)	146	75	(71)
Plain line refurbishment	10	5	(5)	39	21	(18)
S&C renewal	25	33	8	106	83	(23)
S&C refurbishment	6	11	5	15	21	6
Track non-volume	10	11	1	34	33	(1)
Off track	17	6	(11)	55	17	(38)
Total track	160	122	(38)	597	393	(204)
Signalling						
Full conventional resignalling	69	65	(4)	256	227	(29)
Modular resignalling	-	3	3	-	6	6
ERTMS resignalling	-	1	1	-	1	1
Partial conventional resignalling	9	17	8	30	44	14
Targeted component renewal	-	1	1	4	11	7
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	5	4	(1)	38	37	(1)
Level crossings	5	4	(1)	18	14	(4)
Minor works	28	19	(9)	93	11	(82)
Centrally managed costs	3	8	5	9	28	19
Other	-	-	-	-	-	-
Total signalling	119	122	3	448	379	(69)
Civils						
Underbridges	56	37	(19)	130	129	(1)
Overbridges	14	6	(8)	32	24	(8)
Bridgeguard 3	4	-	(4)	17	-	(17)
Major structures	5	-	(5)	18	10	(8)
Tunnels	9	7	(2)	33	26	(7)
Other assets	10	10	-	31	32	1
Structures other	-	15	15	4	26	22
Earthworks	49	21	(28)	134	65	(69)
Other	1	-	(1)	2	-	(2)
Total civils	148	96	(52)	401	312	(89)
Buildings						
Managed stations	3	7	4	12	26	14
Franchised stations	41	30	(11)	110	90	(20)
Light maint depots	1	1	-	6	3	(3)
Depot plant	1	1	-	2	4	2
Lineside buildings	3	1	(2)	7	2	(5)
MDU buildings	3	1	(2)	9	5	(4)
NDS depots	-	-	-	1	2	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	52	41	(11)	147	132	(15)

Statement 9b: Detailed analysis of renewals expenditure, London North West - continued

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	1	3	2	3	15	12
Overhead Line	8	11	3	13	19	6
DC distribution	1	3	2	2	9	7
Conductor rail	1	1	-	1	3	2
SCADA	1	1	-	1	10	9
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	2	1	3	6	3
Fixed plant	18	19	1	46	71	25
Total electrical power and plant	31	40	9	69	133	64
Telecoms						
Operational communications	-	2	2	-	5	5
Network	1	3	2	3	6	3
SISS	4	5	1	10	18	8
Projects and other	-	12	12	3	33	30
Non-route capital expenditure	10	5	(5)	35	21	(14)
Total telecoms	15	27	12	51	83	32
Wheeled plant and machinery						
High output	6	3	(3)	20	26	6
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	2	1	3	3	-
Intervention	4	4	-	8	24	16
Materials delivery	1	1	-	10	2	(8)
On track plant	2	5	3	7	12	5
Seasonal	-	1	1	1	9	8
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	4	4
Road vehicles	-	11	11	4	14	10
S&C delivery	3	-	(3)	3	-	(3)
Total wheeled plant and machinery	17	28	11	56	95	39
Information Technology						
IM delivered renewals	20	17	(3)	86	55	(31)
Traffic management	1	1	-	11	6	(5)
Total information technology	21	18	(3)	97	61	(36)
Property						
MDUs/offices	9	3	(6)	15	9	(6)
Commercial estate	1	-	(1)	2	4	2
Corporate services	-	-	-	-	-	-
Total property	10	3	(7)	17	13	(4)
Other renewals						
Asset information strategy	11	8	(3)	29	34	5
Intelligent infrastructure	2	6	4	7	14	7
Faster isolations	1	9	8	4	27	23
LOWS	-	1	1	1	2	1
Small plant	2	2	-	4	8	4
Research and development	-	-	-	-	-	-
Phasing overlay	-	(3)	(3)	-	(89)	(89)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	3	-	(3)	36	-	(36)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	19	23	4	81	(4)	(85)
Total renewals	592	520	(72)	1,964	1,597	(367)

Statement 9b: Detailed analysis of renewals expenditure, London North West (unaudited) – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North West

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	45	45	-	155	142	(13)	54
Access charge supplement Income	(40)	(40)	-	(119)	(117)	2	(40)
Net (income)/cost	5	5	-	36	25	(11)	14
Schedule 8							
Performance element income	(11)	-	11	(13)	-	13	(1)
Performance element costs	15	2	(13)	45	4	(41)	10
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	4	2	(2)	32	4	(28)	9

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	1	5	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(1)	1	-
RSSB Costs	(1)	-	-
ORR licence fee and railway safety levy	(1)	(6)	(2)
Reporters fees	(1)	(3)	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(2)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(3)	(5)	(1)

Statement 10: Other information, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Statement 10: Other information, London North West – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The minor control period to date variance is a factor of the difference between the inflation rates used to uplift the contractual payments and the inflation rates used to uplift the regulator's PR13 targets. Performance element costs are in line with the determination assumption this year. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions offset by higher underlying costs. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are higher than the regulatory assumption which has resulted in financial underperformance being recognised (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Signalling - Full conventional resignalling), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.
- (2) Schedule 8 costs are higher than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as excessive rainfall causing a train derailment near Watford (September 2016) and storm Doris (February 2017) as well as the collapse of a wall outside Liverpool Lime Street station after it was hit by a van (February 2017). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Every year the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. Despite all of the contributory factors noted above, performance was only marginally worse than the ORR target and was better than the previous year. A number of strategies enacted by the management team surrounding asset resilience and rapid response teams as well as improved maintenance regimes all contributed to this noticeable improvement.

Statement 10: Other information, London North West – continued

in £m 2016-17 prices unless stated

- (3) The opex memorandum shows a net loss for this year which is primarily due to variances on Rates and industry costs (see Statement 7a) partly offset by amounts earned through the Volume Incentive (see Statement 12). The control period to date position is lower showing a net loss suggesting London North West will receive lower income in CP6 (subject to overall financing and funding considerations). This is mainly due to gains made on the Volume incentive offset by lower ORR costs, Reporters fees and differences between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

Statement 11

No Statement 11 is required for London North West

Statement 12: Volume incentives, London North West

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	4	1	72	71	1.1%	1.50	pence per passenger train mile
Passenger farebox (millions)	12	2	2,074	1,916	3.4%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	7	8	2.7%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(2)	(1)	6,988	6,924	3.9%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	11	1					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$$

Where:
A_t = Actual in year quantity
B = 2016-17 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has performed broadly in line with the regulator's growth trajectory targets. This compares to gains recognised in the opening two years of the control period. The current year has been a combination of outperformance on passenger metrics (Passenger train miles and Passenger farebox) reflecting higher passenger demand and services, offset by worse than expected freight performance. This is mostly due to structural decline in the freight market which is causing demand to be lower than the determination's targets.

Statement 14: Renewals volumes, unit costs and expenditure, London North West

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	105	78	148	187	791
	High Output Renewal	km	24	14	22	39	564
	Plain line Refurbishment	km	26	8	11	51	216
	S&C Renewal/Refurbishment	point ends	133	29	64	216	296
	Track Drainage	lm	12,152	4	16	14,452	1
	Fencing	km	124	5	26	647	40
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	3	-	1	10	100
	Other	-	-	-	-	-	-
Total			12,567	138	288	15,602	-
Signalling	Full Conventional Resignalling	SEU	237	21	72	237	304
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	129	6	38	130	292
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	4	1	7	4	1,750
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
Total			370	28	117	371	-
Civils	Underbridges	m ²	23,858	34	47	33,540	1
	Overbridges (incl BG3)	m ²	4,548	7	11	4,548	2
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	10,448	5	11	10,448	1
	Culverts	m ²	172	2	2	172	12
	Footbridges	m ²	-	-	-	-	-
	Coastal & Estuarial Defences	m	1,013	1	3	1,013	3
	Retaining Walls	m ²	4,887	2	3	4,907	1
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	400	15	45	756	60
	EW Drainage	m	15,377	4	9	21,519	0
	Other	-	-	-	-	-	-
Total			60,703	70	131	76,903	-
Buildings	Buildings (MS)	m ²	7,399	-	1	7,399	0
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	30	-	-	30	-
	Buildings (FS)	m ²	8,109	2	3	10,857	0
	Platforms (FS)	m ²	12,446	3	8	13,704	1
	Canopies (FS)	m ²	5,181	3	7	6,240	1
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	135	4	5	135	37
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	-	55,066	3	5	101,976	0
	Light Maintenance Depots	m ²	13,359	-	2	20,655	0
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	4,801	1	5	11,140	0
	MDU Buildings	m ²	5,834	-	3	7,427	0
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			112,360	16	39	179,563	-

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume £k/unit	Cost unit	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	101	-	2	112	18
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	22	-	2	142	14
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	57	-	6	73	82
	Signalling Power Cables	km	-	-	-	-	-
	Signalling Supply Points	No.	5	-	3	20	150
	Other Fixed Plant		-	-	-	-	-
Total			185	-	13	347	-
Telecoms	Customer Information Systems	No.	23	-	1	23	43
	Public Address	No.	90	-	-	105	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	9	-	-	524	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	8	1	10	8	1,250
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			130	1	11	660	-

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Sussex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	187	186	1	570	565	5	192
Fixed Income	13	13	-	43	43	-	13
Variable Income	95	106	(11)	296	308	(12)	100
Other Single Till Income	84	86	(2)	239	250	(11)	73
Opex memorandum account	(8)	-	(8)	(8)	-	(8)	(1)
Total Income	371	391	(20)	1,140	1,166	(26)	377
Operating expenditure							
Network operations	65	32	(33)	160	93	(67)	51
Support costs	23	31	8	81	94	13	31
Traction electricity, industry costs and rates	52	61	9	157	170	13	50
Network maintenance	67	56	(11)	203	181	(22)	65
Schedule 4	23	12	(11)	65	40	(25)	30
Schedule 8	45	-	(45)	91	-	(91)	26
Total operating expenditure	275	192	(83)	757	578	(179)	253
Capital expenditure							
Renewals	170	144	(26)	532	472	(60)	196
PR13 enhancement expenditure	92	71	(21)	294	235	(59)	99
Non PR13 enhancement expenditure	1	-	(1)	5	-	(5)	1
Total capital expenditure	263	215	(48)	831	707	(124)	296
Other expenditure							
Financing costs	103	104	1	265	293	28	82
Corporation tax (received)/paid	-	-	-	-	1	1	-
Total other expenditure	103	104	1	265	294	29	82
Total expenditure	641	511	(130)	1,853	1,579	(274)	631

Statement 1: Summary regulatory financial performance, Sussex – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity income. These variances are set out in more detail in Statement 6a.
- (4) Income – Other single till income in the year is lower than the determination mainly due to lower property sales and income from the commercial estate partly offset by offering enhanced facilities to operators at stations and depots. This additional station and depot income also accounts for the increase in income compared to the previous year. These variances are set out in more detail in Statement 6a.
- (5) Income – Opex memorandum account – this includes penalties under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The negative amount reported in the current year is largely due to costs recognised on the volume incentive, including the impact of industrial action in Southern England whilst the control period to date is mostly from differences in Business rates. The variances are set out in more detail in Statement 10.
- (6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enhanced station facilities, substantial investment in performance improvement funds and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are higher than the previous year mostly due to extra investment in performance improvements initiatives. Network Operations costs are discussed in more detail in Statement 7a.
- (7) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Sussex – continued

in £m 2016-17 prices unless stated

- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income). The savings made in the control period to date is also predominately due to this factor. Costs are broadly in line with the previous year. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (9) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, higher civils inspections costs have contributed to the extra expenses. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year and additional structures inspections costs have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are higher than the determination mostly as a result of higher average costs of taking possessions as well as the well-publicised impact of industrial action in the South East upon train performance. Costs for the control period to date include compensation payments in the wake of extreme weather events. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year, including the well-publicised impact of industrial action in the South East upon train performance. Schedule 8 costs are discussed in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is £0.8bn higher than the determination which included an assumption that £0.4bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, with contributions from Thameslink re-phasing and investment in commercial premises to coincide with the redevelopment of London Bridge. The control period to date position is caused by the same programmes. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Sussex – continued

in £m 2016-17 prices unless stated

- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. Expenditure is lower than the previous year reflecting Network Rail's constrained funding arrangements (as discussed in more detail in Statement 4) necessitating prioritisation of core activities. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Sussex

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,936	2,774	162
Indexation to 2015-16 prices	170	161	9
Opening RAB for the year (2015-16 prices)	3,106	2,935	171
Indexation for the year	68	64	4
Opening RAB (2016-17 prices)	3,174	2,999	175
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	161	144	17
PR13 enhancements	93	89	4
Non-PR13 enhancements	1	-	1
Total enhancements	94	89	5
Amortisation	(146)	(146)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2017	3,283	3,086	197

RAB Regulatory financial position - cumulative, Sussex

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	2,830	3,029	3,174	2,830
Adjustments for the actual capital expenditure outturn in CP4	81	-	-	81
Renewals	154	185	161	500
PR13 enhancements	104	100	93	297
Non-PR13 enhancements	1	1	1	3
Total enhancements	105	101	94	300
Amortisation	(141)	(141)	(146)	(428)
Adjustments for under-delivery of regulatory outputs	-	-	-	-
Closing RAB	3,029	3,174	3,283	3,283

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in the first two years of the control period relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity to later in the control period and beyond.
- (6) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.

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

in £m 2016-17 prices unless stated

- (8) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Sussex

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	169	159	144	472
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	56	-	-	56
Capitalised financing on CP4 deferrals	1	2	3	6
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	226	161	147	534
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(113)	(6)	(16)	(135)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(6)	(13)
Adjustments for efficient overspend	53	41	39	133
Capitalised financing on efficient overspend	1	3	5	9
25% retention of efficient overspend	(14)	(10)	(8)	(32)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	4	2	1	7
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	154	185	161	500
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	1	(1)	-
Adjustment for 25% retention of efficient overspend	14	10	8	32
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	(2)	-	2	-
Total actual renewals expenditure (see statement 9)	166	196	170	532

Statement 2b: RAB - reconciliation of expenditure, Sussex - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	67	56	89	212
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	7	(7)	-	-
Capitalised financing on CP4 deferrals	-	-	-	-
Baseline adjustments	-	40	(18)	22
Capitalised financing on Baseline adjustments	-	1	1	2
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	74	90	72	236
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	30	2	5	37
Capitalised financing on acceleration / (deferrals) of expenditure	1	1	2	4
Adjustments for efficient overspend	-	-	4	4
Capitalised financing on efficient overspend	-	-	-	-
25% retention of efficient overspend	-	-	(1)	(1)
Capitalised financing of 25% efficient overspend	-	-	-	-
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	8	12	20
agreements - retention of efficient overspend	-	(1)	(2)	(3)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	1	1
Adjustments for efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	(1)	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	104	100	93	297
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	1	4
overspend	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	(1)	-	-	(1)
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	1	1	1	3
Total enhancements (added to the RAB - see statement 2a)	105	101	94	300
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(1)	(2)	(4)	(7)
Adjustment for 25% retention of efficient overspend	1	1	3	5
Other Adjustments	1	-	-	1
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	15	11	3	29
Other adjustments	-	-	-	-
Total actual enhancement expenditure (see statement 3)	121	111	96	328

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

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

in £m 2016-17 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Redhill platform extension. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Sussex

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	-	(1)	1	1	-
Stations - Access for All (AfA)	1	4	3	3	5	2
Development	4	2	(2)	40	38	(2)
Level crossing safety	2	-	(2)	3	2	(1)
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	-	-	-	-	-	-
Total funds	8	6	(2)	47	46	(1)
Committed projects						
Thameslink	18	7	(11)	81	45	(36)
Total committed projects	18	7	(11)	81	45	(36)
Named schemes						
Airports & Ports:						
Redhill additional platform	18	18	-	23	23	-
Total airports & Ports	18	18	-	23	23	-
HLOS capacity metric schemes						
Uckfield line train lengthening	5	7	2	19	20	1
Sussex traction power supply upgrade	27	31	4	32	36	4
London Victoria station capacity improvements	-	-	-	1	1	-
Total HLOS capacity metric schemes	32	38	6	52	57	5
CP4 Project Rollovers						
Battersea Park Station Platform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	5	1
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	5	6	1
Other projects						
Seven day railway projects	1	1	-	14	13	(1)
ERTMS Cab fitment	-	-	-	-	1	1
R&D allowance	-	-	-	-	1	1
Income generating property schemes	15	1	(14)	72	43	(29)
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	16	2	(14)	86	58	(28)
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	92	71	(21)	294	235	(59)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	2	-	(2)
Total Government sponsored schemes	1	-	(1)	2	-	(2)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	2	-	(2)
Total Network Rail spend to save schemes	-	-	-	2	-	(2)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	1	-	(1)	5	-	(5)
Total Network Rail funded enhancements (see Statement 1)	93	71	(22)	299	235	(64)
Third Party PAYG	3	-	(3)	29	-	(29)
Total enhancements (see statement 2b)	96	71	(25)	328	235	(93)

Statement 3: Analysis of enhancement capital expenditure, Sussex – continued

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £93m (as shown in Statement 1). This comprises the total enhancement figure in the table above £96m less the PAYG schemes funded by third parties (£3m).
- (5) Investment expenditure this year was slightly lower than the previous year. This is a combination of increases and decreases across a wide range of programmes but the largest contribution to the decrease is from Thameslink.

Statement 3: Analysis of enhancement capital expenditure, Sussex – continued

in £m 2016-17 prices unless stated

- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year and in the control period to date is broadly consistent with the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:
- (a) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure in the current year is lower than the baseline as activity has been reprofiled into future years.
 - (b) Development - This fund includes CP6 Development, Network Rail Discretionary Funding and the Innovation Fund. Expenditure in the current year is higher than the baseline due to reprofiling of activity.
- (7) PR13 funded schemes – Committed Projects – there is only one programme in this heading: Thameslink. The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is higher than the regulatory assumption. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (8) PR13 funded schemes – named schemes - there is only one programme in this heading: Redhill additional platform. This project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Progress on this project is in line with the Hendy review expectations. However, as the project is now expected to cost more than the baseline over its life cycle (arising from extra work to meet timetable commitments) some financial underperformance has been reported this year (refer to Statement 5c).
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline. This is mainly due to Sussex traction power supply upgrade. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:
- (a) Uckfield line train lengthening - The key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure in the year and the scheme to date is broadly in line the baseline.
 - (b) Sussex traction power supply upgrade - The principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic from the Thameslink Programme. Expenditure for the year is slightly below target as resource constraints have resulted in reprofiling activity until later in the control period. The variance in the control period to date is largely the result of the underspend in the current year.

Statement 3: Analysis of enhancement capital expenditure, Sussex – continued

in £m 2016-17 prices unless stated

- (c) London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is in step with the baseline for the current year and the control period to date. The main programme in this heading is Gatwick Airport Remodelling and Passenger Capacity which is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. This programme is now substantially complete.
- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is higher than the baseline mainly due to additional income generating schemes. Notable variances to the baseline include:
 - (a) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Major investment this year included identification of commercial opportunities at Haywards Heath station. The variance in the control period to date is largely the result of the extra investment in the same scheme.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
 - (a) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
 - (b) PAYGO – The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Sussex

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	2,268	2,090	(178)	1,846	1,804	(42)
Income						
Grant income	(187)	(186)	1	(560)	(554)	6
Fixed charges	(13)	(13)	-	(42)	(42)	-
Variable charges	(95)	(106)	(11)	(290)	(303)	(13)
Other single till income	(84)	(86)	(2)	(235)	(245)	(10)
Total income	(379)	(391)	(12)	(1,127)	(1,144)	(17)
Expenditure						
Network operations	65	32	(33)	157	93	(64)
Support costs	23	31	8	78	95	17
Traction electricity, industry costs and rates	52	61	9	154	167	13
Network maintenance	67	56	(11)	198	178	(20)
Schedule 4	23	12	(11)	65	39	(26)
Schedule 8	45	-	(45)	90	-	(90)
Renewals	170	144	(26)	523	461	(62)
PR13 enhancement	92	89	(3)	288	209	(79)
Non-PR13 enhancement	1	-	(1)	5	-	(5)
Total expenditure	538	425	(113)	1,558	1,242	(316)
Financing						
Interest expenditure on nominal debt - FIM covered	23	34	11	71	94	23
Interest expenditure on index linked debt - FIM covered	13	15	2	40	44	4
Expenditure on the FIM	17	24	7	55	67	12
Interest expenditure on government borrowing	24	-	(24)	45	-	(45)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(3)	(2)
Total interest costs	77	72	(5)	210	202	(8)
Accretion on index linked debt - FIM covered	26	32	6	52	91	39
Total financing costs	103	104	1	262	293	31
Corporation tax	-	-	-	-	1	1
Other	11	-	(11)	2	32	30
Movement in net debt	273	138	(135)	695	424	(271)
Closing net debt	2,541	2,228	(313)	2,541	2,228	(313)

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	0.31	-0.19	-0.55	0.77
FFO/interest	2.34	1.87	1.36	2.82
Net debt/RAB (gearing)	70.1%	73.0%	77.4%	72.1%
FFO/debt	7.6%	5.5%	4.1%	9.1%
RCF/debt	4.4%	2.6%	1.1%	5.8%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the Sussex route has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt attributable to the Sussex route 31 March 2017 is £0.3bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review and subsequent Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator did not expect Network Rail to cover its interest costs through its trading profits (including an assumption for steady state renewals) and the shortfall, along with any emerging risks, are absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). A negative value was reported against the ratio again this year. This means that there was a trading loss. This arose from higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs. Revenue was also lower than planned. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is higher than the regulatory comparative which is mainly due to efficient capital overspend and higher net operational costs partly offset by interest savings. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs, as well as lower turnover. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure. The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Sussex

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	187	186	1	1	-	-	-	-
Fixed Income	13	13	-	-	-	-	-	-
Variable Income	61	63	(2)	-	-	-	(2)	(2)
Other Single Till Income	84	86	(2)	-	-	-	(2)	(2)
Opex memorandum account	(8)	-	(8)	(4)	-	-	(4)	(4)
Total Income	337	348	(11)	(3)	-	-	(8)	(8)
Expenditure								
Network operations	65	32	(33)	-	-	-	(33)	(33)
Support costs	23	31	8	-	-	-	8	8
Industry costs and rates	15	16	1	4	-	-	(3)	(3)
Traction electricity	3	2	(1)	-	-	-	(1)	(1)
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	67	56	(11)	-	-	-	(11)	(11)
Schedule 4 costs	23	12	(11)	-	(2)	-	(9)	(9)
Schedule 8 costs	45	-	(45)	-	-	-	(45)	(45)
Renewals	170	144	(26)	2	11	-	(39)	(8)
PR13 Enhancements	92	71	(21)	-	(5)	-	(16)	(3)
Non PR13 Enhancements	1	-	(1)	-	(1)	-	-	-
Financing Costs	103	104	1	1	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	607	468	(139)	7	3	-	(149)	(105)
Total:			(150)	4	3	-	(157)	(113)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(113)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(66)
Under-delivery of train performance requirements (CaSL)								(29)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(97)
Total financial out / (under) performance to be recognised								(210)

Statement 5a: Total financial performance, Sussex - continued

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in total financial performance Due to:	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	570	565	5	5	-	-	-	
Fixed Income	43	43	-	-	-	-	-	-
Variable Income	191	193	(2)	-	-	-	(2)	(2)
Other Single Till Income	239	250	(11)	-	-	-	(11)	(11)
Opex memorandum account	(8)	-	(8)	(7)	-	-	(1)	(1)
Total Income	1,035	1,051	(16)	(2)	-	-	(14)	(14)
Expenditure								
Network operations	160	93	(67)	-	-	-	(67)	(67)
Support costs	81	94	13	2	-	-	11	11
Industry costs and rates	47	49	2	6	-	-	(4)	(4)
Traction electricity	5	5	-	-	-	-	-	-
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	203	181	(22)	-	5	-	(27)	(27)
Schedule 4 costs	65	40	(25)	-	1	-	(26)	(26)
Schedule 8 costs	91	-	(91)	-	-	-	(91)	(91)
Renewals	532	472	(60)	2	69	-	(131)	(33)
PR13 Enhancements	294	235	(59)	-	(34)	-	(25)	(4)
Non PR13 Enhancements	5	-	(5)	-	(5)	-	-	-
Financing Costs	265	293	28	28	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	1	-	-	-
Total Expenditure	1,748	1,464	(284)	38	38	-	(360)	(241)
Total:			(300)	36	38	-	(374)	(255)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(255)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(105)
Under-delivery of train performance requirements (CaSL)								(42)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(149)
Total financial out / (under) performance to be recognised								(404)
	2016-17			Cumulative				
Breakdown of variance not included in total financial performance - Variable income:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance		
Adjustments for external traction electricity	(34)	(43)	9	(105)	(115)	10		
Total variance not included in total	(34)	(43)	9	(105)	(115)	10		
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	-	-	-	1	-	1		
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1		
Total variance not included in total	-	-	-	2	-	2		
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	34	43	(9)	105	115	(10)		
Total variance not included in total	34	43	(9)	105	115	(10)		
Breakdown of variance not included in total financial performance - Renewals:								
Investment of CP4 long distance financial penalty	3	-	3	3	-	3		
Total variance not included in total	3	-	3	3	-	3		

Statement 5a: Total financial performance, Sussex – continued

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Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Variable income – financial underperformance has arisen mostly from lower capacity charges than planned. In the current year this was impacted by the well-publicised industrial action that occurred in the South East. This resulted in fewer train services being ran, resulting in reduced income for Network Rail. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6.

Statement 5a: Total financial performance, Sussex – continued

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- (3) Other single till income – the financial underperformance largely arises from lower property sales and rental income from the commercial estate. The regulatory assumptions about the potential growth rates of yields appear to be over-optimistic whilst property sales are only undertaken in circumstances where there is a sufficiently robust business case and so is reliant upon demand in the wider market. These factors have been partly offset by extra stations and depot income as extra services have been provided to operators. The variance in the control period to date is largely driven by the same factors. Other single till income is set out in more detail in Statement 6.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. In the current year, the well-publicised industrial action in the South East has adversely impacted passenger growth. These gains have been partially offset by lower freight demand. The volume incentive is set out in more detail in Statement 12.

Statement 5a: Total financial performance, Sussex – continued

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- (5) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Network Rail has also chosen to invest in performance improvement schemes in Sussex. This parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the behest of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it was been agreed with the regulator that this fund will be outside the scope of the FPM.

Statement 5a: Total financial performance, Sussex – continued

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- (6) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (7) Industry costs and rates – the negative FPM in the year (and for the control period to date) is mostly caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is minimal variance included in the control period to date.
- (9) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.

Statement 5a: Total financial performance, Sussex – continued

in £m 2016-17 prices unless stated

- (10) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (11) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

Statement 5a: Total financial performance, Sussex – continued

in £m 2016-17 prices unless stated

- (12) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. This year, train performance was adversely impacted by the well-publicised industrial action in the South East of England. As a result of this industrial action, train services were disrupted causing widespread difficulties for many members of the travelling public reliant on the train network to go about their daily lives. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as the collapse of a sewer under the train line in South London (July 2016). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.

Statement 5a: Total financial performance, Sussex – continued

in £m 2016-17 prices unless stated

- (13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions from Thameslink and Redhill additional platform in the current year and the control period to date. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which give rise to financial outperformance or underperformance this year or in the control period to date.

Statement 5a: Total financial performance, Sussex – continued

in £m 2016-17 prices unless stated

- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.
- (17) Corporation tax – given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction in its financial performance for this missed output.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(5)	15	(20)	(5)		(5)	-	-
Signalling	7	19	(12)	(3)		(3)	-	-
Civils	(27)	(14)	(13)	(3)		(3)	-	-
Buildings	5	7	(2)	-		-	-	-
Electrical power and fixed plant	-	(10)	10	3		3	-	-
Telecoms	-	1	(1)	-		-	-	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	1	1	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	(12)	(11)	(1)	-		-	-	-
Total	(26)	13	(39)	(8)		(8)	-	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(8)	37	(45)	(11)		(11)	-	-
Signalling	39	79	(40)	(10)		(7)	(3)	-
Civils	(53)	(8)	(45)	(11)		(10)	(1)	-
Buildings	(6)	12	(18)	(5)		(2)	(3)	-
Electrical power and fixed plant	18	7	11	2		6	(4)	-
Telecoms	9	10	(1)	-		-	-	-
Wheeled plant and machinery	12	12	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	8	8	-	-		-	-	-
Other renewals	(73)	(80)	7	2		2	-	-
Total	(60)	71	(131)	(33)		(22)	(11)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of emergency works required this year. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. The underperformance in the control period to date is largely due to the same factors.
- (5) Electrical power and fixed plant – financial outperformance has been reported this year. This was largely driven by lower LV cable and Principle supply point unit costs compared to the regulatory baseline, which has been achieved through favourable procurement and delivery. The performance in the control period to date is largely due to the current year.
- (6) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. In earlier years of the control period there were benefits recognised from successful close-out of contractor claims, reversing some of the underperformance recognised in the previous control period.

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

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	-	5	-	(5)	(1)
Thameslink	(11)	1	-	(12)	(2)
Seven day railway	-	(1)	-	1	-
Other Enhancements	(11)	(11)	-	-	-
Total	(22)	(6)	-	(16)	(3)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	-	5	-	(5)	(1)
Thameslink	(36)	(15)	-	(21)	(3)
Seven day railway	(1)	(2)	-	1	-
Other Enhancements	(27)	(27)	-	-	-
Total	(64)	(39)	-	(25)	(4)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.
- (2) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in 2016/17 and in the control period to date. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure.

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

in £m 2016-17 prices unless stated

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

Statement 5d: REBS Reconciliation, Sussex

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2016-17		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	28	27	1	-	-	-		1
Capacity charge	128	131	(3)	-	-	-		(3)
Electricity asset utilisation charge	3	3	-	-	-	-		-
Property income	114	120	(6)	-	-	-		(6)
Expenditure	-	-	-	-	-	-		-
Network operations	160	89	(71)	-	-	-		(71)
Support costs	81	92	11	-	1	-		10
RSSB and BT Police	19	16	(3)	-	-	-		(3)
Network maintenance	203	182	(21)	2	-	-		(23)
Schedule 4 costs	65	35	(30)	(4)	-	-		(26)
Schedule 8 costs	91	-	(91)	-	-	-		(91)
Renewals	532	460	(72)	59	-	(99)		(32)
Total REBS performance			(285)	57	1	(99)		(244)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(105)
Under-delivery of train performance requirements (CaSL)								(42)
Missed ORBIS milestones								(2)
Total adjustment for under delivery of outputs and reduced sustainability								(149)
Cumulative performance to end of 2016-17								(393)
Less cumulative outperformance recognised up to the end of 2015-16								(192)
Net REBS performance for 2016-17								(201)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Sussex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Sussex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	187	186	1	570	565	5	192
Franchised track access income							
Fixed charges	13	13	-	43	43	-	13
Variable charges							
Variable usage charge	9	9	-	28	27	1	9
Traction electricity charges	34	43	(9)	105	115	(10)	36
Electrification asset usage charge	1	1	-	3	3	-	1
Capacity charge	42	44	(2)	128	131	(3)	43
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	9	9	-	32	32	-	11
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	95	106	(11)	296	308	(12)	100
Total franchised track access income	108	119	(11)	339	351	(12)	113
Total franchised track access and grant income	295	305	(10)	909	916	(7)	305
Other single till income							
Property income	39	47	(8)	118	131	(13)	35
Freight income	-	-	-	-	3	(3)	-
Open access income	-	-	-	-	-	-	-
Stations income	32	28	4	87	84	3	27
Facility and financing charges	1	3	(2)	6	9	(3)	3
Depots Income	11	7	4	26	21	5	8
Other income	1	1	-	2	2	-	-
Total other single till income	84	86	(2)	239	250	(11)	73
Total income	379	391	(12)	1,148	1,166	(18)	378

Statement 6a: Analysis of income, Sussex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity) and lower property income (both sales and rental). These shortfalls have been partly offset by extra income earned from offering additional services to operators.
- (3) Grant income - grant income in the control period to date is higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Sussex – continued

in £m 2016-17 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge – in the current year this is adverse to the regulator's target. This is mostly due to the well-publicised industrial action undertaken this year which reduced the number of services that ran in the South East and, therefore, the revenue Network Rail generated from train operators.
- (6) Property income – this is lower than the determination mainly due to lower than expected property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The lower level of property sales accounts for most of the adverse variance in the control period to date.
- (7) Freight income – this is below the regulator's determination for the control period to date due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance.
- (8) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to favourable settlement of commercial disputes and finalising contracts with operators.
- (9) Depots income - revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This year also benefitted from the settlement of commercial claims.

Statement 6b: Analysis of other single till income, Sussex

in £m 2016-17 prices unless stated

	2016-17			Cumulative			2015-16
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	39	46	(7)	110	127	(17)	36
Property sales	-	5	(5)	8	16	(8)	(1)
Adjustment for commercial opex	-	(4)	4	-	(12)	12	-
Total property income	39	47	(8)	118	131	(13)	35
Freight income							
Freight variable usage charge	-	-	-	-	1	(1)	-
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	-	-	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	-	-	-	-	3	(3)	-
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	5	5	-	16	14	2	5
Qualifying expenditure	5	4	1	15	12	3	5
Total managed stations income	10	9	1	31	26	5	10
Franchised stations income							
Long term charge	17	15	2	42	46	(4)	12
Stations lease income	5	4	1	14	12	2	5
Total franchised stations income	22	19	3	56	58	(2)	17
Total stations income	32	28	4	87	84	3	27
Facility and financing charges							
Facility charges	1	3	(2)	6	9	(3)	3
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	3	(2)	6	9	(3)	3
Depots income	11	7	4	26	21	5	8
Other	1	1	-	2	2	-	-
Total other single till income	84	86	(2)	239	250	(11)	73

Statement 6b: Analysis of other single till income (unaudited), Sussex – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	27	16	(11)	80	50	(30)	26
Signalling shift managers	2	2	-	6	3	(3)	2
Local operations managers	1	1	-	2	3	1	1
Controllers	4	2	(2)	9	7	(2)	3
Electrical control room operators	2	1	(1)	6	2	(4)	2
Total signaller expenditure	36	22	(14)	103	65	(38)	34
Non-signaller expenditure							
Mobile operations managers	2	2	-	7	7	-	2
Managed stations	6	3	(3)	16	8	(8)	5
Performance	3	1	(2)	5	3	(2)	1
Customer relationship executives	1	1	-	1	2	1	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	4	4	-
Other	8	1	(7)	10	2	(8)	1
Operations delivery	-	-	-	1	-	(1)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	7	-	(7)	10	-	(10)	3
HQ - Stations and customer services	1	-	(1)	2	-	(2)	1
HQ - Other	4	2	(2)	12	6	(6)	6
Other operating income	(3)	(1)	2	(7)	(4)	3	(3)
Total non-signaller expenditure	29	10	(19)	57	28	(29)	17
Total network operations expenditure	65	32	(33)	160	93	(67)	51
Support costs							
Core support costs							
Human resources	1	3	2	5	9	4	2
Information management	3	3	-	9	9	-	3
Government and corporate affairs	-	1	1	3	3	-	1
Group strategy	-	1	1	2	3	1	1
Finance	1	1	-	4	4	-	1
Business services	1	1	-	3	3	-	1
Accommodation	7	11	4	22	32	10	8
Utilities	4	3	(1)	8	9	1	1
Insurance	(1)	3	4	7	10	3	4
Legal and inquiry	-	-	-	-	1	1	-
Safety and sustainable development	1	-	(1)	4	1	(3)	2
Strategic sourcing	1	-	(1)	1	1	-	-
Business change	-	1	1	-	1	1	-
Other corporate functions	5	-	(5)	9	-	(9)	3
Core support costs	23	28	5	77	86	9	27
Other support costs							
Asset management services	2	2	-	7	2	(5)	3
Network Rail telecoms	2	2	-	8	8	-	4
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(2)	-	2	(4)	-	4	(1)
Commercial property	-	(1)	(1)	-	(1)	(1)	-
Group costs	(2)	-	2	(7)	(1)	6	(2)
Total other support costs	-	3	3	4	8	4	4
Total support costs	23	31	8	81	94	13	31
Traction electricity, industry costs and rates							
Traction electricity	37	45	8	110	120	10	37
Business rates	7	10	3	23	31	8	6
British transport police costs	6	5	(1)	17	14	(3)	5
RSSB costs	1	-	(1)	2	1	(1)	-
ORR licence fee and railway safety levy	1	1	-	5	3	(2)	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	-	-	-	-
Total traction electricity, industry costs and rates	52	61	9	157	170	13	50
Total network operations expenditure, support costs, traction electricity, industry costs and rates	140	124	(16)	398	357	(41)	132

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is mostly due to higher Network operators costs as savings assumed in the PR13 have not been realised which have been partly offset by lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.

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

in £m 2016-17 prices unless stated

- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Network Rail has also chosen to invest in performance improvement schemes in Sussex. This parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are higher than the previous year. This includes investment in performance schemes (as reported in the media this year) along with changes in pension legislation which have increased staff costs. The previous year also benefitted from some non-recurring favourable items.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.
- (6) Human Resources - costs are lower than the determination in the control period to date. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

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

in £m 2016-17 prices unless stated

- (7) Insurance - costs are significantly favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (8) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category. Costs in the control period also include investment in the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.
- (9) Other corporate functions – costs are higher than the determination assumed this in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.
- (10) Asset Management Services – costs are higher than the determination expected for the control period to date. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. The investment in this programme was included partly in Asset management services (with the majority recognised under the Safety and sustainability development heading).

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

in £m 2016-17 prices unless stated

- (11) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (12) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower re-organisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).
- (13) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulatory expectation mainly due to lower traction electricity costs and lower Business rates. The same factors are behind the lower costs in the control period to date.
- (14) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are lower than the prior year reflecting lower market prices which is offset by lower income in Statement 6a.
- (15) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency which use individual property location and so are more accurate than the baseline assumption. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- (16) British Transport Police costs - expenses in the control period to date are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	19	30	28	30
MOMS	2	3	3	4
Control	3	3	5	5
Planning & Performance Staff Costs	2	1	3	7
Managed Stations Staff Costs	1	2	2	1
Operations Management Staff Costs	2	1	2	-
Other	9	4	10	18
Total operations & customer services costs	38	44	53	65
Total Network Operations	38	44	53	65
Support				
Human resources				
Functional support	2	1	1	1
Training (inc Westwood)	2	1	1	-
Graduates	-	-	-	-
Apprenticeships	-	-	-	-
Other	-	-	-	-
Total human resources	4	2	2	1
Information management				
Support	1	-	-	-
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	3	3	4	3
Other	-	-	-	-
Total information management	4	3	4	3
Finance	2	1	1	1
Business Change	-	-	-	-
Contracts & Procurement	1	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	1
Planning & development	1	1	1	-
Safety & compliance	1	-	-	-
Other corporate services	4	1	1	1
Commercial property	8	8	8	7
Infrastructure Projects	(4)	(1)	(1)	(2)
Route Services	1	1	2	4
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	11	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	3	1	4
Network Rail Telecoms	-	3	3	2
Digital Railway	-	1	2	1
Safety Technical & Engineering	-	2	3	2
Government & Corporate Affairs	-	1	1	-
Business Services	-	1	1	1
Route Asset Management	-	(1)	-	-
Legal and inquiry	-	-	-	-
Group/central				
Pensions	-	-	-	-
Insurance	3	3	5	(1)
Redundancy/reorganisation costs	4	1	-	-
Staff incentives/Bonus Reduction	-	(2)	-	-
Accommodation & Support Recharges	-	(1)	(2)	(2)
Commercial claims settlements	-	-	-	-
ORR financial penalty	5	(1)	-	-
Other	-	-	-	-
Total group/central costs	12	-	3	(3)
Total support	45	26	32	23
Total network operations and support costs	83	70	85	88

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Sussex – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Sussex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	31	22	(9)	92	71	(21)	32
Signalling	10	8	(2)	30	24	(6)	9
Civils	11	5	(6)	21	16	(5)	6
Buildings	1	4	3	11	18	7	2
Electrical power and fixed plant	6	4	(2)	19	14	(5)	6
Telecoms	-	2	2	-	6	6	-
Other network operations	7	6	(1)	26	18	(8)	9
Asset management services	2	2	-	7	7	-	3
National Delivery Service	(1)	3	4	(2)	9	11	(1)
Property	1	1	-	2	2	-	-
Group	(1)	(1)	-	(3)	(4)	(1)	(1)
Total maintenance expenditure	67	56	(11)	203	181	(22)	65

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to extra reactive maintenance works and civils inspection costs as well as changes in government legislation affecting pension arrangements.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16.

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

in £m 2016-17 prices unless stated

- (3) Signalling – costs in the control period to date are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred partly offset by a transfer of responsibilities and so costs to Other network operations.

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

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is lower than the regulator assumed, continuing the trend witnessed in earlier years of the control period. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Telecoms – costs are lower than the regulatory assumption this year and in the control period to date. This is because responsibility for these activities has transferred to Other network operations.
- (7) Other network operations – costs for the current year are largely in line with the regulator's expectation. For the control period to date, however, costs are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. Investment was undertaken on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. In addition, certain responsibilities have been transferred to direct costs centres (notably Track and Signalling) to enhance decision making closer to the front line. This has been partly offset by the transfer of responsibility for Telecoms into this category.
- (8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (9) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, Sussex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	41	36	(5)	109	101	(8)	40
Signalling	31	38	7	95	134	39	32
Civils	31	4	(27)	99	46	(53)	41
Buildings	13	18	5	62	56	(6)	26
Electrical power and fixed plant	14	14	-	47	65	18	19
Telecoms	8	8	-	14	23	9	2
Wheeled plant and machinery	5	9	4	14	26	12	5
Information Technology	6	7	1	23	17	(6)	7
Property	2	3	1	3	11	8	1
Other renewals	19	7	(12)	66	(7)	(73)	23
Total renewals expenditure	170	144	(26)	532	472	(60)	196

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes investment in projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was broadly in line with the previous year.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected this year, continuing the trend of the first two years of the control period. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. The main contribution to the deferrals has been Level crossing programmes which have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are in step with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of acceleration of activity and higher underlying costs. The higher like-for-like cost continues the trend of the previous year. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The regulator's assumed costs for the year are relatively low and Network Rail has reprofiled its activity to create a smoother workbank. Expenditure for the control period to date is higher than the determination expected mainly due to higher underlying costs. This is due to a combination beginning the control period with higher unit costs than assumed and higher not achieving the challenging efficiencies in the determination as well as increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Detailed analysis of renewals expenditure, Sussex – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity. Despite this, expenditure in the control period is higher than the regulatory assumed mainly as a result of higher underlying costs. The higher like-for-like costs is mainly due to an ability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the control period to date (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year mainly due to lower investment at Franchised stations when significant works were carried out on the portfolio.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year and lower in the control period to date. The savings in the control period to date are partly due to financial outperformance owing to unit cost savings across Principle point heaters and LV cables. Consequently, Electrical power and fixed plant financial outperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 25 per cent of these extra costs are eligible for addition to the RAB (refer to Statement 2). Costs in the control period to date for Fixed plant are lower than the baseline as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure.
- (7) Telecoms – expenditure in the year was broadly in line with the determination. Expenditure for the control period to date is lower than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects.

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

in £m 2016-17 prices unless stated

- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver.
- (10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen.

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

in £m 2016-17 prices unless stated

(11) Other renewals

- a. Intelligent infrastructure – expenditure is lower than the regulator assumed in the control period to date. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Therefore, expenditure in the control period to date is lower than the PR13 allowance as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- d. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN and electrification programmes. As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Sussex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	20	12	(8)	54	39	(15)
High output renewal	8	9	1	8	11	3
Plain line refurbishment	3	-	(3)	7	1	(6)
S&C renewal	2	8	6	22	28	6
S&C refurbishment	3	2	(1)	7	5	(2)
Track non-volume	1	1	-	3	4	1
Off track	4	4	-	8	13	5
Total track	41	36	(5)	109	101	(8)
Signalling						
Full conventional resignalling	19	10	(9)	56	59	3
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	5	5	-	16	16
Targeted component renewal	1	2	1	2	6	4
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	2	(1)	7	8	1
Level crossings	-	13	13	3	20	17
Minor works	7	4	(3)	26	18	(8)
Centrally managed costs	1	2	1	1	7	6
Other	-	-	-	-	-	-
Total signalling	31	38	7	95	134	39
Civils						
Underbridges	15	10	(5)	33	30	(3)
Overbridges	4	-	(4)	20	11	(9)
Bridgeguard 3	-	-	-	-	-	-
Major structures	3	-	(3)	14	2	(12)
Tunnels	-	4	4	2	6	4
Other assets	2	2	-	5	5	-
Structures other	-	(17)	(17)	2	(22)	(24)
Earthworks	7	5	(2)	23	14	(9)
Other	-	-	-	-	-	-
Total civils	31	4	(27)	99	46	(53)
Buildings						
Managed stations	3	5	2	8	16	8
Franchised stations	7	12	5	45	34	(11)
Light maint depots	3	-	(3)	6	4	(2)
Depot plant	-	-	-	-	-	-
Lineside buildings	-	-	-	2	1	(1)
MDU buildings	-	1	1	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	13	18	5	62	56	(6)

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	9	6	(3)	29	28	(1)
Conductor rail	1	2	1	8	8	-
SCADA	-	-	-	-	4	4
Energy efficiency	-	1	1	2	3	1
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	1	-	2	3	1
Fixed plant	3	4	1	6	19	13
Total electrical power and plant	14	14	-	47	65	18
Telecoms						
Operational communications	1	-	(1)	2	3	1
Network	1	1	-	1	2	1
SISS	2	6	4	2	15	13
Projects and other	1	-	(1)	1	1	-
Non-route capital expenditure	3	1	(2)	8	2	(6)
Total telecoms	8	8	-	14	23	9
Wheeled plant and machinery						
High output	2	1	(1)	6	7	1
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	2	1	2	7	5
Materials delivery	-	-	-	3	1	(2)
On track plant	1	2	1	1	3	2
Seasonal	-	-	-	-	2	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	1	1
Road vehicles	-	3	3	1	4	3
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	5	9	4	14	26	12
Information Technology						
IM delivered renewals	5	6	1	20	15	(5)
Traffic management	1	1	-	3	2	(1)
Total information technology	6	7	1	23	17	(6)
Property						
MDUs/offices	1	2	1	1	8	7
Commercial estate	1	1	-	2	3	1
Corporate services	-	-	-	-	-	-
Total property	2	3	1	3	11	8
Other renewals						
Asset information strategy	3	2	(1)	8	10	2
Intelligent infrastructure	-	2	2	2	4	2
Faster isolations	1	2	1	9	7	(2)
LOWS	1	-	(1)	1	-	(1)
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(1)	(1)	-	(30)	(30)
Engineering innovation fund	-	1	1	-	-	-
CP4 rollover	11	-	(11)	43	-	(43)
Other	3	-	(3)	3	-	(3)
West Coast	-	-	-	-	-	-
Total other renewals	19	7	(12)	66	(7)	(73)
Total renewals	170	144	(26)	532	472	(60)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Sussex – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Sussex

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	23	12	(11)	65	40	(25)	30
Access charge supplement Income	(9)	(9)	-	(32)	(32)	-	(11)
Net (income)/cost	14	3	(11)	33	8	(25)	19
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	45	-	(45)	91	-	(91)	26
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	45	-	(45)	91	-	(91)	26

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	(4)	(1)	2
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(3)	(8)	(4)
RSSB Costs	(1)	-	-
ORR licence fee and railway safety levy	-	1	1
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(8)	(8)	(1)

Statement 10: Other information, Sussex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are higher this year than the determination assumed. This is mostly due to higher than expected like-for-like possession costs which has resulted financial underperformance being recognised (refer to Statement 5a). Costs in the control period to date are higher than the regulatory assumption which reflects financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably a significant decrease in S&C units), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.

Statement 10: Other information, Sussex – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. This year, train performance was adversely impacted by the well-publicised industrial action in the South East of England. As a result of this industrial action, train services were disrupted causing widespread difficulties for many members of the travelling public reliant on the train network to go about their daily lives. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as the collapse of a sewer under the train line in South London (July 2016). Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to mainly due to industrial action but also to infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum shows a net loss for this year which is primarily due to the Volume Incentive (see Statement 12) and Business rates. The control period to date position is a net loss reflecting Business rate variances between the expectation in the determination and the actual costs incurred.

Statement 11

Statement 11 is not required for Sussex

Statement 12: Volume incentives, Sussex

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(13)	(3)	19	21	0.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	(6)	(1)	760	782	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	0	0	1.2%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	123	110	1.6%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(19)	(4)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Sussex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, passenger growth (as reflected in the Passenger train miles and Passenger farebox metrics) was lower than the regulator assumed. This resulted in a loss being recognised through the Volume incentive measure, negating gains that had been made in earlier years of the control period. This year, train performance was adversely impacted by the well-publicised industrial action in the South East of England. As a result of this industrial action, fewer trains ran on the network causing widespread disruption for many members of the travelling public reliant on the train network to go about their daily lives.

Statement 14: Renewals volumes, unit costs and expenditure, Sussex

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	27	24	36	66	545
	High Output Renewal	km	61	34	34	61	557
	Plain line Refurbishment	km	19	5	7	34	206
	S&C Renewal/Refurbishment	point ends	33	11	17	110	155
	Track Drainage	lm	1,426	1	1	1,426	1
	Fencing	km	9	1	1	17	59
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	11	2	6	21	286
	Other		-	-	-	-	-
Total			1,586	78	102	1,735	-
Signalling	Full Conventional Resignalling	SEU	1	1	1	1	1,000
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-
	Minor Works		-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-
Total			1	1	1	1	-
Civils	Underbridges	m ²	2,648	21	71	12,427	6
	Overbridges (incl BG3)	m ²	405	1	1	466	2
	Major Structures		-	-	-	-	-
	Tunnels	m ²	-	-	-	-	-
	Culverts	m ²	101	-	-	101	-
	Footbridges	m ²	551	1	3	729	4
	Coastal & Estuarial Defences	m	-	-	-	-	-
	Retaining Walls	m ²	53	-	-	53	-
	Structures Other		-	-	-	-	-
	Earthworks	5-chain	20	1	1	40	25
	EW Drainage	m	-	-	-	-	-
	Other		-	-	-	-	-
Total			3,778	24	76	13,816	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-
	Other (MS)	m ²	146	1	2	146	14
	Buildings (FS)	m ²	-	-	-	-	-
	Platforms (FS)	m ²	-	-	-	-	-
	Canopies (FS)	m ²	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-
	Other (FS)		-	-	-	-	-
	Light Maintenance Depots	m ²	24,184	-	1	24,184	0
	Depot Plant		-	-	-	-	-
	Lineside Buildings	m ²	3,500	-	-	3,500	-
	MDU Buildings	m ²	225	-	-	600	-
	NDS Depot		-	-	-	-	-
	Other		-	-	-	-	-
Total			28,055	1	3	28,430	-

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume £k/unit	Cost unit	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k
Electrical power and fixed plant	Wiring	Wire runs	6	11	40	34	1,176
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	174	9	34	695	49
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	7	-	1	18	56
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	12	-	2	24	83
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-
	Other DC		-	-	-	-	-
	SCADA	RTU	1	-	2	2	1,000
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-
	Signalling Supply Points	No.	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-
Total			200	20	79	773	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	33	2	7	88	80
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			33	2	7	88	-

Statement 14: Renewals volumes, unit costs and expenditure, Sussex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	278	276	2	821	814	7	274
Fixed Income	20	20	-	63	62	1	18
Variable Income	31	30	1	86	83	3	24
Other Single Till Income	18	23	(5)	57	61	(4)	20
Opex memorandum account	(1)	-	(1)	(1)	-	(1)	(1)
Total Income	346	349	(3)	1,026	1,020	6	335
Operating expenditure							
Network operations	33	27	(6)	91	80	(11)	30
Support costs	20	21	1	59	66	7	18
Traction electricity, industry costs and rates	10	8	(2)	37	29	(8)	14
Network maintenance	68	63	(5)	210	194	(16)	74
Schedule 4	10	18	8	22	50	28	6
Schedule 8	1	-	(1)	(2)	1	3	1
Total operating expenditure	142	137	(5)	417	420	3	143
Capital expenditure							
Renewals	200	180	(20)	514	488	(26)	176
PR13 enhancement expenditure	177	146	(31)	300	281	(19)	84
Non PR13 enhancement expenditure	-	-	-	6	-	(6)	1
Total capital expenditure	377	326	(51)	820	769	(51)	261
Other expenditure							
Financing costs	89	102	13	238	284	46	72
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	89	102	13	238	284	46	72
Total expenditure	608	565	(43)	1,475	1,473	(2)	476

Statement 1: Summary regulatory financial performance, Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year and the control period to date was higher than the determination mostly as a result of extra Capacity income from increased services offered to operators. Variable income is set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination mainly due to changes in the way the Welsh Valley Line programme is funded, which is offset by a corresponding saving in Financing costs. Also, lower freight income has helped cause the shortfall. The control period to date variance is caused by the same factors. Income is slightly lower than the previous year due to continued decline in the freight market. These variances are set out in more detail in Statement 6a.
- (6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (7) Operating expenditure - Support costs are broadly in line than the determination this year but favourable in the control period to date largely due to efficiencies made across a number of central functions as well as non-recurring savings achieved by Group. Support costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination in the current year and the control period to date largely due to extra British Transport Police costs. Traction electricity, industry costs are discussed in more detail in Statement 7a
- (9) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. Also, additional civils inspections expenses have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are lower than the previous year mainly due to less reactive maintenance works required in the current year. Maintenance costs are discussed in more detail in Statement 8a.

Statement 1: Summary regulatory financial performance, Wales – continued

in £m 2016-17 prices unless stated

- (10) Operating expenditure - Schedule 4 costs are lower than the determination as a result of reduced delivery of renewals which require network possessions and enhanced planning and management attention to minimise changes to the agreed possessions timetable. The same factors are behind the lower costs in the control period to date. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) Operating expenditure – Schedule 8 costs are broadly in line with the regulatory target in both the current year and for the control period to date. Net costs are also in line with the previous year. Schedule 8 costs are set out in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track and Signalling). Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes expenditure on projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is higher than the previous year mainly due to extra track and Signalling costs. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, but with a notable contribution from acceleration of parts of the GW Electrification. The control period to date position is largely caused by the same programme. Investment is higher than the previous year reflecting the ramp up of activity on the GW Electrification programme. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the control period to date is axiomatic. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wales

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,715	2,769	(54)
Indexation to 2015-16 prices	157	160	(3)
Opening RAB for the year (2015-16 prices)	2,872	2,929	(57)
Indexation for the year	63	64	(1)
Opening RAB (2016-17 prices)	2,935	2,993	(58)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	180	180	-
PR13 enhancements	173	143	30
Non-PR13 enhancements	-	-	-
Total enhancements	173	143	30
Amortisation	(136)	(136)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2017	3,152	3,180	(28)

RAB Regulatory financial position - cumulative, Wales

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	2,722	2,833	2,935	2,722
Adjustments for the actual capital expenditure outturn in CP4	78	-	-	78
Renewals	123	149	180	452
PR13 enhancements	40	81	173	294
Non-PR13 enhancements	2	2	-	4
Total enhancements	42	83	173	298
Amortisation	(131)	(130)	(136)	(397)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	(1)
Closing RAB	2,833	2,935	3,152	3,152

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.
- (4) Renewals – renewals added to the RAB was broadly in line with the regulatory assumption. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to reprofiling of activity on the GW Electrification programme.
- (6) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.

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

in £m 2016-17 prices unless stated

- (8) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Wales

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	139	169	180	488
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	5	-	-	5
Capitalised financing on CP4 deferrals	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	144	169	180	493
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(67)	(93)	(54)	(214)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(8)	(14)
Adjustments for efficient overspend	57	97	73	227
Capitalised financing on efficient overspend	1	5	8	14
25% retention of efficient overspend	(14)	(25)	(18)	(57)
Capitalised financing on efficient overspend 25% retention	-	(1)	(2)	(3)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	3	2	1	6
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	1	-	-	1
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	123	149	180	452
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	1	2	3
Adjustment for 25% retention of efficient overspend	15	26	18	59
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	-	-
Total actual renewals expenditure (see statement 9)	138	176	200	514

Statement 2b: RAB - reconciliation of expenditure, Wales - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	102	123	143	368
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-
Baseline adjustments	-	(91)	3	(88)
Capitalised financing on Baseline adjustments	-	(2)	(4)	(6)
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	102	30	142	274
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(61)	52	31	22
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	-	(2)
Adjustments for efficient overspend	-	-	-	-
Capitalised financing on efficient overspend	-	-	-	-
25% retention of efficient overspend	-	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-	-
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-
agreements - retention of efficient overspend	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	40	81	173	294
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	-	3
efficient overspend	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	1	-	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	2	2	-	4
Total enhancements (added to the RAB - see statement 2a)	42	83	173	298
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	1	2	4	7
Adjustment for 25% retention of efficient overspend	-	-	-	-
Other Adjustments	3	-	-	3
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	56	53	13	122
Other adjustments	(1)	-	-	(1)
Total actual enhancement expenditure (see statement 3)	101	138	190	429

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less the costs of delivery. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Signalling projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The “Hendy baseline” is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.

Statement 3: Analysis of enhancement capital expenditure, Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	2	2	-	3	3
Stations - Access for All (AfA)	1	(2)	(3)	8	7	(1)
Development	1	1	-	5	4	(1)
Level crossing safety	1	2	1	1	2	1
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	-	-	-	2	2	-
Total funds	3	3	-	16	18	2
Committed projects						
Bridgend to Swansea electrification	1	15	14	12	25	13
GW electrification	172	128	(44)	255	220	(35)
IEP Programme	-	-	-	-	-	-
Total committed projects	173	143	(30)	267	245	(22)
Third party funded						
Welsh Valley lines electrification	-	-	-	2	2	-
Total Third Party funded	-	-	-	2	2	-
CP4 Project Rollovers						
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	13	14	1
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	-	-	-	1	1
Income generating property schemes	1	-	(1)	2	1	(1)
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	1	-	(1)	2	2	-
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	177	146	(31)	300	281	(19)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	-	-	-	2	-	(2)
Total Government sponsored schemes	-	-	-	2	-	(2)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	2	-	(2)
Total Network Rail spend to save schemes	-	-	-	2	-	(2)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	2	-	(2)
Total non PR13 enhancement expenditure	-	-	-	6	-	(6)
Total Network Rail funded enhancements (see Statement 1)	177	146	(31)	306	281	(25)
Third Party PAYG	13	-	(13)	123	-	(123)
Total enhancements (see statement 2b)	190	146	(44)	429	281	(148)

Statement 3: Analysis of enhancement capital expenditure, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £177m (as shown in Statement 1). This comprises the total enhancement figure in the table above £190m less the PAYG schemes funded by third parties (£13m).
- (5) Investment expenditure this year was noticeably higher than the previous year. This is a combination of increases and decreases across a wide range of programmes but the largest contribution comes from GW electrification.
- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year is in step with the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, Wales – continued

in £m 2016-17 prices unless stated

- (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is less than the baseline in the current year and the control period to date but is expected to match the baseline by the end of CP5. Underspends in the current year were largely driven from work to prioritise delivery of portfolio and concentration by the organisation on other programmes.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. This year included delivery of important projects at Virginia Water, Manningtree, Hamilton Central and Penrith stations. Expenditure in the current year and the control period to date is broadly in line with the baseline.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding and the Innovation Fund. Expenditure in the current year is in line with the baseline but is lower than in the control period to date due to lower than expected investment in 2015/16.
 - (d) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was noticeably lower than the determination in this year and is much lower for the control period to date largely as a result of contractor disputes leading to delays. Discussions appear to have reached a mutually agreed conclusion so the level of expenditure is expected to increase over the remainder of the control period. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land.
 - (e) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year and control period to date are in step with the baseline.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year is higher than the baseline mainly due higher expenditure on GW electrification. The following notable variances between expenditure and the baseline are set out below:
- (a) GW electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is higher than the baseline this year, which has also caused an overspend in the control period to date. This is mainly due to reprofiling of activity and delivery of this programme in different geographic locations to the assumption in the Hendy review.
 - (b) Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - This project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. There was minimal activity on this project during the year as the programme looks to develop a joint strategy with the GW electrification project. Delays in implementing the latter project are having a knock-on effect on the Bridgend to Swansea electrification works. The underspend in the control period to date is driven by the variance in the current year.
- (8) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the early years of the control period is in line with baseline agreed following the Hendy review.

Statement 3: Analysis of enhancement capital expenditure, Wales – continued

in £m 2016-17 prices unless stated

- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. The main programme in this category is Barry – Cardiff Queen Street corridor where expenditure in the current year and control period to date is consistent with the baseline. This project is now the substantially complete.
- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is broadly in line with target in the year and the control period to date.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
- (b) PAYGO – Significant programmes in this category in the current year include: North-South Wales JTR (Saltney Jn to Newport) and Talerddig Crossing Closures. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Wales

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	1,954	2,088	134	1,774	1,731	(43)
Income						
Grant income	(278)	(276)	2	(807)	(799)	8
Fixed charges	(20)	(20)	-	(61)	(61)	-
Variable charges	(31)	(30)	1	(86)	(83)	3
Other single till income	(18)	(23)	(5)	(56)	(59)	(3)
Total income	(347)	(349)	(2)	(1,010)	(1,002)	8
Expenditure						
Network operations	33	27	(6)	91	80	(11)
Support costs	20	21	1	58	64	6
Traction electricity, industry costs and rates	10	8	(2)	36	31	(5)
Network maintenance	68	63	(5)	207	190	(17)
Schedule 4	10	18	8	22	49	27
Schedule 8	1	-	(1)	(2)	-	2
Renewals	200	180	(20)	507	481	(26)
PR13 enhancement	177	143	(34)	299	362	63
Non-PR13 enhancement	-	-	-	5	-	(5)
Total expenditure	519	460	(59)	1,223	1,257	34
Financing						
Interest expenditure on nominal debt - FIM covered	20	34	14	63	92	29
Interest expenditure on index linked debt - FIM covered	12	15	3	37	42	5
Expenditure on the FIM	15	23	8	50	65	15
Interest expenditure on government borrowing	20	-	(20)	39	-	(39)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(3)	(2)
Total interest costs	67	71	4	188	196	8
Accretion on index linked debt - FIM covered	22	31	9	46	88	42
Total financing costs	89	102	13	234	284	50
Corporation tax	-	-	-	-	-	-
Other	11	-	(11)	5	31	26
Movement in net debt	272	213	(59)	452	570	118
Closing net debt	2,226	2,301	75	2,226	2,301	75

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	1.24	1.07	0.95	1.10
FFO/interest	3.27	3.26	3.00	3.02
Net debt/RAB (gearing)	67.3%	68.1%	70.7%	72.3%
FFO/debt	11.0%	9.7%	8.9%	9.3%
RCF/debt	7.6%	6.7%	6.0%	6.2%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the Wales route has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure (notably the GW electrification enhancement programme). Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt at 31 March 2017 attributable to the Wales route is £0.1bn lower than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by mostly due to additional investment undertaken towards the end of CP4. However, since then enhancement investment in the railway network was lower than the regulator anticipated and savings have been made in financing costs and working capital which have more than offset this.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of certain bonds within this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination, There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Network operations and Maintenance costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is lower than the regulatory comparative which is mainly due to lower enhancement expenditure during the control period to date. This is mainly due to the changes arising from the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements not being reflected in this Statement in line with the Regulatory Accounting Guidelines (June 2017). Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by a lower absolute amount than expected will result in a lower ratio. The ratio is higher than the previous year which, given the nature of Network Rail's business and investment in the GW Electrification programme this year, is to be expected.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance and Network operations. The decline in the ratio in 2016/17 is expected as the level of debt increases in light of substantial investment in the network (notably GW Electrification programme) but the surplus funds from trading remain generally constant.
- (19) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Wales

in £m 2016-17 prices unless stated

2016-17								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	278	276	2	2	-	-	-	-
Fixed Income	20	20	-	-	-	-	-	-
Variable Income	31	30	1	-	-	-	1	1
Other Single Till Income	18	23	(5)	(3)	-	-	(2)	(2)
Opex memorandum account	(1)	-	(1)	1	-	-	(2)	(2)
Total Income	346	349	(3)	-	-	-	(3)	(3)
Expenditure								
Network operations	33	27	(6)	-	-	-	(6)	(6)
Support costs	20	21	1	-	-	-	1	1
Industry costs and rates	10	8	(2)	(1)	-	-	(1)	(1)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	68	63	(5)	-	-	-	(5)	(5)
Schedule 4 costs	10	18	8	-	3	-	5	5
Schedule 8 costs	1	-	(1)	-	-	-	(1)	(1)
Renewals	200	180	(20)	-	53	-	(73)	(18)
PR13 Enhancements	177	146	(31)	-	(31)	-	-	-
Non PR13 Enhancements	-	-	-	-	-	-	-	-
Financing Costs	89	102	13	13	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	608	565	(43)	12	25	-	(80)	(25)
Total:			(46)	12	25	-	(83)	(28)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(28)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(3)
Under-delivery of train performance requirements (CaSL)								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(6)
Total financial out / (under) performance to be recognised								(34)

Statement 5a: Total financial performance, Wales - continued

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	821	814	7	7	-	-	-	-
Fixed Income	63	62	1	1	-	-	-	-
Variable Income	86	83	3	-	-	-	3	3
Other Single Till Income	57	61	(4)	(5)	-	-	1	1
Opex memorandum account	(1)	-	(1)	2	-	-	(3)	(3)
Total Income	1,026	1,020	6	5	-	-	1	1
Expenditure								
Network operations	91	80	(11)	-	-	-	(11)	(11)
Support costs	59	66	7	2	-	-	5	5
Industry costs and rates	37	29	(8)	(2)	-	-	(6)	(6)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	210	194	(16)	-	(9)	-	(7)	(7)
Schedule 4 costs	22	50	28	-	13	-	15	15
Schedule 8 costs	(2)	1	3	-	-	-	3	3
Renewals	514	488	(26)	-	202	-	(228)	(57)
PR13 Enhancements	300	281	(19)	-	(19)	-	-	-
Non PR13 Enhancements	6	-	(6)	-	(6)	-	-	-
Financing Costs	238	284	46	46	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,475	1,473	(2)	46	181	-	(229)	(58)
Total:			4	51	181	-	(228)	(57)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(57)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(5)
Under-delivery of train performance requirements (CaSL)								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(9)
Total financial out / (under) performance to be recognised								(66)

	2016-17			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Welsh Valleys finance charge	-	3	(3)	-	5	(5)
Total variance not included in total	-	3	(3)	-	5	(5)
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	-	-	-	1	-	1
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total	-	-	-	2	-	2

Statement 5a: Total financial performance, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances to the determination are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Fixed income – the variances to the determination are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (3) Variable income – some minor financial outperformance for the control period to date has been delivered mostly through higher Capacity charge income as Network Rail supplied additional train paths in response to customer demand. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Wales – continued

in £m 2016-17 prices unless stated

- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for this programme. However, this assumption did not come to pass and associated turnover was not forthcoming. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Losses were recognised on the Volume incentive measure. This related to passenger train miles where the growth was not as swift as the regulatory baseline. As the prior year's Regulatory financial statements noted there was an expectation that enhancements at the end start of CP5 would lead to large increases in passenger demands. However postponement of some of these planned works means that Wales did not achieve the growth targets this year and will struggle to achieve the growth the regulator expects for future years of the control period. The volume incentive is set out in more detail in Statement 12.
- (6) Network operations – costs are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, Wales – continued

in £m 2016-17 prices unless stated

- (7) Support costs – costs are broadly in line with the determination this year reflecting continued efficiencies made across of the central business functions and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance), which has been offset by higher accommodation and utility costs. Support costs are discussed in more detail in Statement 7a. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.

Statement 5a: Total financial performance, Wales – continued

in £m 2016-17 prices unless stated

- (9) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (10) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is partly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). Outperformance has been achieved mostly due to a concerted effort to minimise late possessions and instead make every effort to adhere to possession planning timetables. The route management team has specific internal targets around this to drive appropriate behaviours. However, this approach does limit the flexibility available to capital delivery teams in the route so the trade-offs may not be suitable for other routes within Network Rail.
- (11) Schedule 8 costs – costs are broadly in line with the determination in the current year and favourable in the control period to date partly due to the relatively low rates of compensation payable to the main operator in this route compared to other routes on the network.

Statement 5a: Total financial performance, Wales – continued

in £m 2016-17 prices unless stated

- (12) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme. There are no project variances which have financial outperformance or underperformance in either in the current year of the control period to date.
- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which have financial outperformance or underperformance in line with these rules either in the current year of the control period to date.

Statement 5a: Total financial performance, Wales – continued

in £m 2016-17 prices unless stated

- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wales were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wales also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wales were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wales also faces a reduction in its financial performance for this missed output.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (Phase 3 of the Barry to Cardiff Queen Street line development) there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(10)	23	(33)	(8)		(8)	-	-
Signalling	(19)	13	(32)	(8)		(8)	-	-
Civils	(2)	6	(8)	(2)		(2)	-	-
Buildings	4	5	(1)	-		-	-	-
Electrical power and fixed plant	5	5	-	-		-	-	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	2	2	-	-		-	-	-
IT	-	-	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	-	(1)	1	-		-	-	-
Total	(20)	53	(73)	(18)		(18)	-	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(23)	71	(94)	(24)		(23)	(1)	-
Signalling	(8)	85	(93)	(23)		(23)	-	-
Civils	3	44	(41)	(10)		(6)	(4)	-
Buildings	11	8	3	1		1	-	-
Electrical power and fixed plant	10	10	-	-		-	-	-
Telecoms	1	1	-	-		-	-	-
Wheeled plant and machinery	9	9	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(23)	(20)	(3)	(1)		-	(1)	-
Total	(26)	202	(228)	(57)		(51)	(6)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Around half of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. Works completed at the Severn tunnel this year were also higher than planned owing to unforeseen engineering issues. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of additional costs on the Cardiff area re-signalling project. Delays in the commissioning of the project have increased costs. The lack of available access meant that the project has been delayed by more than two years with the prolongation resulting in extra costs. This project was successfully commissioned in the current year. In addition, there has been difficulty achieving the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5 (such as Cardiff area re-signalling), providing limited opportunity to reduce scope. Possessions have become harder to get this control period (due to unrealistic assumptions in the plan and the strategic importance of enhancement programmes whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost.. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. The underperformance in the control period to date is largely due to the same factors.
- (5) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. This is offset by additional costs incurred on completing renewals projects from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Electrification). The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with notable contributions from FTN.

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

in £m 2016-17 prices unless stated
2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Other Enhancements	(31)	(31)	-	-	-
Total	(31)	(31)	-	-	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Other Enhancements	(25)	(25)	-	-	-
Total	(25)	(25)	-	-	-

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) All programmes forecast expenditure in Wales are in line with the baselines so no financial outperformance or underperformance has been recognised in the year or the control period to date.
- (2) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Wales

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2016-17		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	26	26	-	-	-	-	-	-
Capacity charge	28	25	3	-	-	-	-	3
Electricity asset utilisation charge	-	-	-	-	-	-	-	-
Property income	4	3	1	-	-	-	-	1
Expenditure								
Network operations	91	77	(14)	-	-	-	-	(14)
Support costs	59	69	10	-	1	-	-	9
RSSB and BT Police	12	6	(6)	-	-	-	-	(6)
Network maintenance	210	189	(21)	(16)	-	-	-	(5)
Schedule 4 costs	22	47	25	10	-	-	-	15
Schedule 8 costs	(2)	-	2	-	-	-	-	2
Renewals	514	479	(35)	193	-	(171)	-	(57)
Total REBS performance			(35)	187	1	(171)		(52)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(5)
Under-delivery of train performance requirements (CaSL)								(1)
Missed ORBIS milestones								(2)
Total adjustment for under delivery of outputs and reduced sustainability								(8)
Cumulative performance to end of 2016-17								(60)
Less cumulative outperformance recognised up to the end of 2015-16								(32)
Net REBS performance for 2016-17								(28)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	278	276	2	821	814	7	274
Franchised track access income							
Fixed charges	20	20	-	63	62	1	18
Variable charges							
Variable usage charge	6	5	1	15	15	-	5
Traction electricity charges	-	-	-	-	-	-	-
Electrification asset usage charge	-	-	-	-	-	-	-
Capacity charge	9	8	1	27	24	3	9
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	16	17	(1)	44	44	-	10
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	31	30	1	86	83	3	24
Total franchised track access income	51	50	1	149	145	4	42
Total franchised track access and grant income	329	326	3	970	959	11	316
Other single till income							
Property income	2	-	2	5	-	5	2
Freight income	3	5	(2)	13	14	(1)	5
Open access income	-	-	-	-	-	-	-
Stations income	10	11	(1)	31	31	-	10
Facility and financing charges	-	4	(4)	1	7	(6)	1
Depots Income	3	3	-	7	8	(1)	2
Other income	-	-	-	-	1	(1)	-
Total other single till income	18	23	(5)	57	61	(4)	20
Total income	347	349	(2)	1,027	1,020	7	336

Statement 6a: Analysis of income, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result lower income earned from Welsh Valley finance charges and lower facility charge income as fewer schemes than planned were completed. These variances have been partly mitigated by additional property rental income.
- (3) Grant income - grant income in the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Wales – continued

in £m 2016-17 prices unless stated

- (4) Capacity charge – this is favourable to the determination in the control period to date. This is because of increased train services offered in the year compared to the regulator's assumption in response to customer demand.
- (5) Facility and financing charges – this is lower than the determination due to lower income from the Welsh Valley finance charge. The regulator assumed that Network Rail would construct railway enhancement upgrades in Wales this control period. The borrowing costs that Network Rail incurred would be recoverable from third parties at a contractual rate and included in the Regulatory Financial Statements as income. However, the construction of this project has been postponed meaning that whilst Network Rail is saving interest costs (as shown in Statement 4) it is also earning less income. Variances in both the interest saving and the financing charge income is treated as neutral when assessing financial performance (refer to Statement 5).

Statement 6b: Analysis of other single till income, Wales

in £m 2016-17 prices unless stated

	2016-17			Cumulative			2015-16
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	2	1	1	5	4	1	2
Property sales	-	-	-	-	-	-	-
Adjustment for commercial opex	-	(1)	1	-	(4)	4	-
Total property income	2	-	2	5	-	5	2
Freight income							
Freight variable usage charge	3	4	(1)	11	11	-	4
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	1	1	-	1
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	1	(1)	-	1	(1)	-
Freight other income	-	-	-	1	-	1	-
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	3	5	(2)	13	14	(1)	5
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	-	-	-	-	-	-	-
Qualifying expenditure	-	-	-	-	-	-	-
Total managed stations income	-	-	-	-	-	-	-
Franchised stations income							
Long term charge	9	9	-	27	27	-	9
Stations lease income	1	2	(1)	4	4	-	1
Total franchised stations income	10	11	(1)	31	31	-	10
Total stations income	10	11	(1)	31	31	-	10
Facility and financing charges							
Facility charges	-	1	(1)	1	2	(1)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	3	(3)	-	5	(5)	-
Total facility and financing charges	-	4	(4)	1	7	(6)	1
Depots income	3	3	-	7	8	(1)	2
Other	-	-	-	-	1	(1)	-
Total other single till income	18	23	(5)	57	61	(4)	20

Statement 6b: Analysis of other single till income (unaudited), Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	19	14	(5)	55	42	(13)	18
Signalling shift managers	1	1	-	2	3	1	1
Local operations managers	1	1	-	3	3	-	1
Controllers	2	2	-	7	6	(1)	2
Electrical control room operators	-	1	1	-	2	2	-
Total signaller expenditure	23	19	(4)	67	56	(11)	22
Non-signaller expenditure							
Mobile operations managers	2	2	-	4	6	2	1
Managed stations	-	2	2	-	7	7	-
Performance	-	1	1	-	3	3	-
Customer relationship executives	1	-	(1)	1	1	-	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	2	1	(1)	4	4	-	2
Other	-	1	1	-	2	2	-
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	1	-	(1)	3	-	(3)	1
HQ - Performance and planning	-	-	-	1	-	(1)	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	6	2	(4)	15	5	(10)	5
Other operating income	(2)	(1)	1	(4)	(4)	-	(1)
Total non-signaller expenditure	10	8	(2)	24	24	-	8
Total network operations expenditure	33	27	(6)	91	80	(11)	30
Support costs							
Core support costs							
Human resources	1	3	2	5	10	5	2
Information management	3	3	-	10	10	-	3
Government and corporate affairs	1	1	-	3	3	-	1
Group strategy	-	1	1	2	3	1	1
Finance	1	1	-	3	5	2	1
Business services	1	1	-	4	3	(1)	1
Accommodation	3	-	(3)	5	1	(4)	1
Utilities	4	2	(2)	9	2	(7)	3
Insurance	-	1	1	1	3	2	-
Legal and inquiry	1	1	-	-	1	1	-
Safety and sustainable development	1	-	(1)	3	1	(2)	1
Strategic sourcing	-	1	1	-	2	2	-
Business change	-	-	-	-	-	-	-
Other corporate functions	4	-	(4)	11	1	(10)	3
Core support costs	20	15	(5)	56	45	(11)	17
Other support costs							
Asset management services	2	3	1	6	15	9	2
Network Rail telecoms	1	2	1	6	7	1	2
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(2)	-	2	(3)	-	3	(1)
Commercial property	(1)	1	2	-	-	-	-
Group costs	-	-	-	(6)	(1)	5	(2)
Total other support costs	-	6	6	3	21	18	1
Total support costs	20	21	1	59	66	7	18
Traction electricity, industry costs and rates							
Traction electricity	-	-	-	-	-	-	-
Business rates	6	6	-	20	20	-	8
British transport police costs	2	1	(1)	10	4	(6)	4
RSSB costs	1	1	-	2	2	-	-
ORR licence fee and railway safety levy	1	-	(1)	4	3	(1)	1
Reporters fees	-	-	-	-	-	-	-
Other industry costs	-	-	-	1	-	(1)	1
Total traction electricity, industry costs and rates	10	8	(2)	37	29	(8)	14
Total network operations expenditure, support costs, traction electricity, industry costs and rates	63	56	(7)	187	175	(12)	62

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is mainly due to higher signaller costs as savings assumed in the PR13.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail's development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are broadly in line with the determination in the current year but favourable in the control period to date.

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

in £m 2016-17 prices unless stated

- (6) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Utilities – costs are higher than the determination this year continuing the trend of earlier years of the control period.
- (8) Insurance - costs are favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (9) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.
- (10) Other corporate functions – costs are higher than the determination assumed this in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

in £m 2016-17 prices unless stated

- (11) Asset Management Services – costs are lower than the determination in the control period to date partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (12) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (13) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower re-organisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).
- (14) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are generally set by other government agencies (Business rates, British Transport Police, ORR licence fees). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is higher than the regulator expected in the control period to date mainly due to extra British Transport Police costs.
- (15) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. Any variance is not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- (16) British Transport Police costs - expenses in the control period to date are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	13	18	18	20
MOMS	1	1	1	2
Control	3	2	2	3
Planning & Performance Staff Costs	2	-	2	1
Managed Stations Staff Costs	1	-	-	3
Operations Management Staff Costs	1	1	2	-
Other	8	6	5	4
Total operations & customer services costs	29	28	30	33
Total Network Operations	29	28	30	33
Support				
Human resources				
Functional support	1	1	1	1
Training (inc Westwood)	1	1	-	-
Graduates	1	-	-	-
Apprenticeships	-	-	-	-
Other	-	-	1	-
Total human resources	3	2	2	1
Information management				
Support	-	1	-	-
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	3	3	3	3
Other	-	-	-	-
Total information management	3	4	3	3
Finance	1	1	1	1
Business Change	-	-	-	-
Contracts & Procurement	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	-
Planning & development	2	1	1	-
Safety & compliance	1	-	-	-
Other corporate services	3	1	1	2
Commercial property	6	2	1	2
Infrastructure Projects	(3)	(1)	(1)	(2)
Route Services	1	1	1	1
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	6	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	3	3	4
Network Rail Telecoms	-	2	2	1
Digital Railway	-	1	1	1
Safety Technical & Engineering	-	2	2	2
Government & Corporate Affairs	-	1	1	1
Business Services	-	1	1	1
Route Asset Management	-	2	1	1
Legal and inquiry	-	-	-	1
Group/central				
Pensions	-	-	-	-
Insurance	2	1	-	-
Redundancy/reorganisation costs	5	1	1	-
Staff incentives/Bonus Reduction	-	(1)	-	-
Accommodation & Support Recharges	-	(2)	(2)	(1)
Commercial claims settlements	-	-	-	-
ORR financial penalty	4	(1)	-	-
Other	1	-	(1)	1
Total group/central costs	12	(2)	(2)	-
Total support	35	21	18	20
Total network operations and support costs	64	49	48	53

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Wales – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	29	23	(6)	91	71	(20)	32
Signalling	11	9	(2)	33	29	(4)	10
Civils	9	11	2	38	35	(3)	17
Buildings	5	4	(1)	14	10	(4)	4
Electrical power and fixed plant	6	7	1	12	20	8	4
Telecoms	2	1	(1)	4	3	(1)	2
Other network operations	5	5	-	17	15	(2)	4
Asset management services	2	2	-	4	6	2	2
National Delivery Service	-	2	2	-	7	7	-
Property	-	-	-	-	1	1	-
Group	(1)	(1)	-	(3)	(3)	-	(1)
Total maintenance expenditure	68	63	(5)	210	194	(16)	74

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are lower than the previous year mainly due to less reactive maintenance works required this year.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date.
- (3) Signalling – costs in the control period to date are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives.

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

in £m 2016-17 prices unless stated

- (4) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed which accounts for most of the control period to date variance. These variances are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (6) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	70	60	(10)	160	137	(23)	58
Signalling	59	40	(19)	162	154	(8)	56
Civils	49	47	(2)	114	117	3	36
Buildings	7	11	4	17	28	11	4
Electrical power and fixed plant	1	6	5	4	14	10	2
Telecoms	3	3	-	8	9	1	1
Wheeled plant and machinery	3	5	2	12	21	9	5
Information Technology	4	4	-	20	14	(6)	7
Property	-	-	-	-	-	-	-
Other renewals	4	4	-	17	(6)	(23)	7
Total renewals expenditure	200	180	(20)	514	488	(26)	176

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track and Signalling). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes expenditure on projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is higher than the previous year mainly due to extra track and Signalling costs.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was higher than the previous year with higher expenditure (but not necessarily higher proportionate volume increases) across most sub-asset categories.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected this year, partly mitigating underspend witnessed in the first two years of the control period. However, underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. The higher underlying costs are mostly caused by the Cardiff area re-signalling project which has encountered a number of difficulties (including delays in commissioning dates which, due to limited access availability, caused the project commissioning date to be postponed as well as contractor claims), but has now been successfully commissioned. The determination assumed this programme would be complete by now so there is no allowance in the current year. These extra costs have been partly offset by lower Level crossing programmes expenditure, caused by delays arising from a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Mostly as a result of the aforementioned Cardiff project Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year.
- (4) Civils – expenditure in the year was slightly higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year. Efficiencies assumed by the regulator have proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is broadly in line with the determination expected but the underlying story is one of higher like-of-like costs offset by deferrals of activity. The higher costs are a result of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above) as well as contractor claims on certain jobs. Expenditure is higher than the previous year which was suppressed by deferral of activity some of which has now been caught up in the current year.
- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity. This is largely due to resourcing issues and delays linked to the tendering and design of remitted works.

Statement 9a: Detailed analysis of renewals expenditure, Wales – continued

in £m 2016-17 prices unless stated

- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year, continuing the trend of the opening two years of the control period. Most of the actual and planned activity in the year and in the control period to date is in the Fixed plant category. Given the lack of electrified assets in Wales this is not surprising. Savings have been made as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure.
- (7) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5).
- (8) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.

Statement 9a: Detailed analysis of renewals expenditure, Wales – continued

in £m 2016-17 prices unless stated

(9) Other renewals

- a. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding.
- b. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- c. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the control period to date is largely for FTN and ORBIS. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

Statement 9b: Detailed analysis of renewals expenditure, Wales

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	19	12	(7)	46	23	(23)
High output renewal	15	16	1	28	20	(8)
Plain line refurbishment	8	6	(2)	20	16	(4)
S&C renewal	13	17	4	37	51	14
S&C refurbishment	2	4	2	4	13	9
Track non-volume	5	3	(2)	11	8	(3)
Off track	8	2	(6)	14	6	(8)
Total track	70	60	(10)	160	137	(23)
Signalling						
Full conventional resignalling	48	16	(32)	129	46	(83)
Modular resignalling	6	11	5	13	58	45
ERTMS resignalling	-	-	-	-	1	1
Partial conventional resignalling	-	-	-	-	-	-
Targeted component renewal	-	-	-	-	-	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	2	(1)	5	8	3
Level crossings	(2)	6	8	5	23	18
Minor works	3	4	1	7	16	9
Centrally managed costs	1	1	-	3	2	(1)
Other	-	-	-	-	-	-
Total signalling	59	40	(19)	162	154	(8)
Civils						
Underbridges	20	20	-	52	42	(10)
Overbridges	4	3	(1)	11	8	(3)
Bridgeguard 3	1	-	(1)	1	-	(1)
Major structures	-	1	1	-	3	3
Tunnels	2	4	2	2	9	7
Other assets	8	6	(2)	17	16	(1)
Structures other	-	7	7	2	17	15
Earthworks	14	6	(8)	29	22	(7)
Other	-	-	-	-	-	-
Total civils	49	47	(2)	114	117	3
Buildings						
Managed stations	-	-	-	-	-	-
Franchised stations	7	7	-	13	20	7
Light maint depots	-	2	2	1	3	2
Depot plant	-	1	1	1	3	2
Lineside buildings	-	-	-	1	1	-
MDU buildings	-	-	-	1	1	-
NDS depots	-	1	1	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	7	11	4	17	28	11

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	1	1	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	1	1	-	3	3
Fixed plant	1	4	3	4	11	7
Total electrical power and plant	1	6	5	4	14	10
Telecoms						
Operational communications	-	-	-	-	-	-
Network	1	2	1	1	4	3
SISS	-	-	-	-	-	-
Projects and other	-	1	1	1	2	1
Non-route capital expenditure	2	-	(2)	6	3	(3)
Total telecoms	3	3	-	8	9	1
Wheeled plant and machinery						
High output	1	1	-	4	6	2
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	1	-	2	5	3
Materials delivery	1	-	(1)	3	1	(2)
On track plant	-	1	1	2	3	1
Seasonal	-	-	-	1	2	1
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	-	-
Road vehicles	-	2	2	-	3	3
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	3	5	2	12	21	9
Information Technology						
IM delivered renewals	4	4	-	18	12	(6)
Traffic management	-	-	-	2	2	-
Total information technology	4	4	-	20	14	(6)
Property						
MDUs/offices	-	-	-	-	-	-
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	-	-	-	-	-	-
Other renewals						
Asset information strategy	3	2	(1)	8	8	-
Intelligent infrastructure	1	1	-	2	3	1
Faster isolations	-	2	2	-	6	6
LOWS	-	-	-	1	-	(1)
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(1)	(1)	-	(25)	(25)
Engineering innovation fund	-	(1)	(1)	-	-	-
CP4 rollover	-	-	-	6	-	(6)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	4	4	-	17	(6)	(23)
Total renewals	200	180	(20)	514	488	(26)

Statement 9b: Detailed analysis of renewals expenditure, Wales (unaudited) – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wales

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	10	18	8	22	50	28	6
Access charge supplement Income	(16)	(16)	-	(44)	(44)	-	(10)
Net (income)/cost	(6)	2	8	(22)	6	28	(4)
Schedule 8							
Performance element income	(1)	-	1	(7)	-	7	(1)
Performance element costs	2	-	(2)	5	1	(4)	2
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	1	-	(1)	(2)	1	3	1

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	(2)	(3)	(1)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	-	-	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	2	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(1)	(1)	(1)

Statement 10: Other information, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Statement 10: Other information, Wales – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are lower this year than the determination assumed. This is mostly due to a concerted effort to minimise late possessions and instead make every effort to adhere to possession planning timetables. There is also a contribution from undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are lower than the regulatory assumption. This is a combination of undertaking less renewals activity and lower underlying costs following careful possession planning which has resulted in the recognition of financial outperformance (refer to Statement 5a). Costs are higher than the previous year mainly due to increased delivery of those assets that require possessions (notably Signalling - Full conventional resignalling delivered as part of the Cardiff area re-signalling works). In addition, there is also some benefit from the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.
- (2) Schedule 8 costs are generally in line with the determination continuing the trend of the opening two years of the control period.
- (3) The opex memorandum in the year and the control period to date is broadly neutral with losses made under the Volume incentive mechanism (refer to Statement 12) generally offset by differences on apportionment of the expenses of the regulator compared to the determination assumption.

Statement 11:

No Statement 11 is required for Wales

Statement 12: Volume incentives, Wales

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(10)	(2)	15	16	5.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	0	0	233	225	3.8%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(2)	0	1	1	1.4%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	(2)	0	1,294	1,437	1.7%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(14)	(2)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$$

Where:

A_t = Actual in year quantity

B = 2016-17 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, losses were recognised on the Volume incentive measure. This related to passenger train miles where the growth was not as swift as the regulatory baseline. As the prior year's Regulatory financial statements noted there was an expectation that enhancements at the end start of CP5 would lead to large increases in passenger demands. However postponement of some of these planned works means that Wales did not achieve the growth targets this year and will struggle to achieve the growth the regulator expects for future years of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, Wales

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	34	19	47	69	681
	High Output Renewal	km	22	13	14	22	636
	Plain line Refurbishment	km	49	6	9	73	123
	S&C Renewal/Refurbishment	point ends	101	15	54	237	228
	Track Drainage	lm	10,171	3	5	28,390	0
	Fencing	km	102	4	12	244	49
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	19	2	2	40	50
	Other	-	-	-	-	-	-
Total			10,498	62	143	29,075	-
Signalling	Full Conventional Resignalling	SEU	264	34	226	612	369
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	4	-	3	4	750
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
Total			268	34	229	616	-
Civils	Underbridges	m ²	23,858	34	47	33,540	1
	Overbridges (incl BG3)	m ²	4,548	7	11	4,548	2
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	10,448	5	11	10,448	1
	Culverts	m ²	172	2	2	172	12
	Footbridges	m ²	-	-	-	-	-
	Coastal & Estuarial Defences	m	1,013	1	3	1,013	3
	Retaining Walls	m ²	4,887	2	3	4,907	1
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	400	15	45	756	60
	EW Drainage	m	15,377	4	9	21,519	0
	Other	-	-	-	-	-	-
Total			60,703	70	131	76,903	-
Buildings	Buildings (MS)	m ²	7,399	-	1	7,399	0
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	30	-	-	30	-
	Buildings (FS)	m ²	8,109	2	3	10,857	0
	Platforms (FS)	m ²	12,446	3	8	13,704	1
	Canopies (FS)	m ²	5,181	3	7	6,240	1
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	135	4	5	135	37
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	-	55,066	3	5	101,976	0
	Light Maintenance Depots	m ²	13,359	-	2	20,655	0
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	4,801	1	5	11,140	0
	MDU Buildings	m ²	5,834	-	3	7,427	0
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			112,360	16	39	179,563	-

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume £k/unit	Cost unit	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	101	-	2	112	18
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	22	-	2	142	14
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	57	-	6	73	82
	Signalling Power Cables	km	-	-	-	-	-
	Signalling Supply Points	No.	5	-	3	20	150
	Other Fixed Plant		-	-	-	-	-
Total			185	-	13	347	-
Telecoms	Customer Information Systems	No.	23	-	1	23	43
	Public Address	No.	90	-	-	105	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	9	-	-	524	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	8	1	10	8	1,250
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			130	1	11	660	-

Statement 14: Renewals volumes, unit costs and expenditure, Wales – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Wessex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	310	309	1	930	921	9	312
Fixed Income	23	22	1	72	70	2	22
Variable Income	102	115	(13)	306	325	(19)	101
Other Single Till Income	104	99	5	298	283	15	99
Opex memorandum account	(4)	-	(4)	(6)	-	(6)	(1)
Total Income	535	545	(10)	1,600	1,599	1	533
Operating expenditure							
Network operations	33	29	(4)	98	89	(9)	33
Support costs	26	36	10	92	117	25	34
Traction electricity, industry costs and rates	63	77	14	201	213	12	67
Network maintenance	93	87	(6)	292	274	(18)	101
Schedule 4	15	17	2	60	47	(13)	23
Schedule 8	35	-	(35)	72	1	(71)	17
Total operating expenditure	265	246	(19)	815	741	(74)	275
Capital expenditure							
Renewals	193	245	52	792	684	(108)	288
PR13 enhancement expenditure	198	204	6	346	351	5	88
Non PR13 enhancement expenditure	3	-	(3)	9	-	(9)	-
Total capital expenditure	394	449	55	1,147	1,035	(112)	376
Other expenditure							
Financing costs	134	144	10	359	404	45	109
Corporation tax (received)/paid	-	-	-	(1)	1	2	-
Total other expenditure	134	144	10	358	405	47	109
Total expenditure	793	839	46	2,320	2,181	(139)	760

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was broadly consistent with the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in step with the determination in the year. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target mainly as a result of lower electricity. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is higher than the determination mainly due to extra property sales and stations income. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs arising from developing extra industry timetabling capabilities to help meet growing passenger demand. Costs are higher in the control period to date for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income). The savings made in the control period to date are also mainly due to this factor. Traction electricity, industry costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (10) Operating expenditure - Network Maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. The current year was also impacted by transitional costs arising from consolidation of the number of depots in the route to drive long-term efficiency savings. These additional costs are somewhat offset by lower reactive maintenance requirements in the year. Costs in the control period to date are higher than the regulatory expectation which includes the impact of the transitional costs noted above, targeted programmes to improve performance, investment in safety initiatives and lower than expected efficiencies partly offset by lower reactive maintenance requirements.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination mostly as a result of reduced delivery of renewals which require network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes expenditure on projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year and in the control period to date is broadly in line with the baseline. However, this reflects the net position across a number of different programmes. This is a combination of increases and decreases across a wide range of programmes with the largest contribution from the programme to improve Waterloo capacity. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period to date is axiomatic. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wessex

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,085	3,829	256
Indexation to 2015-16 prices	236	221	15
Opening RAB for the year (2015-16 prices)	4,321	4,050	271
Indexation for the year	95	89	6
Opening RAB (2016-17 prices)	4,416	4,139	277
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	177	245	(68)
PR13 enhancements	201	122	79
Non-PR13 enhancements	3	-	3
Total enhancements	204	122	82
Amortisation	(203)	(203)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2017	4,594	4,303	291

RAB Regulatory financial position - cumulative, Wessex

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	3,973	4,240	4,416	3,973
Adjustments for the actual capital expenditure outturn in CP4	113	-	-	113
Renewals	283	281	177	741
PR13 enhancements	59	88	201	348
Non-PR13 enhancements	6	-	3	9
Total enhancements	65	88	204	357
Amortisation	(193)	(193)	(203)	(589)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	(1)
Closing RAB	4,240	4,416	4,594	4,594

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in the first two years of the control period relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was due to efficient overspends (the value of which cannot all be logged up to the RAB) coupled with re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

in £m 2016-17 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Wessex

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	216	223	245	684
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	19	-	-	19
Capitalised financing on CP4 deferrals	-	1	1	2
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	235	224	246	705
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(41)	13	(134)	(162)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(4)	(6)
Adjustments for efficient overspend	114	49	81	244
Capitalised financing on efficient overspend	2	6	9	17
25% retention of efficient overspend	(29)	(12)	(21)	(62)
Capitalised financing on efficient overspend 25% retention	(1)	(1)	(2)	(4)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	3	1	9
Capitalised financing on efficient overspend through spend to save framework	1	-	1	2
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	(2)	-	-	(2)
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	283	281	177	741
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	(1)	(5)	(5)	(11)
Adjustment for 25% retention of efficient overspend	29	12	21	62
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	-	-	-
Total actual renewals expenditure (see statement 9)	311	288	193	792

Statement 2b: RAB - reconciliation of expenditure, Wessex - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	53	62	122	237
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	22	(22)	-	-
Capitalised financing on CP4 deferrals	-	1	-	1
Baseline adjustments	-	33	82	115
Capitalised financing on Baseline adjustments	-	1	3	4
Adjustments to DfT funding	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (enhancements)	75	75	207	357
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(20)	15	(6)	(11)
Capitalised financing on acceleration / (deferrals) of expenditure	-	(1)	-	(1)
Adjustments for efficient overspend	4	-	-	4
Capitalised financing on efficient overspend	-	-	-	-
25% retention of efficient overspend	(1)	-	-	(1)
Capitalised financing of 25% efficient overspend	-	-	-	-
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-
agreements - retention of efficient overspend	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	59	88	201	348
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	-	3	9
overspend	(1)	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	1	-	-	1
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	-	3	9
Total enhancements (added to the RAB - see statement 2a)	65	88	204	357
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	-	(1)	(3)	(4)
Adjustment for 25% retention of efficient overspend	2	-	-	2
Other Adjustments	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	7	5	8	20
Other adjustments	-	-	-	-
Total actual enhancement expenditure (see statement 3)	74	92	209	375

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.

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

in £m 2016-17 prices unless stated

- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Northern Hub, Edinburgh Glasgow Improvements Programme (EGIP) and Rolling Programme of Electrification projects. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Wessex

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	1	-	9	9	-
Stations - Access for All (AfA)	8	8	-	15	16	1
Development	-	-	-	9	9	-
Level crossing safety	-	6	6	3	10	7
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	1	3	2	3	6	3
Total funds	10	18	8	39	50	11
Committed projects						
IEP Programme	-	-	-	-	-	-
Total committed projects	-	-	-	-	-	-
Named schemes						
The Electric Spine:						
DfT SOFA amount	-	-	-	-	-	-
Total Electric Spine projects	-	-	-	-	-	-
South East						
Waterloo	126	112	(14)	176	150	(26)
Total South East	126	112	(14)	176	150	(26)
HLOS capacity metric schemes						
South London HV traction power upgrade	-	2	2	2	3	1
Reading, Ascot to London Waterloo train lengthening	22	30	8	26	33	7
Wessex traction power supply upgrade	25	22	(3)	39	43	4
Total HLOS capacity metric schemes	47	54	7	67	79	12
CP4 Project Rollovers						
DC Regeneration	-	-	-	2	1	(1)
Package 7,10 Car Park West Suburban Railway	-	1	1	15	16	1
Wessex Automatic Selective Door Opening	(1)	-	1	1	2	1
Station Security	-	-	-	-	-	-
Other CP4 Rollover	(2)	(6)	(4)	4	-	(4)
Total CP4 rollovers	(3)	(5)	(2)	22	19	(3)
Other projects						
Seven day railway projects	1	-	(1)	5	5	-
ERTMS Cab fitment	-	-	-	-	1	1
Depots and stabling	13	19	6	22	28	6
R&D allowance	1	-	(1)	2	1	(1)
Income generating property schemes	3	6	3	13	18	5
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	18	25	7	42	53	11
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	198	204	6	346	351	5
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	1	-	(1)
Total Government sponsored schemes	1	-	(1)	1	-	(1)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	-	-	-	3	-	(3)
Total Schemes promoted by third parties	2	-	(2)	4	-	(4)
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	3	-	(3)	9	-	(9)
Total Network Rail funded enhancements (see Statement 1)	201	204	3	355	351	(4)
Third Party PAYG	8	-	(8)	20	-	(20)
Total enhancements (see statement 2b)	209	204	(5)	375	351	(24)

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £201m (as shown in Statement 1). This comprises the total enhancement figure in the table above £209m less the PAYG schemes funded by third parties (£8m).
- (5) Investment expenditure this year was higher than the previous year. This is a combination of increases and decreases across a wide range of programmes with the largest contribution from the programme to improve Waterloo capacity.
- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2016-17 prices unless stated

- (a) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was lower than the determination in this year and is much lower for the control period to date largely as a result of contractor disputes leading to delays. Discussions appear to have reached a mutually agreed conclusion so the level of expenditure is expected to increase over the remainder of the control period. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items).
 - (b) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline this year but a catch up is planned over the remainder of the control period. Underspend this year includes rescheduling of activity to coincide with other projects to gain delivery synergies, insufficient access to instigate change and more challenge on tender price bids. The current year variance accounts for the majority of saving in the control period to date.
- (7) PR13 funded schemes – named schemes - there is only one programme in this category: Waterloo. This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Investment in the year is higher than baseline mostly due to acceleration of activity from future years to meet programme milestones. In addition, design changes and higher contractor delivery costs have increased like-for-like costs on this programme. Consequently, financial underperformance has been acknowledged in the control period to date (refer to Statement 5a), meaning that not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline. This is mainly due to the Reading, Ascot to London Waterloo train lengthening programme. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:
- (a) Reading, Ascot to London Waterloo train lengthening - This project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Expenditure in the year is lower than the baseline. This is partly caused by deferral of the Feltham element of the scheme into future years arising from delays in local council delivering highway mitigation works. The variance in the control period to date is caused by the lower expenditure in the current year.
 - (b) Wessex traction power supply upgrade – The aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure in the current year is higher than the baseline which was mainly due to a catch up of activity deferred in 2015/16. Investment is slightly lower than the baseline for the control period to date as some activity has been deferred to later in the control period.
- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2016-17 prices unless stated

- (a) Package 7,10 Car Park West Suburban Railway – The project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.
- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in Depots & stabling. Notable variances to the baseline include:
 - (a) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is lower than the baseline mainly due to deferral of projects into future years mainly due to delays in acquiring adequate designs. The variance in the control period to date is largely the result of the underspend in the current year.
 - (b) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and the control period to date is lower than the baseline. Network Rail undertakes projects where is a sufficiently strong business case that deliver a benefit to the industry. If such projects cannot be identified then investment will be lower than the baseline assumption. The variance in the current year continues the trend of earlier years of the control period.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
 - (a) Network Rail Spend to save – the main project in CP5 is Project Mountfield which related to the acquisition of freight sites and paths.
 - (b) PAYGO – Significant programmes in this category in the current year include: Waterloo development retail works and a platform extension at Wimbledon station. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Wessex

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	3,027	2,830	(197)	2,591	2,527	(64)
Income						
Grant income	(310)	(309)	1	(913)	(905)	8
Fixed charges	(23)	(22)	1	(71)	(69)	2
Variable charges	(102)	(115)	(13)	(301)	(319)	(18)
Other single till income	(104)	(99)	5	(293)	(280)	13
Total income	(539)	(545)	(6)	(1,578)	(1,573)	5
Expenditure						
Network operations	33	29	(4)	96	89	(7)
Support costs	26	36	10	90	114	24
Traction electricity, industry costs and rates	63	77	14	195	211	16
Network maintenance	93	87	(6)	286	270	(16)
Schedule 4	15	17	2	59	47	(12)
Schedule 8	35	-	(35)	71	1	(70)
Renewals	193	245	52	777	672	(105)
PR13 enhancement	198	122	(76)	342	234	(108)
Non-PR13 enhancement	3	-	(3)	10	-	(10)
Total expenditure	659	613	(46)	1,926	1,638	(288)
Financing						
Interest expenditure on nominal debt - FIM covered	30	48	18	95	130	35
Interest expenditure on index linked debt - FIM covered	18	21	3	55	60	5
Expenditure on the FIM	22	33	11	76	93	17
Interest expenditure on government borrowing	31	-	(31)	59	-	(59)
Interest on cash balances held by Network Rail	-	(2)	(2)	(1)	(4)	(3)
Total interest costs	101	100	(1)	284	279	(5)
Accretion on index linked debt - FIM covered	33	44	11	69	125	56
Total financing costs	134	144	10	353	404	51
Corporation tax	-	-	-	(1)	1	2
Other	10	-	(10)	-	45	45
Movement in net debt	264	212	(52)	700	515	(185)
Closing net debt	3,291	3,042	(249)	3,291	3,042	(249)

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	0.71	0.72	0.71	0.96
FFO/interest	2.72	2.83	2.73	3.00
Net debt/RAB (gearing)	69.4%	70.0%	71.6%	70.7%
FFO/debt	8.9%	8.4%	8.3%	9.8%
RCF/debt	5.7%	5.4%	5.3%	6.5%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attribute to the Wessex route has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt at 31 March 2017 attributable to the Wessex route is £0.2bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, higher investment in the railway network has driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review and subsequent Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination, There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator did not expect Network Rail to cover its interest costs through its trading profits (including an assumption for steady state renewals) with the shortfall, and any emerging risks, absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs partly offset by savings in Support costs.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination are, therefore, the same as the reasons outlined in the AICR comment above.
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4).
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Wessex

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	310	309	1	1	-	-	-	-
Fixed Income	23	22	1	1	-	-	-	-
Variable Income	61	64	(3)	-	-	-	(3)	(3)
Other Single Till Income	104	99	5	-	-	-	5	5
Opex memorandum account	(4)	-	(4)	(4)	-	-	-	-
Total Income	494	494	-	(2)	-	-	2	2
Expenditure								
Network operations	33	29	(4)	-	-	-	(4)	(4)
Support costs	26	36	10	-	-	-	10	10
Industry costs and rates	22	23	1	4	-	-	(3)	(3)
Traction electricity	-	3	3	-	-	-	3	3
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	93	87	(6)	-	7	-	(13)	(13)
Schedule 4 costs	15	17	2	-	8	-	(6)	(6)
Schedule 8 costs	35	-	(35)	-	-	-	(35)	(35)
Renewals	193	245	52	8	125	-	(81)	(21)
PR13 Enhancements	198	204	6	-	6	-	-	-
Non PR13 Enhancements	3	-	(3)	-	(3)	-	-	-
Financing Costs	134	144	10	10	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	752	788	36	22	143	-	(129)	(69)
Total:			36	20	143	-	(127)	(67)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(67)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(17)
Under-delivery of train performance requirements (CaSL)								(6)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(27)
Total financial out / (under) performance to be recognised								(94)

Statement 5a: Total financial performance, Wessex - continued

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	930	921	9	9	-	-	-	-
Fixed Income	72	70	2	2	-	-	-	-
Variable Income	184	190	(6)	-	-	-	(6)	(6)
Other Single Till Income	298	283	15	-	-	-	15	15
Opex memorandum account	(6)	-	(6)	(7)	-	-	1	1
Total Income	1,478	1,464	14	4	-	-	10	10
Expenditure								
Network operations	98	89	(9)	-	-	-	(9)	(9)
Support costs	92	117	25	2	-	-	23	23
Industry costs and rates	72	69	(3)	1	-	-	(4)	(4)
Traction electricity	7	8	1	-	-	-	1	1
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	292	274	(18)	-	25	-	(43)	(43)
Schedule 4 costs	60	47	(13)	-	5	-	(18)	(18)
Schedule 8 costs	72	1	(71)	-	-	-	(71)	(71)
Renewals	792	684	(108)	8	128	-	(244)	(61)
PR13 Enhancements	346	351	5	-	9	-	(4)	(1)
Non PR13 Enhancements	9	-	(9)	-	(9)	-	-	-
Financing Costs	359	404	45	45	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	1	2	-	2	-	-	-
Total Expenditure	2,198	2,046	(152)	56	161	-	(369)	(183)
Total:			(138)	60	161	-	(359)	(173)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(173)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(38)
Under-delivery of train performance requirements (CaSL)								(13)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(56)
Total financial out / (under) performance to be recognised								(229)

	2016-17			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(41)	(51)	10	(122)	(135)	13
Total variance not included in total	(41)	(51)	10	(122)	(135)	13
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total	-	-	-	2	-	2
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	41	51	(10)	122	135	(13)
Total variance not included in total	41	51	(10)	122	135	(13)

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Fixed income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (3) Variable income – financial underperformance for the control period to date has arisen from lower Variable usage income as, although capacity and network traffic has increased, it has not done so quite as quickly as the determination assumed. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (4) Other single till income – financial outperformance has been generated in the current year mostly due to extra property sales, higher stations income and higher facility fees from offering extra services to train operators. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Growth has generally been in line with the regulator's expectation in the current year but favourable in the opening two years of the control period generating some outperformance in the Cumulative table.
- (6) Network operations – costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. The variances in the control period to date largely arise from the same factors.

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7a. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is mostly caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a marginal favourable variance to the determination target in the current year and the control period to date.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM.

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (11) Network maintenance – financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. The current year was also impacted by transitional costs arising from consolidation of the number of depots in the route to drive long-term efficiency savings. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – Performance element costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity (and hence an adjustment is made in the Variance in volume of work done column (column E)) more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared.

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (13) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as a fire at Vauxhall station. Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all major asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme. Only Waterloo programme is reporting a variance to the baseline so far this control period. Variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail provided that any overspend is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines (June 2017)). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which give rise to financial outperformance or underperformance this year or in the control period to date.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.
- (18) Corporation tax – given the uncertainty of when income taxes are payable and the immaterial value, the arithmetic variances that have arisen this control period have been treated as neutral at this time. This treatment will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction in its financial performance for this missed output.

Statement 5a: Total financial performance, Wessex – continued

in £m 2016-17 prices unless stated

- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13	Deferral/ (acceleration) of work	Final Variance	Financial out/ (under) performance	Due to:	Cost (in) / efficiency	Scope (in) / efficiency	Other (in) / efficiencies
	A	B	C	D		E	F	G
Track	(6)	29	(35)	(9)		(9)	-	-
Signalling	38	59	(21)	(5)		(5)	-	-
Civils	6	20	(14)	(4)		(3)	(1)	-
Buildings	1	4	(3)	(1)		(1)	-	-
Electrical power and fixed plant	4	15	(11)	(3)		(3)	-	-
Telecoms	4	4	-	-		-	-	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	-	-	-	-		-	-	-
Property	4	4	-	-		-	-	-
Other renewals	(3)	(6)	3	1		2	(1)	-
Total	52	133	(81)	(21)		(19)	(2)	-

Cumulative								
	Variance to PR13	Deferral/ (acceleration) of work	Final Variance	Financial out/ (under) performance	Due to:	Cost (in) / efficiency	Scope (in) / efficiency	Other (in) / efficiencies
	A	B	C	D		E	F	G
Track	(44)	45	(89)	(22)		(21)	(1)	-
Signalling	37	74	(37)	(9)		(11)	2	-
Civils	(26)	21	(47)	(12)		(8)	(4)	-
Buildings	(14)	(7)	(7)	(2)		(2)	-	-
Electrical power and fixed plant	11	38	(27)	(7)		(4)	(3)	-
Telecoms	10	10	-	-		-	-	-
Wheeled plant and machinery	17	17	-	-		-	-	-
IT	(8)	(8)	-	-		-	-	-
Property	8	8	-	-		-	-	-
Other renewals	(99)	(62)	(37)	(9)		(1)	(8)	-
Total	(108)	136	(244)	(61)		(47)	(14)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

in £m 2016-17 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-quarter of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. Increased minor works has also been required due to faster than expected deterioration of key assets at Feltham, Havant and Southampton. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network, notably a landslip at Wrecblesam. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Adverse weather (storm Katie at Easter) also prevented delivery of a bridge at Wandsworth resulting in the project having to be re-commissioned later in the year.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, delays in delivering improvements at Brockenhurst station (to coincide with track renewals projects) have led to project prolongation which has incurred additional costs.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119, hook switch solutions) have added additional scope into the workbank with no corresponding increase in the funding available. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

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

in £m 2016-17 prices unless stated

- (7) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. In addition, some outperformance has been caused by reductions in costs associated with construction of Wessex campus, mitigating some of the financial underperformance recognised in earlier years of the control period. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (notably development of the Wessex campus at Basingstoke). The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, mostly due to the Wessex campus at Basingstoke.

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

in £m 2016-17 prices unless stated

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Waterloo	(14)	(14)	-	-	-
Seven day railway	(1)	(1)	-	-	-
Other Enhancements	18	18	-	-	-
Total	3	3	-	-	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Waterloo	(26)	(22)	-	(4)	(1)
Seven day railway	-	-	-	-	-
Other Enhancements	22	22	-	-	-
Total	(4)	-	-	(4)	(1)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) There are no material differences between anticipated final programme costs and the baselines agreed with DfT projects for Wessex that have resulted in financial underperformance being recognised in the current year.
- (2) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Wessex

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2016-17		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	47	51	(4)	-	-	-	(4)	
Capacity charge	92	92	-	-	-	-	-	
Electricity asset utilisation charge	3	3	-	-	-	-	-	
Property income	78	117	(39)	-	-	-	(39)	
Expenditure								
Network operations	98	84	(14)	-	-	-	(14)	
Support costs	92	113	21	-	2	-	19	
RSSB and BT Police	25	22	(3)	-	-	-	(3)	
Network maintenance	292	282	(10)	26	-	-	(36)	
Schedule 4 costs	60	52	(8)	10	-	-	(18)	
Schedule 8 costs	72	-	(72)	-	-	-	(72)	
Renewals	792	643	(149)	95	-	(184)	(60)	
Total REBS performance			(278)	131	2	(184)	(227)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(38)	
Under-delivery of train performance requirements (CaSL)							(13)	
Missed Enhancement milestones							(4)	
Total adjustment for under delivery of outputs and reduced sustainability							(55)	
Cumulative performance to end of 2016-17							(282)	
Less cumulative outperformance recognised up to the end of 2015-16							(136)	
Net REBS performance for 2016-17							(146)	

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Wessex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	310	309	1	930	921	9	312
Franchised track access income							
Fixed charges	23	22	1	72	70	2	22
Variable charges							
Variable usage charge	14	16	(2)	41	47	(6)	13
Traction electricity charges	41	51	(10)	122	135	(13)	41
Electrification asset usage charge	1	-	1	3	3	-	1
Capacity charge	29	31	(2)	92	92	-	31
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	17	17	-	48	48	-	15
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	102	115	(13)	306	325	(19)	101
Total franchised track access income	125	137	(12)	378	395	(17)	123
Total franchised track access and grant income	435	446	(11)	1,308	1,316	(8)	435
Other single till income							
Property income	48	47	1	130	130	-	43
Freight income	2	3	(1)	6	8	(2)	2
Open access income	1	2	(1)	3	3	-	1
Stations income	34	32	2	102	94	8	35
Facility and financing charges	12	10	2	36	31	5	11
Depots Income	7	5	2	21	16	5	7
Other income	-	-	-	-	1	(1)	-
Total other single till income	104	99	5	298	283	15	99
Total income	539	545	(6)	1,606	1,599	7	534

Statement 6a: Analysis of income, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), partly offset by additional property sales.
- (3) Grant income - grant income in the control period to date is higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Wessex – continued

in £m 2016-17 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year reflecting relatively static wholesale electricity prices. As market prices have been lower than the regulator assumed in the last two years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Property income – this is higher than the determination with additional property sales more than compensating for lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period but some of the assumptions about the level of investment that would occur and the increase in yields that could have been achieved appear over optimistic. Property income is higher than the previous year mainly due to extra property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.

Statement 6b: Analysis of other single till income, Wessex

in £m 2016-17 prices unless stated

	2016-17			Cumulative			2015-16
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	36	46	(10)	109	128	(19)	38
Property sales	12	5	7	21	14	7	5
Adjustment for commercial opex	-	(4)	4	-	(12)	12	-
Total property income	48	47	1	130	130	-	43
Freight income							
Freight variable usage charge	2	2	-	6	4	2	2
Freight traction electricity charges	-	-	-	-	1	(1)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	1	(1)	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	1	(1)	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	2	3	(1)	6	8	(2)	2
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	1	2	(1)	3	3	-	1
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	1	2	(1)	3	3	-	1
Stations income							
Managed stations income							
Long term charge	3	3	-	8	9	(1)	3
Qualifying expenditure	4	3	1	12	10	2	4
Total managed stations income	7	6	1	20	19	1	7
Franchised stations income							
Long term charge	18	17	1	55	50	5	18
Stations lease income	9	9	-	27	25	2	10
Total franchised stations income	27	26	1	82	75	7	28
Total stations income	34	32	2	102	94	8	35
Facility and financing charges							
Facility charges	12	10	2	36	31	5	11
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	12	10	2	36	31	5	11
Depots income	7	5	2	21	16	5	7
Other	-	-	-	-	1	(1)	-
Total other single till income	104	99	5	298	283	15	99

Statement 6b: Analysis of other single till income (unaudited), Wessex – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	15	15	-	37	47	10	12
Signalling shift managers	-	1	1	6	3	(3)	4
Local operations managers	1	1	-	9	3	(6)	2
Controllers	2	2	-	7	7	-	2
Electrical control room operators	2	1	(1)	6	2	(4)	2
Total signaller expenditure	20	20	-	65	62	(3)	22
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	7	7	-	2
Managed stations	4	3	(1)	12	8	(4)	4
Performance	1	1	-	7	3	(4)	5
Customer relationship executives	-	-	-	-	1	1	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	4	4	-	-
Other	6	1	(5)	11	3	(8)	2
Operations delivery	(2)	-	2	(8)	-	8	(3)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	1	2	1	6	6	-	3
Other operating income	-	(1)	(1)	(6)	(5)	1	(2)
Total non-signaller expenditure	13	9	(4)	33	27	(6)	11
Total network operations expenditure	33	29	(4)	98	89	(9)	33
Support costs							
Core support costs							
Human resources	1	4	3	5	12	7	2
Information management	4	4	-	13	13	-	4
Government and corporate affairs	1	1	-	3	4	1	1
Group strategy	-	1	1	1	3	2	-
Finance	1	2	1	4	4	-	1
Business services	2	1	(1)	4	2	(2)	1
Accommodation	7	9	2	21	29	8	8
Utilities	3	4	1	9	12	3	3
Insurance	(1)	4	5	9	13	4	6
Legal and inquiry	1	-	(1)	2	1	(1)	1
Safety and sustainable development	2	-	(2)	6	2	(4)	2
Strategic sourcing	-	1	1	2	3	1	1
Business change	-	1	1	1	-	(1)	-
Other corporate functions	3	-	(3)	9	1	(8)	3
Core support costs	24	32	8	89	99	10	33
Other support costs							
Asset management services	3	3	-	9	8	(1)	3
Network Rail telecoms	3	3	-	11	12	1	4
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(7)	-	7	(2)
Commercial property	-	(1)	(1)	(1)	(1)	-	(1)
Group costs	(2)	(1)	1	(9)	(2)	7	(3)
Total other support costs	2	4	2	3	18	15	1
Total support costs	26	36	10	92	117	25	34
Traction electricity, industry costs and rates							
Traction electricity	41	54	13	129	143	14	44
Business rates	12	15	3	40	43	3	12
British transport police costs	8	6	(2)	22	19	(3)	7
RSSB costs	1	-	(1)	3	2	(1)	1
ORR licence fee and railway safety levy	1	2	1	6	4	(2)	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	1	-	1
Total traction electricity, industry costs and rates	63	77	14	201	213	12	67
Total network operations expenditure, support costs, traction electricity, industry costs and rates	122	142	20	391	419	28	134

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs. Increased passenger demand has prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

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

in £m 2016-17 prices unless stated

- (6) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Insurance - costs are favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (8) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.
- (9) Other corporate functions – costs are higher than the determination assumed this in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

in £m 2016-17 prices unless stated

- (10) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (11) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination in the control period to date for a variety of factors including lower re-organisation costs than the regulator expected. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The savings against the regulator's assumption is also due to a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5) and reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure).
- (12) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the determination expected in the current year and control period to date mainly due to lower traction electricity costs .
- (13) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are lower than the regulator assumed mainly as a result of lower costs in the second and third years of the control period, again with this saving being largely offset by lower traction electricity income received. The determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this has yet to materialise.
- (14) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs are broadly in line with the previous year. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- (15) British Transport Police costs - expenses in the control period to date are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	15	18	18	16
MOMS	2	1	2	3
Control	3	3	2	3
Planning & Performance Staff Costs	2	4	4	1
Managed Stations Staff Costs	1	1	1	-
Operations Management Staff Costs	1	3	3	4
Other	8	4	2	6
Total operations & customer services costs	32	34	32	33
Total Network Operations	32	34	32	33
Support				
Human resources				
Functional support	3	-	1	1
Training (inc Westwood)	2	1	1	-
Graduates	-	-	-	-
Apprenticeships	1	1	1	-
Other	-	-	(1)	-
Total human resources	6	2	2	1
Information management				
Support	1	1	-	-
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	4	4	4	4
Other	-	-	-	-
Total information management	5	5	4	4
Finance	2	1	1	1
Business Change	-	-	-	-
Contracts & Procurement	1	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	-
Planning & development	1	1	-	-
Safety & compliance	1	-	-	-
Other corporate services	5	1	1	1
Commercial property	10	7	7	7
Infrastructure Projects	(5)	(2)	(2)	(2)
Route Services	1	2	3	3
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	12	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	4	3	3
Network Rail Telecoms	-	4	4	3
Digital Railway	-	1	2	2
Safety Technical & Engineering	-	3	3	3
Government & Corporate Affairs	-	1	1	1
Business Services	-	1	1	2
Route Asset Management	-	1	(1)	(1)
Legal and inquiry	-	-	1	1
Group/central				
Pensions	-	-	-	-
Insurance	3	4	6	(1)
Redundancy/reorganisation costs	7	1	1	1
Staff incentives/Bonus Reduction	-	(2)	(1)	-
Accommodation & Support Recharges	-	(2)	(2)	(2)
Commercial claims settlements	-	-	(2)	-
ORR financial penalty	8	(2)	-	-
Other	-	-	-	(1)
Total group/central costs	18	(1)	2	(3)
Total support	57	32	33	26
Total network operations and support costs	89	66	65	59

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Wessex – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Wessex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	40	35	(5)	122	112	(10)	42
Signalling	14	12	(2)	44	37	(7)	13
Civils	6	10	4	24	30	6	9
Buildings	1	5	4	1	17	16	-
Electrical power and fixed plant	6	5	(1)	18	15	(3)	6
Telecoms	2	1	(1)	6	5	(1)	2
Other network operations	22	13	(9)	69	40	(29)	26
Asset management services	3	3	-	11	9	(2)	4
National Delivery Service	(1)	4	5	(2)	12	14	(1)
Property	1	1	-	2	2	-	1
Group	(1)	(2)	(1)	(3)	(5)	(2)	(1)
Total maintenance expenditure	93	87	(6)	292	274	(18)	101

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. The current year was also impacted by transitional costs arising from consolidation of the number of depots in the route to drive long-term efficiency savings. These additional costs are somewhat offset by lower reactive maintenance requirements in the year. Costs in the control period to date are higher than the regulatory expectation which includes the impact of the transitional costs noted above, targeted programmes to improve performance, investment in safety initiatives and lower than expected efficiencies partly offset by lower reactive maintenance requirements.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2015/16.

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

in £m 2016-17 prices unless stated

- (3) Signalling – costs for the control period to date are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives.
- (4) Civils – costs were lower than the determination in the current year and the control period to date mainly as a result of less reactive maintenance activity required. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year and the control period to date is lower in this category. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

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

in £m 2016-17 prices unless stated

- (6) Other network operations – costs for the current year are higher than the regulator's expectation. This includes the impact of transitional costs incurred as a result of consolidating delivery units in Wessex. This will generate savings in the medium and long-term but necessitates some short time investment to realise these efficiencies. In the control period to date costs are higher than the PR13 target. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. Investment was undertaken on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs in the control period to date also include the aforementioned delivery unit consolidation as well as an extensive investment programme in the previous year to target areas of the network where persistent asset failures were impacting train performance.
- (7) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (8) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, Wessex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	59	53	(6)	239	195	(44)	95
Signalling	41	79	38	126	163	37	38
Civils	25	31	6	129	103	(26)	51
Buildings	17	18	1	76	62	(14)	39
Electrical power and fixed plant	21	25	4	65	76	11	27
Telecoms	4	8	4	12	22	10	2
Wheeled plant and machinery	6	10	4	20	37	17	8
Information Technology	8	8	-	31	23	(8)	9
Property	-	4	4	2	10	8	1
Other renewals	12	9	(3)	92	(7)	(99)	18
Total renewals expenditure	193	245	52	792	684	(108)	288

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes expenditure on projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased unit costs, partly due to limited access which has reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The determination assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. Expenditure in the current year was lower than the previous year mainly reflecting lower activity, especially in High output.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was much lower than the determination expected. Despite the apparent underspend underlying costs were higher, which was negated by deferral of activity to later in the control period and beyond. Expenditure on schemes at Feltham and Eastleigh were significantly lower than the regulator assumed due to programme re-profiling. Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs were broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year.
- (4) Civils – expenditure in the year was lower than the regulator anticipated being a combination of deferrals of activity partly offset by higher underlying costs. The higher like-for-like cost continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network, notably a landslip at Wreclesam. The costs of these type of jobs are higher than usual given the time critical nature of the incidents. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Detailed analysis of renewals expenditure, Wessex – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably lower than the previous year mainly due to lower investment at Franchised stations. The workbank for the control period was planned to deliver packages of works at the franchised stations with most of the activity occurring in 2015/16. The original plan for the control period was for expenditure to be weighted towards the earlier years with reductions as time progressed so the decrease in the current year is in line with this expectation.
- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year. However, the underlying story is one of higher underlying costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably to comply with safety policies) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipated. SCADA (Supervisory Control And Data Acquisition) programme is behind schedule, with activity in earlier years of the control period was funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was lower than the previous year which was in line with the regulatory assumption which expected expenditure to decrease as the control period progressed.
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Most of the underspend in the control period to date is expected to be caught up in the remaining years of the control period as further programmes are designed and delivered.

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

in £m 2016-17 prices unless stated

- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is only lower than the determination's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment..
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the control period to date. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven.

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

in £m 2016-17 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination.
- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the control period to date. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- d. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is spread across FTN and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams. There are still some minor costs expected in future years of the control period as the various CP4 rollover projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Wessex

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	26	24	(2)	84	84	-
High output renewal	(1)	2	3	41	16	(25)
Plain line refurbishment	4	1	(3)	19	2	(17)
S&C renewal	8	10	2	50	43	(7)
S&C refurbishment	7	5	(2)	15	13	(2)
Track non-volume	-	4	4	2	16	14
Off track	15	7	(8)	28	21	(7)
Total track	59	53	(6)	239	195	(44)
Signalling						
Full conventional resignalling	25	38	13	67	53	(14)
Modular resignalling	-	1	1	1	3	2
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	19	19	1	29	28
Targeted component renewal	-	2	2	-	3	3
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	1	-	(1)	12	21	9
Level crossings	5	11	6	17	22	5
Minor works	9	6	(3)	26	27	1
Centrally managed costs	1	2	1	2	5	3
Other	-	-	-	-	-	-
Total signalling	41	79	38	126	163	37
Civils						
Underbridges	17	15	(2)	63	46	(17)
Overbridges	1	1	-	5	3	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	1	-	(1)
Tunnels	(4)	2	6	3	6	3
Other assets	2	2	-	13	10	(3)
Structures other	2	4	2	11	17	6
Earthworks	7	7	-	33	21	(12)
Other	-	-	-	-	-	-
Total civils	25	31	6	129	103	(26)
Buildings						
Managed stations	2	3	1	3	16	13
Franchised stations	9	13	4	50	40	(10)
Light maint depots	2	1	(1)	13	1	(12)
Depot plant	-	-	-	-	-	-
Lineside buildings	2	1	(1)	7	2	(5)
MDU buildings	1	-	(1)	1	1	-
NDS depots	1	-	(1)	2	2	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	17	18	1	76	62	(14)

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	1	-	(1)
DC distribution	11	11	-	35	30	(5)
Conductor rail	5	4	(1)	11	11	-
SCADA	2	2	-	2	8	6
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	3	3	3	10	7
Other electrical power	1	1	-	5	3	(2)
Fixed plant	2	4	2	8	14	6
Total electrical power and plant	21	25	4	65	76	11
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	1	1	-	4	4
SISS	-	7	7	-	13	13
Projects and other	-	-	-	1	1	-
Non-route capital expenditure	4	-	(4)	11	4	(7)
Total telecoms	4	8	4	12	22	10
Wheeled plant and machinery						
High output	2	1	(1)	8	10	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	1	-	3	9	6
Materials delivery	1	1	-	4	1	(3)
On track plant	1	2	1	2	5	3
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	2	2
Road vehicles	-	4	4	2	5	3
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	6	10	4	20	37	17
Information Technology						
IM delivered renewals	8	7	(1)	30	21	(9)
Traffic management	-	1	1	1	2	1
Total information technology	8	8	-	31	23	(8)
Property						
MDUs/offices	-	3	3	1	7	6
Commercial estate	-	1	1	1	3	2
Corporate services	-	-	-	-	-	-
Total property	-	4	4	2	10	8
Other renewals						
Asset information strategy	4	3	(1)	12	14	2
Intelligent infrastructure	-	2	2	2	5	3
Faster isolations	4	3	(1)	7	10	3
LOWS	-	-	-	-	1	1
Small plant	-	1	1	-	3	3
Research and development	-	-	-	-	-	-
Phasing overlay	-	-	-	-	(40)	(40)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	5	-	(5)	71	-	(71)
Other	(1)	-	1	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	12	9	(3)	92	(7)	(99)
Total renewals	193	245	52	792	684	(108)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Wessex – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wessex

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	15	17	2	60	47	(13)	23
Access charge supplement Income	(17)	(17)	-	(48)	(47)	1	(15)
Net (income)/cost	(2)	-	2	12	-	(12)	8
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	35	-	(35)	72	1	(71)	17
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	35	-	(35)	72	1	(71)	17

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	-	1	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(3)	(5)	(2)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(1)	-	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(2)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(4)	(6)	(1)

D) Net income / (costs) from alliances:

	2016-17	Cumulative	2015-16
Payment from South West Trains	-	2	1
Total alliance income	-	2	1
Payment to South West Trains	-	(2)	-
Total alliance costs	-	(2)	-
Net alliance income / (cost)	-	-	1

Statement 10: Other information, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

Statement 10: Other information, Wessex – continued

in £m 2016-17 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Track – High output and S&C), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as flash-floods in London (June 2016) and storm Doris (February 2017) as well as a fire at Vauxhall station. Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.

Statement 10: Other information, Wessex – continued

in £m 2016-17 prices unless stated

- (3) The opex memorandum shows a net loss for this year which is primarily due to differences in Business rate costs compared to the assumptions in the determination. The control period to date position shows a net loss which is due to the aforementioned Business rates difference and the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4, partly offset by amounts earned under the Volume incentive in the opening two years of the control period.

Statement 11

Statement 11 is not required for Wessex

Statement 12: Volume incentives, Wessex

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(2)	0	27	28	0.2%	1.50	pence per passenger train mile
Passenger farebox (millions)	(2)	0	1,097	1,079	3.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	1	1	2.2%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	779	718	3.2%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	(4)	0					

The cumulative volume incentive is determined by the following calculation: $[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$

Where:
A_t = Actual in year quantity
B = 2016-17 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, performance was broadly in line with the regulatory targets.

Statement 14: Renewals volumes, unit costs and expenditure, Wessex

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	46	26	30	64	469
	High Output Renewal	km	1	-	19	66	288
	Plain line Refurbishment	km	18	4	4	18	222
	S&C Renewal/Refurbishment	point ends	63	12	12	61	197
	Track Drainage	lm	32,628	8	10	53,906	0
	Fencing	km	11	-	3	84	36
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	160	2	2	160	13
	Other	-	-	-	-	-	-
Total			32,927	52	80	54,359	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
Accelerated Renewals Signalling (CP6)			-	-	-	-	-
Other			-	-	-	-	-
Total			-	-	-	-	-
Civils	Underbridges	m ²	4,294	10	53	17,250	3
	Overbridges (incl BG3)	m ²	-	-	-	-	-
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	-	-	-	-	-
	Culverts	m ²	107	-	-	107	-
	Footbridges	m ²	60	-	1	60	17
	Coastal & Estuarial Defences	m	-	-	-	-	-
	Retaining Walls	m ²	-	-	-	-	-
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	204	6	15	419	36
	EW Drainage	m	1,233	-	-	4,853	-
	Other	-	-	-	-	-	-
Total			5,898	16	69	22,689	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	555	-	-	555	-
	Buildings (FS)	m ²	-	-	-	-	-
	Platforms (FS)	m ²	9,682	3	6	15,040	0
	Canopies (FS)	m ²	3,000	1	4	3,890	1
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	109	-	-	109	-
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	-	23,550	1	2	23,550	0
	Light Maintenance Depots	m ²	13,700	1	8	26,200	0
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-
	MDU Buildings	m ²	-	-	-	-	-
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			50,596	6	20	69,344	-

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	18	5	25	72	347
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	5	-	3	6	500
	LV cables DC	km	23	8	21	54	389
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	34	1	2	50	40
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	6	1	1	6	167
	Signalling Supply Points	No.	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-
Total			86	15	52	188	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			-	-	-	-	-

Statement 14: Renewals volumes, unit costs and expenditure, Wessex – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Statement 1: Summary regulatory financial performance, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Income							
Grant Income	425	422	3	1,258	1,246	12	422
Fixed Income	31	30	1	98	95	3	29
Variable Income	93	93	-	283	284	(1)	98
Other Single Till Income	103	159	(56)	299	417	(118)	103
Opex memorandum account	2	-	2	6	-	6	4
Total Income	654	704	(50)	1,944	2,042	(98)	656
Operating expenditure							
Network operations	44	34	(10)	123	102	(21)	42
Support costs	26	40	14	96	131	35	29
Traction electricity, industry costs and rates	33	31	(2)	91	92	1	31
Network maintenance	131	111	(20)	377	345	(32)	125
Schedule 4	20	21	1	76	62	(14)	30
Schedule 8	25	1	(24)	51	1	(50)	8
Total operating expenditure	279	238	(41)	814	733	(81)	265
Capital expenditure							
Renewals	273	261	(12)	899	930	31	283
PR13 enhancement expenditure	1,008	1,135	127	2,689	2,893	204	1,058
Non PR13 enhancement expenditure	45	-	(45)	95	-	(95)	6
Total capital expenditure	1,326	1,396	70	3,683	3,823	140	1,347
Other expenditure							
Financing costs	231	235	4	538	600	62	162
Corporation tax (received)/paid	-	-	-	(1)	-	1	-
Total other expenditure	231	235	4	537	600	63	162
Total expenditure	1,836	1,869	33	5,034	5,156	122	1,774

Statement 1: Summary regulatory financial performance, Western – continued

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements, which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year and the control period to date was broadly in line with the regulatory expectation. This is set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year and the control period to date is lower than the determination mainly due to changes in the way the Crossrail capital programmes is funded. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The amount reported in the current year is largely driven by variances in rates and industry costs whilst the control period to date balance also includes amounts earned under the Volume incentive mechanism. The Opex memorandum account is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are lower than the previous year mainly as a result of the aforementioned non-recurring savings in Group, with the largest contribution arising from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are broadly in line with the regulatory assumption for the current year and the control period to date. These costs are set out in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Western – continued

in £m 2016-17 prices unless stated

- (10) Operating expenditure - Network Maintenance costs are higher than the determination mainly due to additional reactive maintenance activity and higher civils inspections costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Extra Reactive maintenance works this year, additional structures inspections costs and increased network traffic have resulted in higher costs this year compared to 2015/16. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination mostly as a result of reduced delivery of renewals which require network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. The costs this year are lower than the previous year partly due to lower delivery and partly due to some one-off incidents in 2015/16 which adversely effected costs in that year. Schedule 4 costs are discussed in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. Increased network traffic, infrastructure failures and some one-off incidents in the current year contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year due to stricter regulatory targets, asset issues and the aforementioned one-off events this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is broadly in line with the determination which is a combination of net deferrals of activity offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is broadly in line with the determination which is a combination of higher like-for-like costs offset by deferrals of activity. Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. Expenditure on GW Electrification and Depots and stabling has been lower than expected but reprofiling of elements of the Crossrail programmes has increased costs. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period to date is axiomatic. Expenditure is higher than the previous year reflecting the programmes being delivered in any given year. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the regulator assumed largely due to lower interest rates charged on debt than the PR13 anticipated. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Western

in £m 2016-17 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2017

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	6,112	5,993	119
Indexation to 2015-16 prices	353	347	6
Opening RAB for the year (2015-16 prices)	6,465	6,340	125
Indexation for the year	142	139	3
Opening RAB (2016-17 prices)	6,607	6,479	128
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	242	261	(19)
PR13 enhancements	1,009	766	243
Non-PR13 enhancements	48	-	48
Total enhancements	1,057	766	291
Amortisation	(236)	(236)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2017	7,670	7,270	400

RAB Regulatory financial position - cumulative, Western

B) Calculation of the cumulative RAB at 31 March 2017

	2014-15	2015-16	2016-17	CP5 Total
Opening RAB (2016-17 prices)	4,650	5,530	6,607	4,650
Adjustments for the actual capital expenditure outturn in CP4	132	-	-	132
Renewals	324	247	242	813
PR13 enhancements	617	1,036	1,009	2,662
Non-PR13 enhancements	32	19	48	99
Total enhancements	649	1,055	1,057	2,761
Amortisation	(225)	(225)	(236)	(686)
Adjustments for under-delivery of regulatory outputs	-	-	-	-
Closing RAB	5,530	6,607	7,670	7,670

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

in £m 2016-17 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent) and the November 2015 RPI (1.05 per cent) to derive the Opening RAB for the year in 2015/16 prices. This is then uplifted to 2016/17 prices using the November 2016 RPI of 2.19 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.
- (4) Renewals – renewals added to the RAB was in line with the regulatory assumption. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) offset by a re-profiling of activity to later in the control period and beyond. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. The regulatory assumption was based on high level assessments of the cost of enhancement schemes. The regulatory framework included placeholder figures for enhancement programmes until the relevant stakeholders (Network Rail, ORR and DfT) could assess an appropriate baseline. The Hendy baselines that have been agreed for programmes in Western are higher than these original placeholder figures included in the determination.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

in £m 2016-17 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2017 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Western

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Renewals				
Renewals per the PR13 determination	369	300	261	930
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	22	-	-	22
Capitalised financing on CP4 deferrals	1	1	1	3
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Adjusted PR13 determination (renewals)	392	301	262	955
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(119)	(145)	(66)	(330)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(8)	(14)	(25)
Adjustments for efficient overspend	65	123	69	257
Capitalised financing on efficient overspend	1	5	10	16
25% retention of efficient overspend	(16)	(31)	(18)	(65)
Capitalised financing on efficient overspend 25% retention	(1)	(1)	(3)	(5)
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments for efficient overspend through spend to save framework	6	4	1	11
Capitalised financing on efficient overspend through spend to save framework	-	-	1	1
Retention of efficient overspend through spend to save framework	(1)	(1)	-	(2)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	324	247	242	813
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	2	3	5	10
Adjustment for 25% retention of efficient overspend	17	32	18	67
Adjustment for 25% retention of efficient underspend	-	-	-	-
Other adjustments	-	1	8	9
Total actual renewals expenditure (see statement 9)	343	283	273	899

Statement 2b: RAB - reconciliation of expenditure, Western - continued

in £m 2016-17 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	CP5 Total
Enhancements				
Enhancements per the PR13 determination	775	837	766	2,378
Adjustments to the PR13 determination				
Renewals / enhancement reallocation	-	-	-	-
Capitalised financing on reallocations	-	-	-	-
CP4 deferrals to CP5	1	(1)	-	-
Capitalised financing on CP4 deferrals	-	-	-	-
Baseline adjustments	-	255	369	624
Capitalised financing on Baseline adjustments	-	6	19	25
Adjustments to DfT funding	(160)	-	-	(160)
Capitalised financing on adjustments to DfT funding	(3)	(7)	(7)	(17)
Other adjustments	26	25	-	51
Capitalised financing on other adjustments	1	2	2	5
Adjusted PR13 determination (enhancements)	640	1,117	1,149	2,906
Adjustments in accordance with the PR13 RAB roll forward policy				
Adjustments for acceleration / (deferral) of expenditure within CP5	(35)	(111)	(140)	(286)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(10)	(15)
Adjustments for efficient overspend / (underspend)	16	(25)	3	(6)
Capitalised financing on efficient overspend / (underspend)	1	-	-	1
25% retention of efficient overspend / (underspend)	(4)	6	(1)	1
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-
Adjustments for efficient underspend	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-
25% retention of efficient underspend	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	78	10	88
agreements - retention of efficient overspend	-	(26)	(4)	(30)
Capitalised financing relating to projects with tailored protocols or fixed price	-	1	2	3
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-
Other Adjustments	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	617	1,036	1,009	2,662
Non PR13 Enhancements				
Non-PR13 enhancements expenditure qualifying for capitalised financing	42	6	45	93
overspend	(11)	11	-	-
Capitalised financing on non-PR13 enhancements expenditure	1	2	3	6
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-
efficient overspend	-	-	-	-
Other adjustments	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	32	19	48	99
Total enhancements (added to the RAB - see statement 2a)	649	1,055	1,057	2,761
Adjustment for manifestly inefficient overspend	-	-	-	-
Adjustment for capitalised financing	1	-	(9)	(8)
Adjustment for 25% retention of efficient overspend	16	7	5	28
Other Adjustments	2	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-
Non-PR13 enhancement expenditure				
Third party funded schemes	221	27	44	292
Other adjustments	-	-	-	-
Total actual enhancement expenditure (see statement 3)	889	1,089	1,097	3,075

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

in £m 2016-17 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than they cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening two years of the control period, means that the PR13 allowances for renewals additions to the RAB has been reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.

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

in £m 2016-17 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 90 per cent of the expenditure in 2016/17 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 10 per cent during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In the current year the amount retained by Network Rail is 10 per cent.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Crossrail).
- (11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.

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

in £m 2016-17 prices unless stated

- (12) Enhancements – Other adjustments – the amounts in the opening two years of the control period reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme.
- (13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (15) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Crossrail programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (18) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reversed in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.

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

in £m 2016-17 prices unless stated

- (19) Enhancements – 10 per cent retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income. In the current year the amount retained by Network Rail is 10 per cent.
- (20) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	-	-	3	4	1
Stations - Access for All (AfA)	1	3	2	8	13	5
Development	4	8	4	11	22	11
Level crossing safety	4	5	1	8	10	2
Passenger journey improvement	1	-	(1)	1	-	(1)
The strategic rail freight network	(2)	12	14	19	31	12
Total funds	8	28	20	50	80	30
Committed projects						
Crossrail	407	324	(83)	1,147	1,149	2
GW Electrification (Paddington to Severn JT)	465	567	102	1,290	1,354	64
Adjustment for DfT funding - GW electrification	-	-	-	(76)	(76)	-
East West Rail (committed scheme)	27	1	(26)	40	13	(27)
IEP Programme	53	33	(20)	75	65	(10)
Bridgend to Swansea electrification	-	-	-	2	4	2
Reading station area redevelopment	(10)	23	33	125	163	38
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(85)	(85)	-
Total committed projects	942	948	6	2,518	2,587	69
Named schemes						
The Electric Spine:						
DfT SoFA amount	-	-	-	-	-	-
Total Electric Spine projects	-	-	-	-	-	-
Thames Valley:						
Acton to Willesden electrification (WCML)	-	1	1	1	3	2
Thames Valley branches	1	7	6	2	9	7
Oxford Station area capacity and station enlargement	11	25	14	23	35	12
Total Thames Valley projects	12	33	21	26	47	21
Airports & Ports:						
Western access to London Heathrow Airport	-	-	-	7	8	1
Total airports & Ports	-	-	-	7	8	1
West						
Dr Days to Filton Abbey Wood capacity improvements	13	19	6	29	31	2
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	1	2	1	2	3	1
Total West	14	21	7	31	34	3
HLOS capacity metric schemes						
West of England DMU capability works	2	1	(1)	3	2	(1)
Route gauge Clearance for different EMUs	7	13	6	11	15	4
Total HLOS capacity metric schemes	9	14	5	14	17	3
CP4 Project Rollovers						
Westerleigh Junction - Barnt Green linespeed increase	-	3	3	-	3	3
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	3	3	-	3	3

Statement 3: Analysis of enhancement capital expenditure, Western - continued

in £m 2016-17 prices unless stated

	Actual	2016-17 Baseline	Difference	Actual	Cumulative Baseline	Difference
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	4	33	29	9	42	33
R&D allowance	1	-	(1)	2	2	-
Depots and stabling	13	53	40	14	55	41
Income generating property schemes	5	2	(3)	18	18	-
Other income generating investment framework schemes	-	-	-	-	-	-
Total other projects	23	88	65	43	117	74
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	1,008	1,135	127	2,689	2,893	204
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	(1)	-	1	24	-	(24)
DNOs clearance work	8	-	(8)	17	-	(17)
W001cReadingIndFeeder	23	-	(23)	23	-	(23)
Other government sponsored schemes	15	-	(15)	26	-	(26)
Total Government sponsored schemes	45	-	(45)	90	-	(90)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	-	-	-	3	-	(3)
Total Schemes promoted by third parties	-	-	-	1	-	(1)
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	45	-	(45)	95	-	(95)
Total Network Rail funded enhancements (see Statement 1)	1,053	1,135	82	2,784	2,893	109
Third Party PAYG	44	-	(44)	291	-	(291)
Total enhancements (see statement 2b)	1,097	1,135	38	3,075	2,893	(182)

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2016-17 prices unless stated

Notes:

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

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £1,053m (as shown in Statement 1). This comprises the total enhancement figure in the table above £1,097 less the PAYG schemes funded by third parties (£44m).
- (5) Investment expenditure this year was higher than the previous year. This is a combination of increases and decreases across a wide range of programmes and reflects ramping up of activity to meet milestones contained in the overall enhancement portfolio.

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2016-17 prices unless stated

- (6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:
- (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is broadly in line with the baseline in the current year and the control period to date.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure in the current year and the control period to date are lower than the baseline as activity has been reprofiled.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding and the Innovation Fund. Expenditure in the current year and the control period to date is lower than the baseline as activity has been reprofiled into future years.
 - (d) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was broadly in line with the baseline with some activity reprofiled until later in the control period.
 - (e) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is less than the baseline this year but a catch up is planned over the remainder of the control period. The credit balance in the current year is due to agreed changes in the funding of the a project which is now reported as a PAYG scheme.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year in this category is in line with the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline this year (such as Crossrail and East West Rail) and some which have spent less (such as GW electrification (Paddington to Cardiff and Reading station area redevelopment)). Expenditure in the control period to date is lower than the baseline mainly due to deferrals on the GW electrification (Paddington to Cardiff and Reading station area redevelopment programmes). The following notable variances between expenditure and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2016-17 prices unless stated

- (a) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator's determination in the year which includes the catch up of underdelivery in previous years. Expenditure for the control period to date is now in line with the determination assumption. However, this is due to deferral of some activity offset by some negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (b) GW electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused an underspend in the control period to date. The savings in the current year are largely driven by continued design delays and materials logistics issues. Despite these delays major regulatory milestones are still expected to be achieved.
- (c) Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (d) East West Rail - The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is noticeably higher than the baseline this year. The project is split into two phases, elements of the second phase planning and design have been accelerated into the current year to so the programme can dovetail with other programmes. Higher costs are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a). The control period to date variance is largely the result of the overspend in the current year.
- (e) IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is higher than the baseline which includes a catch up of underspends from previous year coupled with an acceleration of some parts of the programme from future years. The control period to date variance is largely the result of the underspend in the current year.
- (f) Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. The credit balance in the current year relates to some gains made on disposal of some of the plant used to deliver the project. In addition, there has been a slowdown in delivery in the current year to remediate a spoil heap and improve Cow Lane highway as part of the scope of works. The underspend in the current year accounts for most of the control period to date variance. The control period to date also benefits from financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2016-17 prices unless stated

- (g) Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (8) PR13 funded schemes – named schemes - expenditure in the year is lower than the baseline with about half of the variance due to the Oxford Station area capacity and station enlargement programme. The following notable variances between expenditure and baselines are set out below:
 - (a) Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity in the first three years of the control period.
 - (b) Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. Expenditure in the current year is lower than the plan. Whilst the design phased of the programme is largely complete there have been delays in commencing the on-site works following further discussions with stakeholders. The programme is now expected to be largely delivered in CP6, with the funds saved on this project to be reinvested in creating additional benefits to passengers. The control period to date variance largely arises from the current year underspend.
 - (c) Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year which reflects acceleration of activity in 2015/16 along with delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. The control period to date variance largely arises from the current year underspend. Investment is expected to ramp up over the remainder of the control period to catch up this this underspend.
 - (d) Western access to London Heathrow Airport – This project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period to date is broadly in line with the agreed baseline.
 - (e) Dr Days to Filton Abbey Wood Capacity Improvements - The project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure is higher in the current year than the baseline. This was mainly a catch up of underspend from earlier in the control period and so the costs in the control period to date and now broadly consistent with the baseline.
 - (f) Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. In line with the Hendy review there was limited activity on this project in the first three years of the control period.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is significantly less than the baseline, mainly due to Route gauge Clearance for different EMUs. The control period to date variance is largely a consequence of underdelivery in the current year. The following notable variances between expenditure and baselines are set out below:

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2016-17 prices unless stated

- (a) Route gauge Clearance for different EMUs – expenditure is lower than the baseline for the year which comprised an acceleration of activity into 2015/16 and delays in delivering the Thames Valley element of the scheme this year. This has been caused by delays in agreeing the scope of works with stakeholders postponing commencement of physical work. The variance in the control period to date is largely the result of the underspend in the current year.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. There is minimal activity in Western for this category of enhancements. Expenditure in this category is broadly in line with the baseline for current year and the control period to date.
- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to delays in Depots & stabling and ERTMS cab fitment programme. Notable variances to the baseline include:
 - (a) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure this year is significantly lower than the baseline as lead suppliers on certain projects within the programme have been re-tendered to achieve improved costs and capabilities. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs. The variance in the control period to date is largely the result of the underspend in the current year.
 - (b) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is lower than the baseline. Major reasons include deferral of Exeter depot following re-profiling from the sponsor and delays to Banbury depot project (asbestos on existing site and badger activity in local area). The variance in the control period to date is largely the result of the underspend in the current year.
 - (c) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). Expenditure for the control to date is in line with the baseline.

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2016-17 prices unless stated

- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington.
 - (b) Network Rail Spend to save – the main project in the control period to date was Project Mountfield which related to the acquisition of freight sites and paths.
 - (c) PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. The main programmes in this category in the current year includes elements of the Crossrail programme. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Western

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2017

(£m, nominal prices)	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	4,876	4,775	(101)	3,030	2,961	(69)
Income						
Grant income	(425)	(422)	3	(1,236)	(1,225)	11
Fixed charges	(31)	(30)	1	(96)	(94)	2
Variable charges	(93)	(93)	-	(279)	(277)	2
Other single till income	(103)	(159)	(56)	(292)	(409)	(117)
Total income	(652)	(704)	(52)	(1,903)	(2,005)	(102)
Expenditure						
Network operations	44	34	(10)	124	98	(26)
Support costs	26	40	14	94	127	33
Traction electricity, industry costs and rates	33	31	(2)	88	85	(3)
Network maintenance	131	111	(20)	369	339	(30)
Schedule 4	20	21	1	75	61	(14)
Schedule 8	25	1	(24)	51	3	(48)
Renewals	273	261	(12)	883	913	30
PR13 enhancement	1,008	766	(242)	2,647	2,332	(315)
Non-PR13 enhancement	45	-	(45)	93	-	(93)
Total expenditure	1,605	1,265	(340)	4,424	3,958	(466)
Financing						
Interest expenditure on nominal debt - FIM covered	52	77	25	141	196	55
Interest expenditure on index linked debt - FIM covered	31	34	3	82	88	6
Expenditure on the FIM	38	54	16	112	139	27
Interest expenditure on government borrowing	53	-	(53)	93	-	(93)
Interest on cash balances held by Network Rail	(1)	(3)	(2)	(3)	(6)	(3)
Total interest costs	173	162	(11)	425	417	(8)
Accretion on index linked debt - FIM covered	58	73	15	105	183	78
Total financing costs	231	235	4	530	600	70
Corporation tax	-	-	-	(1)	-	1
Other	49	-	(49)	29	57	28
Movement in net debt	1,233	796	(437)	3,079	2,610	(469)
Closing net debt	6,109	5,571	(538)	6,109	5,571	(538)

D) Financial indicators

	2014-15	2015-16	2016-17	2016-17 PR13
Adjusted interest cover ratio (AICR)	1.12	1.17	0.82	1.44
FFO/interest	2.98	2.82	2.17	2.89
Net debt/RAB (gearing)	71.8%	75.4%	79.6%	76.6%
FFO/debt	9.1%	7.7%	6.2%	8.4%
RCF/debt	6.1%	5.0%	3.3%	5.5%
Average interest costs by category of debt				
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	n/a

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

Notes:

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

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to the Western route has increased by £1.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Net debt at 31 March 2017 attributable to the Western route is £0.5bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. However, these extra costs have been partly mitigated by financing costs savings and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

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

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The current year variance has been augmented by the repayment of £0.5bn of this class of debt. The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The same refinancing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue over the remainder of the control period.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail’s organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase as the control period progresses as all future debt issuances (including refinancing of maturing nominal debt) will be from DfT in CP5.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed this year which is mostly due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above). In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator assumed in the determination, There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The increase in debt this year is a result of these movements.

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

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

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

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2016/17 shows, the regulator expected Network Rail to be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations, Maintenance costs and lower income partly offset by savings in Support costs. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is minimal. The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.
- (18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2016/17 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this year are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail's business and the high level of investment in enhancements in Western is to be expected.

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

- (19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs and lower income. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the ratio in 2016/17 is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Western

in £m 2016-17 prices unless stated

2016-17

	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	425	422	3	3	-	-	-	-
Fixed Income	31	30	1	1	-	-	-	-
Variable Income	93	93	-	-	-	-	-	-
Other Single Till Income	103	159	(56)	(59)	-	-	3	3
Opex memorandum account	2	-	2	2	-	-	-	-
Total Income	654	704	(50)	(53)	-	-	3	3
Expenditure								
Network operations	44	34	(10)	-	-	-	(10)	(10)
Support costs	26	40	14	10	-	-	4	4
Industry costs and rates	30	27	(3)	(2)	-	-	(1)	(1)
Traction electricity	3	4	1	-	-	-	1	1
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	131	111	(20)	-	(9)	-	(11)	(11)
Schedule 4 costs	20	21	1	-	6	-	(5)	(5)
Schedule 8 costs	25	1	(24)	-	-	-	(24)	(24)
Renewals	273	261	(12)	-	57	-	(69)	(18)
PR13 Enhancements	1,008	1,135	127	-	140	-	(13)	(5)
Non PR13 Enhancements	45	-	(45)	-	(45)	-	-	-
Financing Costs	231	235	4	4	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,836	1,869	33	12	149	-	(128)	(69)
Total:			(17)	(41)	149	-	(125)	(66)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(66)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(9)
Under-delivery of train performance requirements (CaSL)								(2)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(15)
Total financial out / (under) performance to be recognised								(81)

Statement 5a: Total financial performance, Western - continued

in £m 2016-17 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in total financial performance Due to:	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance Final Variance $G = C - D - E - F = G \times 25\%$	
	A	B	C	D	E	F		
Income								
Grant Income	1,258	1,246	12	12	-	-	-	-
Fixed Income	98	95	3	3	-	-	-	-
Variable Income	283	283	-	-	-	-	-	-
Other Single Till Income	299	417	(118)	(142)	-	-	24	24
Opex memorandum account	6	-	6	2	-	-	4	4
Total Income	1,944	2,041	(97)	(125)	-	-	28	28
Expenditure								
Network operations	123	102	(21)	-	-	-	(21)	(21)
Support costs	96	131	35	25	-	-	10	10
Industry costs and rates	84	82	(2)	(3)	-	-	1	1
Traction electricity	6	8	2	-	-	-	2	2
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	377	345	(32)	-	(16)	-	(16)	(16)
Schedule 4 costs	76	62	(14)	-	6	-	(20)	(20)
Schedule 8 costs	51	1	(50)	-	-	-	(50)	(50)
Renewals	899	930	31	-	289	-	(258)	(64)
PR13 Enhancements	2,689	2,893	204	-	286	-	(82)	(28)
Non PR13 Enhancements	95	-	(95)	-	(95)	-	-	-
Financing Costs	538	600	62	62	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	-	1	-	1	-	-	-
Total Expenditure	5,034	5,155	121	84	471	-	(434)	(186)
Total:			24	(41)	471	-	(406)	(158)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(158)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(22)
Under-delivery of train performance requirements (CaSL)								(5)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(31)
Total financial out / (under) performance to be recognised								(189)
Breakdown of variance not included in total financial performance - Variable income:								
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance		
Adjustments for external traction electricity	-	-	-	-	(1)	1		
Total variance not included in total financial performance:	-	-	-	-	(1)	1		
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Crossrail finance charge	10	69	(59)	10	152	(142)		
Total variance not included in total financial performance:	10	69	(59)	10	152	(142)		
Breakdown of variance not included in total financial performance - Support costs:								
Crossrail financing contract receipt	9	-	9	21	-	21		
Spend to save adjustment	1	-	1	1	-	1		
Release of CP4 long distance financial penalty provision	-	-	-	3	-	3		
Total variance not included in total financial performance:	10	-	10	25	-	25		
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction electricity	-	-	-	-	1	(1)		
Total variance not included in total financial performance:	-	-	-	-	1	(1)		
Breakdown of variance not included in total financial performance - Renewals:								
Investment of CP4 long distance financial penalty	8	-	8	8	-	8		
Total variance not included in total financial performance:	8	-	8	8	-	8		

Statement 5a: Total financial performance, Western – continued

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Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen this year and in the control period to date are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (2) Fixed income – the variances that have arisen this year and in the control period to date are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (3) Variable income – income is generally in line with the regulatory expectation for the year and the control period to date. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

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- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for this programme. However, this assumption did not come to pass. Instead, the external party provided the funding directly to Network Rail resulting in lower income. Network Rail commenced repayment of this funding towards the end of the current year resulting in some income w this year, although this was lower than the regulator anticipated. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income this year is mainly the result of additional depot and station income. The latter benefits from transferring responsibility for Bristol and Reading stations from the train operator to Network Rail, although there are extra running costs that arise from this which are included in the Network operations line. The favourable performance in the control period to date is largely driven by the same factors. Other single till income is set out in more detail in Statement 6a.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Growth has been in line with the regulator's expectation in the current year but favourable in the opening two years of the control period generating some outperformance in the Cumulative table.
- (6) Network operations – costs in 2016/17 are higher than the regulator assumed. The main reasons for this is the extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail. The extra costs are offset by supplementary income (refer to Statement 6a). In addition, efficiencies assumed in the PR13 have not been achieved for a variety of reasons. Pay awards in excess of inflation at the start of the control period and changes in pension legislation have contributed to a higher signaller costs. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

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- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group, notably a reduction in insurance costs following an actuarial assessment of liabilities as well as a change in insurance strategy (obtaining better value of money and increasing risk by utilising greater self-insurance). Support costs are discussed in more detail in Statement 7. There is a saving compared to the PR13 target in the current year and the control period to date as a result of Network Rail agreeing to restructure financing arrangements around the delivery of the Crossrail programme. However, as this change in financing results in lower income but also lower interest expenses (which are excluded from the scope of FPM) the benefit of this transaction has also been excluded. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.
- (8) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police costs compared to the assumption in the determination, eroding some of the financial outperformance previously recognised in this area. British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a marginal favourable variance to the determination target in the current year and the control period to date.
- (10) Reporters' fees – in the year and the control period to date, costs are consistent with the baseline.

Statement 5a: Total financial performance, Western – continued

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- (11) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as changes in pension legislation and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening three years of the control period in either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are broadly in line with the regulatory assumption this year. However, less renewals activity has been undertaken than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared.

Statement 5a: Total financial performance, Western – continued

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- (13) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as storm Doris (February 2017) and a derailment at East Somerset junction. Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. The plans were based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Western – continued

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- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Crossrail. The control period to date position is mainly due to Crossrail also. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. There are no project variances which give rise to financial outperformance or underperformance this year or in the control period to date.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates payable on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the DfT unilaterally determine the interest rates payable on each debt drawdown.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2016/17, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction in its financial performance for this missed output.

Statement 5a: Total financial performance, Western – continued

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- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. ORR have signalled their intent to enforce this relating to missed milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme which have been missed this year.

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

in £m 2016-17 prices unless stated

2016-17								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	5	32	(27)	(7)		(7)	-	-
Signalling	(19)	(3)	(16)	(4)		(4)	-	-
Civils	4	26	(22)	(6)		(5)	(1)	-
Buildings	7	8	(1)	-		-	-	-
Electrical power and fixed plant	1	4	(3)	(1)		(1)	-	-
Telecoms	(3)	(3)	-	-		-	-	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	-	-	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	(12)	(12)	-	-		-	-	-
Total	(12)	57	(69)	(18)		(17)	(1)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(2)	78	(80)	(20)		(20)	-	-
Signalling	89	191	(102)	(25)		(25)	-	-
Civils	(22)	29	(51)	(13)		(11)	(2)	-
Buildings	16	17	(1)	-		-	-	-
Electrical power and fixed plant	20	23	(3)	(1)		(1)	-	-
Telecoms	3	7	(4)	(1)		-	(1)	-
Wheeled plant and machinery	17	17	-	-		-	-	-
IT	(10)	(10)	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	(81)	(64)	(17)	(4)		(2)	(2)	-
Total	31	289	(258)	(64)		(59)	(5)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

in £m 2016-17 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

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- (2) Track – there has been financial underperformance in the current year. Some of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first two years of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme impacting productivity of possessions. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. This is especially true for the High output element of Track as this was insourced at the end of 2014/15. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rate. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions (notably for GWEP and Crossrail which are of significant strategic benefit). Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost Swindon, Oxford and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

in £m 2016-17 prices unless stated

- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. Some efficiencies have been delivered, notably on earthworks where efficient workbank packaging has resulted in some savings. The underperformance in the control period to date is largely due to the same factors.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. Cash constraints are also resulting in favouring minor works programmes which result in financial underperformance as they do not represent the optimal whole life asset management strategy but do allow outputs to be delivered safely in the short term. Access at Paddington for roof replacement works has proved difficult with priority granted to Crossrail enhancement works which are of greater strategic importance. The underperformance in the control period to date is largely due to the same factors.
- (6) Electrical power and fixed plant – financial underperformance has been reported for this asset category this year. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

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

in £m 2016-17 prices unless stated

- (7) Other – the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year. This is partly offset by additional costs incurred on completing renewals projects from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Paddington roof). The underperformance recognised in the control period to date is mainly due to the costs associated with CP4 rollover projects, with notable contributions from Paddington roof and FTN.

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

in £m 2016-17 prices unless stated

2016-17

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Reading station area redevelopment	33	35	-	(2)	(1)
Crossrail	(83)	(73)	-	(10)	(4)
East West Rail (committed scheme)	(26)	(25)	-	(1)	-
IEP Programme	(20)	(20)	-	-	-
Other Enhancements	178	178	-	-	-
Total	82	95	-	(13)	(5)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Reading station area redevelopment	38	28	-	10	3
Crossrail	2	90	-	(88)	(30)
East West Rail (committed scheme)	(27)	(23)	-	(4)	(1)
IEP Programme	(10)	(10)	-	-	-
Other Enhancements	106	106	-	-	-
Total	109	191	-	(82)	(28)

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

in £m 2016-17 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to new outputs and funding baselines.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies. There have been some delays to the progress of the programme in the year partly caused by the need to remediate a spoil heap and improve Cow Lane highway as part of the scope of works. The promulgation of the programme has introduced some extra costs which has decreased the financial outperformance expected for the programme. As a result some financial underperformance has been recognised this year.
- (2) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

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

in £m 2016-17 prices unless stated

- (3) East West Rail - as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period to date. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.
- (4) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Western

in £m 2016-17 prices unless stated

	A	B	C	Cumulative to 2016-17		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	75	76	(1)	-	-	-	(1)	
Capacity charge	149	152	(3)	-	-	-	(3)	
Electricity asset utilisation charge	-	-	-	-	-	-	-	
Property income	126	69	57	-	-	-	57	
Expenditure								
Network operations	123	97	(26)	-	-	-	(26)	
Support costs	96	130	34	-	2	-	32	
RSSB and BT Police	28	29	1	-	-	-	1	
Network maintenance	377	340	(37)	(24)	-	-	(13)	
Schedule 4 costs	76	79	3	23	-	-	(20)	
Schedule 8 costs	51	-	(51)	-	-	-	(51)	
Renewals	899	865	(34)	224	-	(194)	(64)	
Total REBS performance			(57)	223	2	(194)	(88)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(22)	
Under-delivery of train performance requirements (CaSL)							(5)	
Missed ORBIS milestones							(4)	
Total adjustment for under delivery of outputs and reduced sustainability							(31)	
Cumulative performance to end of 2016-17							(119)	
Less cumulative outperformance recognised up to the end of 2015-16							(97)	
Net REBS performance for 2016-17							(22)	

Where: $C = B - A$
And: $F = (C - D - E) \times 75\%$
And: $G = (C - D - E - F)$

Statement 5d: Total financial performance – REBS performance, Western – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance

Statement 6a: Analysis of income, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Grant income	425	422	3	1,258	1,246	12	422
Franchised track access income							
Fixed charges	31	30	1	98	95	3	29
Variable charges							
Variable usage charge	20	20	-	60	59	1	20
Traction electricity charges	-	-	-	-	1	(1)	-
Electrification asset usage charge	-	-	-	-	-	-	-
Capacity charge	50	50	-	149	150	(1)	51
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	23	23	-	74	74	-	27
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	93	93	-	283	284	(1)	98
Total franchised track access income	124	123	1	381	379	2	127
Total franchised track access and grant income	549	545	4	1,639	1,625	14	549
Other single till income							
Property income	27	28	(1)	83	78	5	35
Freight income	5	6	(1)	15	20	(5)	5
Open access income	11	12	(1)	33	35	(2)	11
Stations income	26	23	3	81	69	12	28
Facility and financing charges	25	82	(57)	61	192	(131)	15
Depots Income	8	7	1	24	22	2	8
Other income	1	1	-	2	1	1	1
Total other single till income	103	159	(56)	299	417	(118)	103
Total income	652	704	(52)	1,938	2,042	(104)	652

Statement 6a: Analysis of income, Western – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Overall, income is lower than the regulator expected this year mainly as a result of lower income earned from Crossrail finance charges (which is offset by lower financing costs).
- (3) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014, 2015 and 2016, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2014 and 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)			
	2013/14	2014/15	2015/16	2016/17
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the previous year in line with the regulator's expectation in the PR13.

Statement 6a: Analysis of income, Western – continued

in £m 2016-17 prices unless stated

- (4) Fixed charges – fixed charge income for the was slightly higher than the determination in the control period to date. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5).
- (5) Freight income – this is below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. The structural changes facing the freight market over the last two years has driven the adverse performance to the regulator's assumption for the lower control period to date as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (6) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of Reading and Bristol stations from franchised to managed, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). The control period to date outperformance arises from the same factors.
- (7) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. During the current year Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. Therefore, income earned in this category is higher than the previous year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges although there is a corresponding saving in interest costs.

Statement 6b: Analysis of other single till income, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Property Income							
Property rental	24	27	(3)	75	75	-	29
Property sales	3	3	-	8	9	(1)	6
Adjustment for commercial opex	-	(2)	2	-	(6)	6	-
Total property income	27	28	(1)	83	78	5	35
Freight income							
Freight variable usage charge	5	6	(1)	15	16	(1)	5
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	1	(1)	-
Freight capacity charge	-	-	-	-	1	(1)	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	5	6	(1)	15	20	(5)	5
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	1	(1)	-
Open access traction electricity charges	2	3	(1)	5	8	(3)	1
Fixed contractual contribution	9	9	-	28	26	2	10
Open access other income	-	-	-	-	-	-	-
Total open access income	11	12	(1)	33	35	(2)	11
Stations income							
Managed stations income							
Long term charge	5	4	1	15	10	5	6
Qualifying expenditure	9	3	6	29	10	19	10
Total managed stations income	14	7	7	44	20	24	16
Franchised stations income							
Long term charge	9	10	(1)	27	31	(4)	9
Stations lease income	3	6	(3)	10	18	(8)	3
Total franchised stations income	12	16	(4)	37	49	(12)	12
Total stations income	26	23	3	81	69	12	28
Facility and financing charges							
Facility charges	15	13	2	51	40	11	15
Crossrail finance charge	10	69	(59)	10	152	(142)	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	25	82	(57)	61	192	(131)	15
Depots income	8	7	1	24	22	2	8
Other	1	1	-	2	1	1	1
Total other single till income	103	159	(56)	299	417	(118)	103

Statement 6b: Analysis of other single till income (unaudited), Western – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	18	18	-	55	54	(1)	18
Signalling shift managers	1	1	-	(1)	3	4	-
Local operations managers	1	1	-	2	4	2	-
Controllers	6	3	(3)	18	7	(11)	7
Electrical control room operators	1	1	-	2	2	-	1
Total signaller expenditure	27	24	(3)	76	70	(6)	26
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	7	8	1	2
Managed stations	11	3	(8)	29	9	(20)	10
Performance	1	1	-	3	3	-	1
Customer relationship executives	1	1	-	2	2	-	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	5	5	-
Other	6	1	(5)	16	3	(13)	4
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	(1)	2	3	1	7	6	1
Other operating income	(4)	(2)	2	(11)	(5)	6	(3)
Total non-signaller expenditure	17	10	(7)	47	32	(15)	16
Total network operations expenditure	44	34	(10)	123	102	(21)	42
Support costs							
Core support costs							
Human resources	2	5	3	8	15	7	3
Information management	6	5	(1)	18	17	(1)	6
Government and corporate affairs	-	1	1	3	5	2	1
Group strategy	-	1	1	1	3	2	-
Finance	2	2	-	6	7	1	2
Business services	2	1	(1)	4	4	-	1
Accommodation	6	5	(1)	20	16	(4)	6
Utilities	7	5	(2)	16	16	-	5
Insurance	(1)	6	7	14	18	4	9
Legal and inquiry	1	-	(1)	3	2	(1)	1
Safety and sustainable development	2	1	(1)	6	2	(4)	2
Strategic sourcing	1	1	-	3	2	(1)	1
Business change	-	-	-	-	1	1	-
Other corporate functions	5	-	(5)	17	1	(16)	6
Core support costs	33	33	-	119	109	(10)	43
Other support costs							
Asset management services	3	4	1	9	15	6	3
Network Rail telecoms	3	3	-	11	9	(2)	4
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(8)	-	8	(4)
Commercial property	(1)	-	1	(3)	(1)	2	(1)
Group costs	(10)	-	10	(32)	(2)	30	(16)
Total other support costs	(7)	7	14	(23)	22	45	(14)
Total support costs	26	40	14	96	131	35	29
Traction electricity, industry costs and rates							
Traction electricity	3	4	1	6	9	3	3
Business rates	17	16	(1)	49	47	(2)	17
British transport police costs	10	8	(2)	25	27	2	7
RSSB costs	-	1	1	3	2	(1)	1
ORR licence fee and railway safety levy	2	2	-	6	5	(1)	2
Reporters fees	-	-	-	1	1	-	1
Other industry costs	1	-	(1)	1	1	-	-
Total traction electricity, industry costs and rates	33	31	(2)	91	92	1	31
Total network operations expenditure, support costs, traction electricity, industry costs and rates	103	105	2	310	325	15	102

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

in £m 2016-17 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to a combination of lower Traction electricity costs (offset by lower Traction electricity income – refer to Statement 6a) and non-recurring benefits from actuarial reassessment of insurance liabilities, partly offset by higher signaller costs as savings assumed in the PR13 have not been realised.
- (3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term “network operations” to refer to these costs. For the avoidance of doubt note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for the costs noted above but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of certain capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8. As part of Network Rail’s development and focus, the network operations function was rebranded as “Route businesses” in May 2017.
- (4) Network operations costs in 2016/17 are higher than the regulator assumed. The main reasons for this is the extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail. The extra costs are offset by supplementary income (refer to Statement 6a). In addition, efficiencies assumed in the PR13 have not been achieved for a variety of reasons. Pay awards in excess of inflation at the start of the control period and changes in pension legislation have contributed to a higher signaller costs. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are broadly in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business as well as non-recurring savings in Insurance this year following the actuarial reassessment of liabilities and other savings in Group. Support costs are lower than the previous year mostly due to the aforementioned Insurance savings.

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

in £m 2016-17 prices unless stated

- (6) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. In addition, in the current year the savings have been exacerbated by the transfer of further professional development and training costs and apprentice training responsibilities from Human resources to Business services and certain other training costs to Other corporate services as the Network Rail's devolution journey continues.
- (7) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be much lower than the CP4 exit position by 2016/17.
- (8) Insurance - costs are favourable to the determination this year. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has only been able to procure reduced cover in CP5 which will, ceteris paribus, manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. This has reduced premiums further in the current year (again, with greater risk now retained by the organisation). This year has also benefitted from a non-recurring actuarial revaluation of the liabilities that Network Rail is exposed to under older policies, which has contributed to the net credit position. The favourable position in the control period to date is largely driven by savings in the current year. Costs are lower than the previous year as a result of the reduced insurance cover now in place and the one-off benefit from the actuarial reassessment of liabilities that took place this year.
- (9) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in this area.
- (10) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

in £m 2016-17 prices unless stated

- (11) Asset Management Services – costs are lower than the determination for the control period to date partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (12) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (13) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower re-organisation costs in the current year than the regulator expected as well as receipt of compensation from Crossrail Limited for agreeing to contractual changes. The determination assumed that Group would receive credits of relating to Support costs recharges to capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by reorganisation costs. Amounts charged to capital projects were in line with the determination. Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period to date are favourable to the regulator's expectation This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than 2015/16 which included the benefit of reductions in senior management performance related pay and some one-off favourable commercial settlements.
- (14) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is higher than the regulator assumed mainly due to extra British Transport Police costs.
- (15) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. Costs are broadly in line with the regulatory assumption for the control period to date. However, as widely reported in the media Business rates have recently been reset following the completion of the latest review by the Valuation Office Agency. As a result Network Rail expects costs to significantly exceed the regulatory assumption in the final two years of the control period.

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

in £m 2016-17 prices unless stated

- (16) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. This year's costs were higher than the previous year, mostly as a result of changes in the methodology British Transport Police used to allocate costs to different parts of the industry.

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

in £m 2016-17 prices unless stated

	2013-14	2014-15	2015-16	2016-17
Network operations				
Operations and customer services signalling	14	17	19	19
MOMS	1	2	3	3
Control	2	6	7	6
Planning & Performance Staff Costs	2	3	5	6
Managed Stations Staff Costs	1	2	2	-
Operations Management Staff Costs	1	2	1	2
Other	7	7	6	8
Total operations & customer services costs	28	39	43	44
Total Network Operations	28	39	43	44
Support				
Human resources				
Functional support	3	-	1	1
Training (inc Westwood)	2	1	1	-
Graduates	-	-	-	-
Apprenticeships	1	1	1	-
Other	-	1	-	1
Total human resources	6	3	3	2
Information management				
Support	1	1	-	1
Projects	-	-	-	-
Licences	-	-	-	-
Business operations	4	5	6	5
Other	-	-	-	-
Total information management	5	6	6	6
Finance	2	2	2	2
Business Change	-	-	-	-
Contracts & Procurement	1	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	1
Planning & development	1	1	-	-
Safety & compliance	1	-	-	-
Other corporate services	5	2	1	2
Commercial property	9	7	6	5
Infrastructure Projects	(6)	(2)	(4)	(2)
Route Services	1	2	3	2
Central Route Services (inc NSC)	-	-	-	-
Asset management & Engineering/Asset heads	13	-	-	-
National delivery service	-	-	-	-
Private party	-	-	-	-
Utilities	-	4	5	7
Network Rail Telecoms	-	4	4	3
Digital Railway	-	1	2	2
Safety Technical & Engineering	-	5	3	3
Government & Corporate Affairs	-	1	1	-
Business Services	-	1	1	2
Route Asset Management	-	2	2	1
Legal and inquiry	-	1	1	1
Group/central				
Pensions	-	-	-	-
Insurance	3	7	8	(1)
Redundancy/reorganisation costs	6	1	1	1
Staff incentives/Bonus Reduction	-	(2)	(1)	-
Accommodation & Support Recharges	-	(2)	(2)	(2)
Commercial claims settlements	1	-	(13)	(9)
ORR financial penalty	9	(3)	-	-
Other	-	-	(1)	-
Total group/central costs	19	1	(8)	(11)
Total support	57	42	29	26
Total network operations and support costs	85	81	72	70

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Western – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	43	39	(4)	123	120	(3)	40
Signalling	20	15	(5)	59	45	(14)	20
Civils	21	13	(8)	58	42	(16)	19
Buildings	9	6	(3)	21	18	(3)	6
Electrical power and fixed plant	4	19	15	13	56	43	4
Telecoms	2	2	-	6	7	1	2
Other network operations	30	12	(18)	91	38	(53)	31
Asset management services	4	3	(1)	11	10	(1)	5
National Delivery Service	(1)	4	5	(3)	13	16	(1)
Property	1	-	(1)	4	1	(3)	1
Group	(2)	(2)	-	(6)	(5)	1	(2)
Total maintenance expenditure	131	111	(20)	377	345	(32)	125

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

in £m 2016-17 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff). Costs are higher than the previous year due to extra reactive maintenance works and civils inspection costs, increases in network traffic (this was assumed in the regulator's determination) and changes in government legislation affecting pension arrangements.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. These increases have been somewhat mitigated by transfer of responsibility, and so costs, of certain maintenance teams into the Other network operations category. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are slightly higher than 2015/16 with some extra expenses resulting from changes in government legislation affecting pensions and the transfer of certain activities from Other network operations to Track to improve local accountability and cost control.

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

in £m 2016-17 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. This situation is likely to remain a challenge for the rest of the control period. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting pension legislation changes and further deferrals of renewals programmes requiring extra asset maintenance instead partly offset by some minor efficiencies.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected reactive maintenance activity and extra civils inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The increase in costs compared to the previous year are also due to a combination of increased reactive maintenance and inspection costs.

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

in £m 2016-17 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed which has also driven the control period to date variance. These variances are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – costs are noticeably lower than the determination assumed but consistent with the previous year. As noted in the 2015/16 Regulatory financial statements, most of the costs the regulator assumed would be classified within Electrical power and fixed plant are actually included within Other network operations, resulting in higher costs within that classification. The same factors have caused the control period to date underspend in Electrical power and fixed plant.
- (7) Other network operations – costs for the current year are largely in line with the regulator's expectation. As noted in the above comments, certain responsibilities the regulator assumed would be classified within the Electrical power and fixed plant and Track categories have been reported within Other network operations to reflect organisational structure and accountability. This continues the trend witnessed in the first two years of the control period meaning expenditure in CP5 to date is higher than the ORR assumed, with corresponding reductions elsewhere in this statement. The control period to date costs also include additional investment in projects. As noted in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.
- (8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the control period to date represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (9) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories).

Statement 9a: Summary analysis of renewals expenditure, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Track	78	83	5	227	225	(2)	71
Signalling	90	71	(19)	283	372	89	93
Civils	44	48	4	185	163	(22)	52
Buildings	8	15	7	47	63	16	19
Electrical power and fixed plant	9	10	1	14	34	20	3
Telecoms	7	4	(3)	16	19	3	2
Wheeled plant and machinery	7	11	4	22	39	17	8
Information Technology	8	8	-	36	26	(10)	13
Property	1	2	1	5	6	1	1
Other renewals	21	9	(12)	64	(17)	(81)	21
Total renewals expenditure	273	261	(12)	899	930	31	283

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

in £m 2016-17 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is broadly in line with the determination which is a combination of higher like-for-like costs offset by deferrals of activity. Investment is lower than the previous year which is in line with the regulator's expectation and Network Rail's plans at the start of the control period which both assumed higher expenditure in the earlier years in the control period.
- (2) Track – costs in the year and lower the regulator assumed. However, this is due to lower than expected delivery offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher throughout the control period. This has been exacerbated by increased High output unit costs, where plant failures and limited access (possessions for GW Electrification and Crossrail works have taken precedence) have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period to date is in line with the regulator assumed, although this is due to higher like-for-like costs being offset by deferrals for the reasons noted above. Expenditure in the current year was higher than the previous year largely due to additional volumes delivered in S&C and High output offsetting lower plain line activity.

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

in £m 2016-17 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, partly offsetting the trend of the first two years of the control period. The largest overspend in the current year relates to Bristol resignalling. This was a combination of costs expected earlier in the control period but delivered this year and higher total project costs in this area (caused, in part, by this delay in delivery). This is partly offset by lower ECTS costs on the Paddington to Reading line as activity has been deferred into future years. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As noted above, Bristol signalling costs were high this year, but investment was lower on Swindon-related programmes.
- (4) Civils – expenditure in the year was lower than the regulator anticipated being a combination of deferrals of activity partly offset by higher underlying costs, continuing the trend of the previous year. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period to date is higher than the determination expected with notable contributions from Earthworks. This is in response to emerging asset condition and to improve the network's resilience. Towards the end of the previous control period (after the CP5 determination was finalised) Western was impacted by a series of well-publicised extreme weather events which damaged the network necessitating additional remedial and preventative works this control period. The higher Civils costs in the control period to date are also due to a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Detailed analysis of renewals expenditure, Western – continued

in £m 2016-17 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity, notably at franchised stations (including Bristol St Phillips and Plymouth) and managed stations as well as lower purchases of depot plant. Expenditure is lower than the previous year mainly due to lower investment at Managed stations (2015/16 included major investment on Paddington roof replacement works) and Franchised stations (which included planned workbank packages to improve lighting and bridges at stations). Also, as noted in the prior year's Regulatory financial statements the high costs in 2015/16 were partly due to additional scope and partly due to delays in introducing contractor framework agreements at the start of CP5. The original plan for the control period was for expenditure to be weighted towards the earlier years with reductions as time progressed so the decrease in the current year is in line with this expectation.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for compliance with safety standards) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period to date is noticeably lower than the determination anticipate, with significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was higher than the previous year with additional Fixed plant purchases which were delayed in 2015/16 following clarification of scope and delays in tendering process.
- (7) Telecoms – expenditure in the year was higher than the determination, mostly offsetting the underspends witnessed in the first two years of the control period. Expenditure for the control period to date is still lower than the regulator assumed mainly as a result of re-profiling activity from earlier years to later in the control period. Some projects are now planned to occur in future control periods to mitigate higher than expected costs on other projects. Telecoms financial underperformance has been recognised this control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Activity is higher than the previous year as more projects are being delivered locally to improve decision making about the more effective place to invest funds.

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

in £m 2016-17 prices unless stated

- (8) Wheeled plant and machinery – expenditure in the year was higher than the regulator assumed, resulting in a catch up of some of the underspend witnessed in the earlier years of the control periods. This mainly arose from delays or postponements of machinery purchases. There was significantly lower expenditure on Road vehicles and On track plant items than the regulator expected which was partly offset by higher expenditure on S&C delivery equipment and High output plant (partly catching up the underspend from earlier in control period in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. In addition, when considering the alternatives for delivering Road vehicle replacements, analysis suggested that leasing the vehicles rather than outright acquisition represented a better commercial option. In addition, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period. Expenditure for the control period to date is lower than the regulator's expectation. This is largely due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. In addition, as noted above, the business case for fleet purchases has been reassessed which has resulted in leasing rather than buying the assets perceived as a better economic solution. The trend of underspends compared to the regulator's determination is expected to continue for the remainder of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure in the control period to date is less than the regulator assumed but the previous two years have witnessed an increase in programme activity and so expenditure in the year is once more higher than the determination. Expenditure was lower than the previous year as programme milestones are delivered.

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

in £m 2016-17 prices unless stated

- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. These same factors have also contributed to lower costs in the control period to date compared to the regulator's assumption. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to largely utilise the available funding in the final two years of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral with variances in the control period to date being reversed over the remaining two years of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is mainly for buildings (replacement of the roof at Paddington station). In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams.
- f. Other – costs reported in this category mainly relate to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

Statement 9b: Detailed analysis of renewals expenditure, Western

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	25	22	(3)	91	75	(16)
High output renewal	22	14	(8)	42	24	(18)
Plain line refurbishment	3	1	(2)	10	4	(6)
S&C renewal	17	23	6	42	55	13
S&C refurbishment	3	4	1	8	10	2
Track non-volume	1	6	5	3	19	16
Off track	7	13	6	31	38	7
Total track	78	83	5	227	225	(2)
Signalling						
Full conventional resignalling	-	-	-	-	16	16
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	7	37	30	15	46	31
Partial conventional resignalling	58	13	(45)	204	222	18
Targeted component renewal	-	1	1	-	20	20
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	9	7	(2)	18	12	(6)
Operating strategy other capital expenditure	2	2	-	5	8	3
Level crossings	7	3	(4)	15	18	3
Minor works	6	5	(1)	20	22	2
Centrally managed costs	1	3	2	6	8	2
Other	-	-	-	-	-	-
Total signalling	90	71	(19)	283	372	89
Civils						
Underbridges	11	18	7	48	65	17
Overbridges	10	4	(6)	16	9	(7)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	1	1	2	1	(1)
Tunnels	3	3	-	5	12	7
Other assets	1	2	1	32	10	(22)
Structures other	-	6	6	3	16	13
Earthworks	19	14	(5)	79	50	(29)
Other	-	-	-	-	-	-
Total civils	44	48	4	185	163	(22)
Buildings						
Managed stations	2	4	2	13	17	4
Franchised stations	4	6	2	22	33	11
Light maint depots	2	2	-	6	6	-
Depot plant	-	2	2	-	4	4
Lineside buildings	-	1	1	3	2	(1)
MDU buildings	-	-	-	3	1	(2)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	8	15	7	47	63	16

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

in £m 2016-17 prices unless stated

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	3	3	-	7	7
Fixed plant	9	7	(2)	14	27	13
Total electrical power and plant	9	10	1	14	34	20
Telecoms						
Operational communications	-	1	1	-	1	1
Network	1	1	-	1	1	-
SISS	2	-	(2)	4	10	6
Projects and other	-	1	1	(1)	2	3
Non-route capital expenditure	4	1	(3)	12	5	(7)
Total telecoms	7	4	(3)	16	19	3
Wheeled plant and machinery						
High output	3	1	(2)	10	11	1
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	1	-	(1)
Intervention	2	1	(1)	3	10	7
Materials delivery	-	1	1	3	-	(3)
On track plant	1	3	2	2	5	3
Seasonal	-	1	1	-	4	4
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	4	4	2	6	4
S&C delivery	1	-	(1)	1	-	(1)
Total wheeled plant and machinery	7	11	4	22	39	17
Information Technology						
IM delivered renewals	8	7	(1)	34	23	(11)
Traffic management	-	1	1	2	3	1
Total information technology	8	8	-	36	26	(10)
Property						
MDUs/offices	-	1	1	1	4	3
Commercial estate	1	1	-	4	2	(2)
Corporate services	-	-	-	-	-	-
Total property	1	2	1	5	6	1
Other renewals						
Asset information strategy	5	3	(2)	12	15	3
Intelligent infrastructure	1	2	1	3	5	2
Faster isolations	1	4	3	2	11	9
LOWS	-	1	1	-	1	1
Small plant	-	1	1	1	3	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(2)	(2)	-	(52)	(52)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	6	-	(6)	38	-	(38)
Other	8	-	(8)	8	-	(8)
West Coast	-	-	-	-	-	-
Total other renewals	21	9	(12)	64	(17)	(81)
Total renewals	273	261	(12)	899	930	31

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Western – continued

in £m 2016-17 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Western

in £m 2016-17 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2016-17 PR13	Difference	Actual	Cumulative PR13	Difference	2015-16 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	20	21	1	76	62	(14)	30
Access charge supplement Income	(23)	(23)	-	(74)	(74)	-	(27)
Net (income)/cost	(3)	(2)	1	2	(12)	(14)	3
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	25	1	(24)	51	1	(50)	8
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	25	1	(24)	51	1	(50)	8

B) Opex memorandum account

	2016-17	Cumulative	2015-16
Volume incentive	-	4	2
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	1	3	2
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	-
Reporters fees	-	-	-
Other industry costs	1	-	-
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	2	6	4

Statement 10: Other information, Western – continued

in £m 2016-17 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This is the case in the current year. Performance element costs this year are in line with the regulatory assumption. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance (refer to Statement 5a). Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity more than offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Signalling - Full and partial conventional resignalling), and the relatively benign weather experienced in 2016/17. As noted in the previous year's Regulatory financial statements Schedule 4 costs were adversely effected by high-profile incidents in Scotland, where Lamington viaduct was damaged by extreme weather necessitating a complex engineering solution to rectify and consequently a long possession, and in Kent, where inclement weather caused the collapse of a wall and sea defences near Dover requiring closure of a train line for a number of months to safely remedy. In line with accounting policies these costs are largely incurred centrally and allocated across all routes to allow risk of extreme weather events to be shared. Whilst there were some one-off incidents this year, they were not on the same scale as these two incidents in 2015/16.

Statement 10: Other information, Western – continued

in £m 2016-17 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2016/17. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was notably adverse to the PR13 assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, there were a number of one-off incidents which impacted the network's performance. This included well-publicised weather events such as storm Doris (February 2017) and a derailment at East Somerset junction. Also, the issue of network trespass continues to be a challenge and whilst some positive steps are being taken (such as investment in higher fencing, increased patrols at hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. The remaining variance is due to additional infrastructure failures and the impact of one-off events noted above which were not as prevalent in 2015/16.
- (3) The opex memorandum for the control period to date shows a net gain which is primarily due to the Volume Incentive (see Statement 12). The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6.

Statement 11

Statement 11 is not required for Western.

Statement 12: Volume incentives, Western

in £m 2016-17 prices unless stated

	Volume incentive cumulative to 2016-17	Contribution to volume incentive in year	Actual in year	2015-16 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	0	28	27	0.6%	1.50	pence per passenger train mile
Passenger farebox (millions)	0	0	894	869	3.3%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	2	2	1.5%	3.04	pence per freight train mile
Freight gross tonne miles (thousands)	2	0	2,767	2,585	1.8%	2.58	pence per freight 1,000 gross tonne mile
Total volume incentive	2	0					

The cumulative volume incentive is determined by the following calculation: $[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$

Where:
A_t = Actual in year quantity
B = 2016-17 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Western – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2016/17 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2016/17 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent and also does not reflect performance in the opening two years of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2016/17 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has performed broadly in line with the regulator's growth trajectory targets. This compares to gains recognised in the opening two years of the control period. This has been caused by a slowdown in the growth of the Passenger train miles and Passenger farebox metrics to the levels the regulatory anticipated in the determination.

Statement 14: Renewals volumes, unit costs and expenditure, Western

in £m 2016-17 prices unless stated

		2016-17		Full Project		$C = A \div B$	
				A	B		
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost
			£k/unit	unit	£m	unit	£k
Track	Conventional plain line Renewal	km	42	23	52	102	510
	High Output Renewal	km	22	21	21	22	955
	Plain line Refurbishment	km	38	3	8	82	98
	S&C Renewal/Refurbishment	point ends	87	15	19	127	150
	Track Drainage	lm	20,542	1	5	26,245	0
	Fencing	km	42	1	3	122	25
	Slab Track	km	-	-	-	-	-
	Off track	km/No.	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			20,773	64	108	26,700	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-
	Partial Conventional Resignalling	SEU	213	47	224	514	436
	Targeted Component Renewal	SEU	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-
	Level Crossings	No.	4	4	9	7	1,286
	Minor Works	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-
Total			217	51	233	521	-
Civils	Underbridges	m ²	1,815	9	35	5,935	6
	Overbridges (incl BG3)	m ²	355	4	10	780	13
	Major Structures	-	-	-	-	-	-
	Tunnels	m ²	36	1	2	36	56
	Culverts	m ²	81	-	1	224	4
	Footbridges	m ²	-	-	-	-	-
	Coastal & Estuarial Defences	m	-	-	-	-	-
	Retaining Walls	m ²	50	-	1	100	10
	Structures Other	-	-	-	-	-	-
	Earthworks	5-chain	507	8	28	1,795	16
	EW Drainage	m	25,704	1	2	35,105	0
	Other	-	-	-	-	-	-
Total			28,548	23	79	43,975	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-
	Train sheds (MS)	m ²	7,665	1	3	7,665	0
	Footbridges (MS)	-	-	-	-	-	-
	Other (MS)	m ²	8,330	1	3	8,330	0
	Buildings (FS)	m ²	1,076	-	-	1,076	-
	Platforms (FS)	m ²	-	-	-	-	-
	Canopies (FS)	m ²	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-
	Footbridges (FS)	m ²	70	-	-	70	-
	Lifts & Escalators (FS)	-	-	-	-	-	-
	Other (FS)	-	2,165	-	-	6,035	-
	Light Maintenance Depots	m ²	8,000	-	-	8,000	-
	Depot Plant	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-
	MDU Buildings	m ²	690	-	-	690	-
	NDS Depot	-	-	-	-	-	-
	Other	-	-	-	-	-	-
Total			27,996	2	6	31,866	-

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2016-17 prices unless stated

Asset	Activity type	Unit	2016-17		Full Project		
			Volume	Cost	A Total AFC	B Total AFV	C = A ÷ B Unit Cost
			£k/unit	unit	£m	unit	£k
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-
	Other OLE		-	-	-	-	-
	OLE abandonments		-	-	-	-	-
	Conductor rail	km	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-
	HV Cables AC		-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-
	Other AC		-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-
	Other DC		-	-	-	-	-
	SCADA	RTU	-	-	-	-	-
	Energy efficiency		-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-
	Other Electrical Power		-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-
	Signalling Power Cables	km	24	-	-	24	-
	Signalling Supply Points	No.	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-
Total			24	-	-	24	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	-	-
	CCTV	No.	339	2	2	365	5
	Other Surveillance	No.	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small		-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	5	-	1	10	100
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total			344	2	3	375	-

Statement 14: Renewals volumes, unit costs and expenditure, Western – continued

in £m 2016-17 prices unless stated

Notes:

- (1) The format for this statement has changed compared to previous years in accordance with the ORR's Regulatory Accounting Guidelines (June 2017). Therefore, there is no prior year data to compare to.
- (2) No PR13 equivalent has been supplied to compare costs and volumes against.
- (3) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2016/17. Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2015/16 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2016/17, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

Appendices to the Regulatory financial statements – Reconciliations between Regulatory financial statements and statutory accounts*

*Note: The reconciliations are made to Network Rail Limited's statutory accounts as no consolidated statutory accounts are prepared or published for Network Rail Infrastructure Limited group

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2017

In £m 2016/17 prices unless stated

	£m	£m
RAB valuation at 31 March 2017 (Statement 2a)		61,753
Investment properties	(1,231)	
Unamortised Capital grants	3,525	
		2,294
Adjustment for cash flow differences in the latest Business Plan compared to Periodic Review 2013		(1,331)
Other		14
Property, plant and equipment per NRL statutory accounts at 31 March 2017		62,730

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2017

In £m 2016/17 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2017 per the regulatory Statements (Statement 1)	1,473	1,319	2,792
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,427		1,427
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	46		46
Network Rail (High Speed) Limited	(11)		(11)
Other	9		9
	1,471	-	1,471
Operating and maintenance expenditure for year ended 31 March 2017 per NRL statutory accounts	2,944	1,319	4,263

Notes:

⁽¹⁾ This includes depreciation expenses of £1,515m and capital grant amortisation of £88m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2017

In £m 2016/17 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2017 (Statement 6a)		6,763
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(404)	
Income from property sales	(55)	
Network Rail (High Speed) Limited	(11)	
Opex memorandum timing difference	(37)	
Other	3	
		(504)
Turnover per NRL statutory accounts for year ended 31 March 2017		6,259

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2017

In nominal prices

	£m	£m
Regulatory debt at 31 March 2017 (Statement 4)		44,792
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	1,353	
Foreign exchange differences	109	
		1,462
Net debt per NRL statutory accounts at 31 March 2017		46,254

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2017

In £m 2016/17 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2017 (Statement 1)		6,200
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	451	
Capitalised interest	154	
Investment property schemes	(18)	
Other	<u>1</u>	
		588
Capital expenditure per NRL statutory accounts for the year ended 31 March 2017		6,788

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2017

In £m 2016/17 prices unless stated

	£m	£m
Total financing costs for the year ended 31 March 2017 (Statement 1)		1,797
Differences between regulatory interest expense and statutory interest expense		
Capitalised interest	(154)	
Net finance costs relating to defined pension schemes assets and liabilities	45	
Investment revenue disclosed separately in statutory accounts	5	
Other	<u>(1)</u>	
		(105)
Interest expense per NRL statutory accounts for the year ended 31 March 2017		1,692