



Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2022

Directors' Review

In £m 2021/22 prices unless stated otherwise

Introduction

This financial year was the third year of Network Rail's five-year spending plan, covering the period from 1 April 2019 – 31 March 2024. This review will look back over the last year where passenger levels partially recovered to approximately 60 per cent of the pre-pandemic levels. The continued support provided to our direct customers, such as the passenger operating companies, by the Governments in Westminster and Holyrood has meant that they have been able to continue to pay amounts owed to Network Rail as they fall due. In addition, Network Rail has been able to use the risk funds available in the five-year spending plan to mitigate increased Covid-19 related costs. As a result, there has been no material change to our delivery plan and we remain on a firm financial footing.

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

We are on target to make a further £500m of savings on top of our original £3.5bn five-year efficiency programme. This year we delivered around £840m towards the combined £4bn target by productivity improvements, securing more efficient access to carry out work, and through leveraging new technologies. This means that over £1.9bn of the £4bn target has been achieved in the first three years of this Control Period. We are delivering to our plans and meeting our challenging targets.

Directors' Review continued

In £m 2021/22 prices unless stated otherwise

Summary income and expenditure for 2021/22

	Actual	Baseline	Variance	FPM
Income				
Grant Income	6,513	7,152	(639)	0
Franchised track access charges	2,599	2,893	(294)	(95)
Other Single Till Income	659	681	(22)	(57)
Total income	9,771	10,726	(955)	(152)
Operating expenditure				
Network operations	717	671	(46)	(46)
Support costs	968	880	(88)	(26)
Traction electricity, industry costs and rates	860	1,010	150	(1)
Maintenance	1,947	1,747	(200)	(206)
Schedule 4	324	344	20	(3)
Schedule 8	(189)	56	245	245
	4,627	4,708	81	(37)
Capital expenditure				
Renewals	3,948	3,927	(21)	(248)
Enhancements	1,787	1,004	(783)	(50)
	5,735	4,931	(804)	(298)
Other expenditure				
Risk	0	589	589	0
Financing costs	2,783	2,255	(528)	0
Corporation tax	0	65	65	0
Total expenditure	13,145	12,548	(597)	(335)
Total FPM				(487)

Income

Grant income was £0.6bn lower than the regulator assumed this year mainly as a result of lower overall net expenditure on core activities and lower interest rates on debt issued by DfT. Amounts received from government is driven by other net expenditure variances, including additional renewals delivered this year. Consequently, grant income variances are outside of the scope of FPM.

Income from train operators was lower than the regulator assumed mainly due to lower electricity traction revenue which is offset by lower prices paid by Network Rail to acquire electricity for operators. These variances are excluded from the assessment of financial performance. Income is also lower as fewer trains were ran this year, owing to the ongoing impact of Covid on service levels. Network Rail receives money from operators for every train it runs, contributing to the financial underperformance this year.

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

Directors' Review continued

In £m 2021/22 prices unless stated otherwise

Operating expenditure

Network Operations costs were higher than the regulatory baseline mainly due to the continued impact of Covid-19, necessitating a number of mitigating costs. This included extra contingent staff to provide additional resilience and keep the network functioning along with station cleaning and extra equipment which all contributed to the in financial underperformance this year.

Support costs were higher than the regulatory baseline due to a number of contributory factors. These included: implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure, higher than expected OPEX to CAPEX movements and restructuring costs, which have been partly offset by workforce efficiency savings.

Traction electricity, industry costs and rates are lower than the regulator expected due to lower market electricity prices. As these costs are passed on to operators to power trains, there is a corresponding reduction in income. Both the cost and income variances are excluded from the assessment of financial performance to the extent they offset.

Maintenance costs are higher than the regulatory baseline due to extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. These extra costs resulted in financial underperformance this year.

Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Although costs are lower than the regulatory baseline, there was lower activity on the aforementioned class of renewals this year meaning that the financial underperformance has been reported.

Continued strong train performance meant that net payments were received again this year from operators under the Schedule 8 performance regime compared to an expected outflow to operators. Fewer services, reduced passenger numbers, targeted improvement schemes and a higher number of operator-caused delays all enabled the financial outperformance.

Capital expenditure

We have invested £3.9bn on renewals this year. This included £1.1bn of track renewals, which delivered nearly 1,200km of new track and replaced almost 900 switches and crossings. In addition, £0.8bn was spent on signalling renewals, £0.8bn on structures, including around 81,000 square meters of bridges, £0.3bn on electrification assets, £0.3bn on buildings and property including improving stations for passengers, and £0.6bn on other renewals including telecoms, IT, plant and equipment, drainage, intelligent infrastructure and faster electrical isolation equipment. Net financial underperformance has been reported across the portfolio this year. Significant causes for this include financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. Continued overspend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. In the year, we delivered 104 per cent of our seven key renewal volumes target set in the 2021 Business Plan.

Directors' Review continued

In £m 2021/22 prices unless stated otherwise

Enhancements that will increase the capacity of the network funded by DfT and TS have amounted to £1.8bn along with a further £0.4bn funded by other parties. Major schemes included TransPennine improvements, East West Rail, HS2-related projects, East Coast Main Line improvements and in Scotland, improvements relating to the Inverness to Aberdeen and Edinburgh to Glasgow lines. All of these schemes will improve connectivity, reduce Great Britain's carbon footprint and drive economic development. For example, the TransPennine Route Upgrade will improve journey times, enhance the reliability of this busy part of the network and enable a reduction in greenhouse gas emissions in the region. Financial underperformance has been recognised this year, mostly in connection with ECML, Crossrail and Birmingham New Street Gateway.

Other expenditure

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

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

No corporation tax expense was recognised this year. Recent changes in tax law have reduced Network Rail's liability compared to the regulatory baseline expectation.

Regulatory Asset Base

As with most other regulated business, Network Rail has a Regulatory Asset Base (RAB). Subject to certain criteria established by the ORR, each year capital expenditure is added to the RAB and amortisation is deducted. This year the RAB increased in value from £72.7bn to £76.3bn. In line with the regulatory financial framework, the RAB is inflated each year. Additions of £3.9bn were offset by amortisation of the same value. Reductions were then made for property disposals to arrive at the final valuation. Under the ORR CP6 Regulatory Accounting Guidelines, enhancements are not added to the RAB as the costs of enhancements are directly funded through capital grants paid by the organisation requesting the enhancement, largely DfT and TS.

Borrowing

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

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

During the year ended 31 March 2022, we borrowed £7.9bn using the DfT loan facility to refinance maturing borrowing with DfT (£7.6bn) and commercial bonds (£0.3bn). RPI-linked bonds increased in line with the RPI index. As a result, net debt rose from £53.4bn to £55.5bn.

Directors' Review continued

In £m 2021/22 prices unless stated otherwise

Financing arrangements

We do not expect to undertake any new net borrowing during 2019-2024. Instead, our activities are largely funded by grants from DfT, Transport Scotland, and revenue from customers.

We have a loan facility with DfT for £31.9bn, which will be used to refinance maturing government and external debt in the period 2019-2024. The loan facility between Network Rail and DfT was signed on 28 March 2019. On 1 April 2019, all borrowings under the previous (July 2014) facility agreement were transferred to the new facility agreement (with their existing interest rates and maturity dates) and the 2014 agreement was terminated. The 2019 facility is sized so that when the legacy bonds fall due for repayment, new money will be provided by borrowing under the 2019 facility (the first such borrowing was in June 2020). The cash required to pay the interest due on borrowings (to DfT or to bondholders) is provided to Network Rail Infrastructure Limited (NRIL) through the financing costs grants.

Grant agreements with Department for Transport and Transport Scotland

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

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

With TS: network grant and enhancements grant.

Summary

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

Our recent experience in the pandemic has shown that when the rail industry works together as one, then challenges can be overcome effectively. For example, through the swift implementation of new timetables as the country and its railway recover from the impact of the pandemic and we provide more rail services.

Against this backdrop we delivered a satisfactory outcome on our key financial targets. We also stayed on course to meet both our £3.5bn efficiency challenge for the 2019-24 Control Period and the extra £500m of further savings targeted last year.

The next year will require the business to continue delivering our plans to build back better. Increases in the cost of energy, commodities and services will impact our business, our staff and customers alike. Against this backdrop we must maintain our focus on cost efficiency while setting in motion the steps required to transform the rail industry to deliver better value for its customers.

Gross wages and salaries are a large proportion of our expenditure and in the last year levels of pay did not increase, despite inflationary pressures. This is an area we would like to address and we know, with the cost-of-living crisis, how important a pay increase is to our people. But any increase needs to be one that taxpayers and rail users can afford, and a satisfactory outcome to pay negotiations is important if we are to continue to deliver the rail recovery and our strategic objectives.

Looking beyond the pandemic recovery period, rail will be an increasingly important part of our national infrastructure. Of course, patterns of travel and rail usage will have changed, such as the reduced morning and evening peak-time commuter traffic. The rail industry will need to respond to these changes and make the railway more affordable for taxpayers and rail users alike.

However, what has not changed is that rail has so much to offer our country – it is clean, green, safe, convenient and a vital driver of economic growth.

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

Directors' Review continued

In £m 2021/22 prices unless stated otherwise

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 23rd September 2022.

Signed on behalf of the Board of Directors



Andrew Haines (Director)



Jeremy Westlake (Director)

Statement of Directors' Responsibilities

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

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

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2022 and (save as otherwise provided in Condition 9 or the CP6 Regulatory Accounting Guidelines December 2019) on a consistent basis in respect of each financial year;
- maintain all systems of control and other governance arrangements that ensure the information collected and reported to ORR is in all material respects accurate, complete and fairly presented and ensure that such governance arrangements are kept under regular review by the directors of the licence holder so that they remain effective for this purpose.
- include the confirmation required under Condition 9.5 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 9, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 9.5 and (where applicable) with Condition 9.9 and, if so requested by the ORR, evidence in support of that confirmation.

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

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

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

Opinion

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2022 which comprise the following statements (separately for GB, England and Wales, and Scotland and the Regions except where stated otherwise below):

- Statement 1: Summary Regulatory Financial Performance (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 2: Analysis of Income (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3: Analysis of Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.1: Analysis of Operations Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.2: Analysis of Maintenance Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.3: Analysis of Support Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.4: Analysis of Traction Electricity, Industry Costs and Rates (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.5: Analysis of Schedule 4 and Schedule 8 Income and Costs (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.6: Analysis of Renewals Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.7: Analysis of Enhancements Expenditure (figures pertaining to the columns labelled "Actual" only);
- Statement 3.9: Analysis of Staff Costs
- Statement 3.10: Analysis of Amounts Payable to Auditors and Independent Reporter (figures pertaining to the columns labelled "2019-20" only);
- Statement 4: Regulatory Financial Position;
- Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Asset Valuation;
- Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory Financial Statements and Statutory Accounts;
- Appendix C: Reconciliation of Regulatory Income to Statutory Turnover;
- Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt;
- Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure; and
- Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense.

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

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

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

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

- fairly presented in accordance with Condition 9 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies, the state of the Company's financial position at 31 March 2022 and its financial performance for the year then ended; and
- have been properly prepared in accordance with Condition 9 of the Regulatory Licence.

Basis for opinion

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

I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of the Regulatory Accounts in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - basis of preparation

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

The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the UK ("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.

My opinion is not modified in respect of this matter.

Other information

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

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

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

I have nothing to report in this regard.

Responsibilities of the directors

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

Auditor's responsibilities for the audit of the Regulatory Accounts

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

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

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

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

Other matters

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

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

I have nothing to report arising from this duty.

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

Use of my report

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

My opinion on the Regulatory Accounts is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2022, which are prepared for a different purpose. My audit report in relation to the statutory financial statements of the Company (my "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. My Statutory audit work was undertaken so that we might state to the Company's members those matters I am required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility for any other purpose or to any other person to whom my Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Matthew Kay (Senior Statutory Auditor)

26th September 2022



For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

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

Introduction

In accordance with the terms of engagement for the Independent Reporter, we have reviewed the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the Company) for the year ended 31 March 2022, which comprise:

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

Respective responsibilities of directors and reporters

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

Work completed – basis of opinion

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

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

Opinion

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

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

Yours faithfully.

A handwritten signature in blue ink, appearing to read 'M. Rudrum', with a stylized flourish at the end.

Mark Rudrum

Named Independent Reporter

Ove Arup & Partners Ltd

26th September 2022

Accounting policies

Basis of preparation

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

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP6 Regulatory Accounting Guidelines ("RAGs") issued by ORR in December 2019. These are consistent with those detailed in the Network Rail Limited consolidated statutory financial statements for the year ended 31 March 2022 which were approved by the Directors on 12 July 2022 with the following notable exceptions:

Inflation

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

Depreciation and amortisation

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

IFRS16 Leases

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

Debt

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

Pensions

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

Accounting policies continued

Turnover

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

Basis of disaggregation

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

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

Operational Regions

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

- (a) Regionally-managed - income and expenditure which is managed by the local Region leadership team. This is assigned directly to each Region. Directly attributable activities are those where there is clear management accountability for activity and costs. This is reflected in the general ledger accounting system with cost centres being directly attributable to individual Regions. All of these costs/ revenues are included in the Region income and expenditure reported in the Regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the Region-managed works delivery team. These types of income and expenditure are included separately in each of the statements in the Regulatory financial statements where required by the Regulatory Accounting Guidelines issues by ORR December 2019.
- (b) Centrally-managed. These types of income and expenditure are included separately in each of the statements in the Regulatory financial statements where required by the Regulatory Accounting Guidelines issues by ORR December 2019. There are three sub-sections of Centrally-managed costs as follows:
 - i. Directly influenced - income and expenditure which is the responsibility of central functions. However, decisions and actions taken by the individual Regions can affect the company wide costs. This covers items where the Region is consuming a service from central functions and are charged in proportion to the amount of service they utilise. This would include items such as capital delivery of assets that are managed nationally, such as Telecoms. These costs can be attributed to the Region directly

Accounting policies continued

- ii. Region identifiable - income and expenditure which is the responsibility of central functions where Region leadership teams have little direct influence. However, the geographic location of activity giving rise to the income and expenditure is readily ascertainable. This would include many of the operations of Network Rail's property team such as income from commercial lettings, rental of retail premises at stations managed by Network Rail and sales of parts of the railway estate. In these circumstances it is possible to assign the costs/ income to the applicable operational Region
- iii. Allocated by driver – income and expenditure incurred for the whole network or company. Minimal causal link between Region management teams' decisions and the level of costs incurred by Network Rail. This would include amounts paid to the ORR for regulatory licences, Board and governance costs. In these circumstances, costs have to be attributed to Regions using an appropriate driver. The driver represents a proxy for the cause of the cost in each Region. Network Rail has supplied supporting detailed documentation to the regulator (as well as the auditors and the reporters) setting out this methodology

Great Britain

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	6,513	7,152	(639)	-	6,980
Franchised track access charges	2,599	2,893	(294)	(95)	2,590
Other Single Till Income	659	681	(22)	(57)	521
Total Income	9,771	10,726	(955)	(152)	10,091
Operating expenditure					
Network operations	717	671	(46)	(46)	750
Support costs	968	880	(88)	(26)	1,005
Traction electricity, industry costs and rates	860	1,010	150	(1)	888
Maintenance	1,947	1,747	(200)	(206)	1,988
Schedule 4	324	344	20	(3)	303
Schedule 8	(189)	56	245	245	(364)
	4,627	4,708	81	(37)	4,570
Capital expenditure					
Renewals	3,948	3,927	(21)	(248)	4,109
Enhancements	1,787	1,004	(783)	(50)	1,703
	5,735	4,931	(804)	(298)	5,812
Risk expenditure					
Risk (Centrally-held)	-	191	191	-	-
Risk (Route-controlled)	-	195	195	-	-
Risk (Contingent asset management funding)	-	203	203	-	-
	-	589	589	-	-
Other expenditure					
Financing costs	2,783	2,255	(528)	-	1,782
Corporation tax	-	65	65	-	55
	2,783	2,320	(463)	-	1,837
Total expenditure	13,145	12,548	(597)	(335)	12,219

Total Financial Out/(under) performance

(487)

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	18,414	19,511	(1,097)	-
Franchised track access charges	7,640	8,259	(619)	(183)
Other Single Till Income	2,299	2,057	242	(269)
Total Income	28,353	29,827	(1,474)	(452)
Operating expenditure				
Network operations	2,088	1,993	(95)	(98)
Support costs	2,586	2,626	40	90
Traction electricity, industry costs and rates	2,503	2,812	309	2
Maintenance	5,576	5,181	(395)	(406)
Schedule 4	915	982	67	44
Schedule 8	(479)	198	677	677
	13,189	13,792	603	309
Capital expenditure				
Renewals	10,766	10,487	(279)	(589)
Enhancements	5,231	5,219	(12)	(159)
	15,997	15,706	(291)	(748)
Risk expenditure				
Risk (Centrally-held)	-	313	313	-
Risk (Route-controlled)	-	328	328	-
Risk (Contingent asset management funding)	-	382	382	-
	-	1,023	1,023	-
Other expenditure				
Financing costs	6,584	6,727	143	-
Corporation tax	52	97	45	-
	6,636	6,824	188	-
Total expenditure	35,822	37,345	1,523	(439)

Total Financial Out/(under) performance

(891)

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £1.6bn higher than the regulatory baseline this year, and £0.05bn lower than the baseline for the control period to date. The higher net expenditure experienced this year relates to the reduced grant and franchised track access charges, greater spend in the enhancement's portfolio and higher than anticipated financing costs. The control period to date is broadly in line with the regulatory baseline, as the increased expenditure this year is offset by lower net expenditure experienced in prior years due to Schedule 8 inflow due to outstanding train performance and lower than expected financing costs.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £487m this year and £891m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, franchised track access charges income being lower than anticipated due to fewer trains being run as a result of Covid-19 and maintenance expenditure being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This is mostly due to the network grant being lower because of different phasing of activity being undertaken than anticipated in the regulatory baseline. Internal financing grant was also lower than anticipated as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Variances in Grant income is outside of the scope of financial performance. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income - Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in the year due to the Covid-19 pandemic. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is broadly in line with last year. Financial underperformance has been recognised in year due to lower than expected variable track access. This is a direct consequence of Covid-19 leading to operators reducing the number of trains being run due to lower demand. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home at various points throughout the year, meaning fewer people have used the retail facilities at managed stations. Other single till income is higher than the previous year, as whilst Covid-19 impacted FY22, the restrictions in place were more severe in FY21. Other single till income is lower than regulatory baseline for the control period to date. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the FY21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network operations costs are higher than the regulatory baseline but lower than the previous year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide additional resilience. Network Operations costs are discussed in more detail in Statement 3.1. These extra costs, resulted in financial underperformance this year.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline but lower than previous year spend. Significant reasons for the additional spend this year include: continued implementation of the PPF re-organisation programme, performance improvement initiatives being delivered, Covid-19 related expenditure and higher than expected Opex/Capex adjustment. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - Maintenance costs are higher than the regulatory baseline which included extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. These extra costs resulted in financial underperformance this year. Costs are lower than previous year, as the impact of Covid-19 was more severe in FY21. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Although costs are lower than the regulatory baseline, there was lower activity on the aforementioned class of renewals this year meaning that the financial underperformance has been reported. Schedule 4 costs are set out in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. This has also resulted in the financial outperformance recognised for the current year and control period to date. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is slightly higher than the regulatory baseline but lower than last year's outturn. Spend was abnormally high in FY21, as regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes for this include financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. Continued overspend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of acceleration and higher like for like costs highlighted above. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancement's expenditure this year is higher than the regulatory baseline. This mainly due to an updated CP6 cumulative baseline as agreed with the DfT which incorporates the outcomes from the Spending Review 2021 (SR21). Financial underperformance has been recognised this year, mostly in connection with ECML, Crossrail and Birmingham New Street Gateway. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS)). Enhancement investment is set out in more detail in Statement 3.7.
- (14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.

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

In £m cash prices unless stated

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

Great Britain

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,243	1,283	(40)	-	1,292
Variable usage charge	216	289	(73)	(73)	210
Electrification asset usage charge	20	28	(8)	(8)	20
Capacity charge	-	-	-	-	-
Open access income	30	30	-	-	26
Managed stations long term charge	74	75	(1)	(1)	77
Franchised stations long term charge	177	184	(7)	(7)	186
Traction electricity charges	472	629	(157)	-	-
Schedule 4 access charge supplement	252	258	(6)	(6)	229
	2,484	2,776	(292)	(95)	2,040
Other single till income					
Freight income					
Freight variable usage charge	60	60	-	-	53
Freight other income	1	1	-	-	1
	61	61	-	-	54
Stations income					
Managed stations qualifying expenditure	94	102	(8)	(8)	97
Franchised stations lease income	57	54	3	3	57
	151	156	(5)	(5)	154
Facility and financing charges					
Facility charges	61	62	(1)	(1)	64
	61	62	(1)	(1)	64
Property income					
Property rental	166	252	(86)	(86)	73
Property sales	65	17	48	15	17
	231	269	(38)	(71)	90
Depots Income	109	95	14	14	105
Other income	7	5	2	2	8
Freight traction electricity charges	10	8	2	-	-
Total other single till income	630	656	(26)	(61)	475
Total Regionally-managed income	3,114	3,432	(318)	(156)	2,515
Centrally-managed income					
Network grant	5,199	5,499	(300)	-	5,469
Internal financing grant	618	889	(271)	-	681
External financing grant	595	599	(4)	-	675
BTP grant	101	100	1	-	100
Corporation tax grant	-	65	(65)	-	55
Infrastructure cost charges	50	51	(1)	-	53
Schedule 4 access charge supplement	65	66	(1)	-	55
Traction electricity charges	-	-	-	-	442
Freight traction electricity charges	-	-	-	-	7
	6,628	7,269	(641)	-	7,537
Other single till income					
Property income					
Property rental	11	14	(3)	(3)	12
Property sales	18	11	7	7	27
	29	25	4	4	39
Total other single till income	29	25	4	4	39
Total centrally-managed income	6,657	7,294	(637)	4	7,576
Total income	9,771	10,726	(955)	(152)	10,091

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	3,672	3,738	(66)	-
Variable usage charge	672	819	(147)	(147)
Electrification asset usage charge	61	74	(13)	(13)
Capacity charge	2	-	2	2
Open access income	84	88	(4)	(4)
Managed stations long term charge	219	220	(1)	(1)
Franchised stations long term charge	529	541	(12)	(12)
Traction electricity charges	472	629	(157)	-
Schedule 4 access charge supplement	742	750	(8)	(8)
	6,453	6,859	(406)	(183)
Other single till income				
Freight income				
Freight variable usage charge	164	165	(1)	(1)
Freight other income	3	3	-	-
	167	168	(1)	(1)
Stations income				
Managed stations qualifying expenditure	276	297	(21)	(21)
Franchised stations lease income	164	157	7	7
	440	454	(14)	(14)
Facility and financing charges				
Facility charges	182	185	(3)	(3)
	182	185	(3)	(3)
Property income				
Property rental	236	492	(256)	(256)
Property sales	81	45	36	3
	317	537	(220)	(253)
Depots Income				
	303	277	26	26
Other income				
	21	14	7	7
Freight traction electricity charges				
	10	8	2	-
Total other single till income	1,440	1,643	(203)	(238)
Total Regionally-managed income	7,893	8,502	(609)	(421)
Centrally-managed income				
Network grant	14,167	14,735	(568)	-
Internal financing grant	1,966	2,432	(466)	-
External financing grant	1,939	1,958	(19)	-
BTP grant	290	289	1	-
Corporation tax grant	52	97	(45)	-
Infrastructure cost charges	154	155	(1)	-
Schedule 4 access charge supplement	174	176	(2)	-
Traction electricity charges	859	1,069	(210)	-
Freight traction electricity charges	14	14	-	-
	19,615	20,925	(1,310)	-
Other single till income				
Property income				
Property rental	276	282	(6)	(5)
Property sales	569	118	451	(26)
	845	400	445	(31)
Total other single till income	845	400	445	(31)
Total centrally-managed income	20,460	21,325	(865)	(31)
Total income	28,353	29,827	(1,474)	(452)

Statement 2: Analysis of income, Great Britain

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.d
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to reduced grant income, lower property rental income and less traction electricity income. Income is lower than the previous year due to less grant income of almost all types, reflecting the new financial framework for CP6. Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received plus lower than anticipated traction electricity and property rentals income. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the continued impact of Covid-19. Similarly to last year, reduced passenger numbers have led to a decrease in property income and fewer train services compared to the regulatory baseline, which has also led to lower traction electricity charges. Regionally-managed income is greater than last year mainly due to traction electricity charges being devolved from centrally-managed to regionally-managed income. There has also been an increase in property rental income compared to last year's actuals. This is due to Covid-19 restrictions being less severe in FY22 when compared to FY21, and thus increased passenger demand. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was lower than the baseline this year. The shortfall is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income for the control period to date is lower than the regulatory baseline, as inflation has been lower than the baseline assumed in the past three years, leading to reduced income. Income is lower than the previous year which was anticipated in the regulatory baselines.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home throughout various points in the year, restrictions placed on retail & entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to Covid-19. Income generated under this mechanism is marginally higher than the previous year as a result of the reduction to Covid-19 restrictions over FY22.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

- (4) Electrical Asset Usage - Electric Asset Usage is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As fewer trains ran due to Covid-19 restrictions, less EAU income was received leading to financial underperformance
- (5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. Expected market price increases have not yet materialised, reducing 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 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In FY22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to. Income was higher than the previous year, which can be seen in last year's centrally-managed income, due to Covid-19 restrictions reducing throughout the year, leading to an increasing number of train services being ran when compared to FY21. This was largely offset by costs payable by Network Rail for electricity (as shown in Statement 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (7) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income was greater than the previous year, which was in line with the regulator's assumption.
- (8) Freight Income – income is in line with the regulatory baseline this year. Freight income is directly in line with the control period regulatory baseline. Income is greater than the previous year due to the impact of Covid-19 on freight being lower this year.
- (9) Managed stations qualifying expenditure – income is lower than the regulatory assumption this year, previous year, and the control period to date. This is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them.
- (10) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19. However, in comparison to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions and increased footfall in stations as passengers become more willing and able to travel via the rail network. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

- (5) External financing grants – grants received in the year are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. Income is lower than the control period to date baseline.
- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is lower than the previous year, where because of the higher grants received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the control period to date regulatory baseline.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. Income is higher than the previous year reflecting the regulatory determination for CP6. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section.
- (10) Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand and is broadly in line with the previous year. Income for the control period to date is lower than the regulatory baseline as a result of the aforementioned Covid-19 consequences.
- (11) Property sales – income was greater than the regulatory baseline this year but lower than last years outturn. Sales within the southern region such as Black first station south and Landmark court sales, are the key contributors to the revenue received this year.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

- (11) Property sales – the current year is greater than the regulatory baseline and income is greater than the previous year. These variances are largely attributable to the divestment of Cannon Street, London. This disposal counteracts the impact of Covid-19 slightly hampering sales and thus financial overperformance is observed within the control period to date.
- (12) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2020/21.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower network grants, financing grants and corporation tax grant. Income is lower than the previous year mostly due to lower grant income received, and due to devolving the traction electricity charges income from centrally-managed income to regionally-managed income reflecting the new financial framework for CP6.
- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.
- (3) Network grant – income is lower than the regulatory baseline for the year and the control period to date as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.

Great Britain

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	692	648	(44)	(44)	728
Maintenance	1,894	1,682	(212)	(216)	1,923
Support costs	336	220	(116)	(116)	388
Traction electricity, industry costs and rates	825	974	149	(1)	6
Schedule 4	333	291	(42)	(65)	287
Schedule 8	(200)	45	245	245	(313)
	3,880	3,860	(20)	(197)	3,019
Capital expenditure					
Renewals	3,395	3,388	(7)	(292)	3,569
Enhancements	1,771	1,041	(730)	(50)	1,536
	5,166	4,429	(737)	(342)	5,105
Total Regionally-managed expenditure	9,046	8,289	(757)	(539)	8,124
Centrally-managed expenditure					
Operating expenditure					
Network operations	25	23	(2)	(2)	22
Maintenance	53	65	12	10	65
Support costs	632	660	28	90	617
Traction electricity, industry costs and rates	35	36	1	-	882
Schedule 4	(9)	53	62	62	16
Schedule 8	11	11	-	-	(51)
	747	848	101	160	1,551
Capital expenditure					
Renewals	553	539	(14)	44	540
Enhancements	16	(37)	(53)	-	167
	569	502	(67)	44	707
Risk Expenditure	-	589	589	-	-
Other					
Financing costs	2,783	2,255	(528)	-	1,782
Taxation	-	65	65	-	55
	2,783	2,320	(463)	-	1,837
Total centrally-managed expenditure	4,099	4,259	160	204	4,095
Total expenditure	13,145	12,548	(597)	(335)	12,219

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	2,022	1,921	(101)	(101)
Maintenance	5,387	4,974	(413)	(403)
Support costs	917	668	(249)	(249)
Traction electricity, industry costs and rates	834	978	144	(6)
Schedule 4	923	827	(96)	(118)
Schedule 8	(450)	167	617	617
	9,633	9,535	(98)	(260)
Capital expenditure				
Renewals	9,259	8,922	(337)	(672)
Enhancements	4,865	5,206	341	(196)
	14,124	14,128	4	(868)
Total Regionally-managed expenditure	23,757	23,663	(94)	(1,128)
Centrally-managed expenditure				
Operating expenditure				
Network operations	66	72	6	3
Maintenance	189	207	18	(3)
Support costs	1,669	1,958	289	339
Traction electricity, industry costs and rates	1,669	1,834	165	8
Schedule 4	(8)	155	163	162
Schedule 8	(29)	31	60	60
	3,556	4,257	701	569
Capital expenditure				
Renewals	1,507	1,565	58	83
Enhancements	366	13	(353)	37
	1,873	1,578	(295)	120
Risk Expenditure	-	1,023	1,023	-
Other				
Financing costs	6,584	6,727	143	-
Taxation	52	97	45	-
	6,636	6,824	188	-
Total centrally-managed expenditure	12,065	13,682	1,617	689
Total expenditure	35,822	37,345	1,523	(439)

Statement 3: Analysis of expenditure, Great Britain

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is higher than the regulatory baseline this year. This is primarily due to greater than anticipated enhancements delivery and increased financing costs only being partially offset by the underspend in operating and risk expenditure. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and risk underspend. Costs are higher than the previous year mainly due to increased financing costs. The financial underperformance recognised this year and for the Control Period to date primarily relates to underperformance realised in the Capital expenditure category. A significant amount of this underperformance is due to the impact of Covid-19 on project delivery and higher like for like costs within the portfolio.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to greater than anticipated enhancements delivery. Costs are higher than the previous year due to the increased Enhancements delivery, plus the transfer of traction electricity costs from centrally managed technical authority function to the regions. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date primarily relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio. Maintenance and support underperformance as a result of Covid-19 and the PPF restructure, has also contributed to this position.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline. This is due to savings made against the risk fund, schedule 4 and taxation, offsetting the impact of greater than expected financing costs. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. Therefore, savings every year against this line, plus operating expenditure savings, lower performance regime costs and industry expenses experienced, have led to centrally-managed costs being considerably lower than the regulatory baseline for the control period. Costs are broadly in line with last years costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Great Britain

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	292	278	(14)	(14)	303
Operations Management	87	72	(15)	(15)	83
Controllers	70	65	(5)	(5)	68
Electrical control room operators	22	19	(3)	(3)	22
	471	434	(37)	(37)	476
Non signaller expenditure					
Mobile operations managers	48	40	(8)	(8)	50
Managed stations	82	81	(1)	(1)	103
Performance	10	14	4	4	8
Other	81	79	(2)	(2)	91
Total Regionally-managed Operations expenditure	692	648	(44)	(44)	728
Centrally-managed Operations expenditure					
Network Services	25	23	(2)	(2)	22
Total centrally-managed Operations expenditure	25	23	(2)	(2)	22
Total operations expenditure	717	671	(46)	(46)	750

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	856	835	(21)	(21)
Operations Management	235	214	(21)	(21)
Controllers	199	196	(3)	(3)
Electrical control room operators	59	56	(3)	(3)
	1,349	1,301	(48)	(48)
Non signaller expenditure				
Mobile operations managers	138	121	(17)	(17)
Managed stations	257	238	(19)	(19)
Performance	29	42	13	13
Other	249	219	(30)	(30)
Total Regionally-managed Operations expenditure	2,022	1,921	(101)	(101)
Centrally-managed Operations expenditure				
Network Services	66	72	6	3
Total centrally-managed Operations expenditure	66	72	6	3
Total operations expenditure	2,088	1,993	(95)	(98)

Statement 3.1: Analysis of operations expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall operations costs are higher than the regulatory baseline, but lower than the previous year's actuals. The primary reason for the spend being higher than the regulatory baseline is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide additional resilience than were assumed in the baseline. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Although costs were incurred to mitigate the impact of Covid-19, these costs were lower than in FY21. The Control Period to date spend is higher than the regulatory assumption, by virtue of the aforementioned costs. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (2) Total Regionally-managed costs were higher than the regulatory expectation this year, but lower than last year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. These costs were augmented by investment in performance improvement initiatives. Although costs were incurred to mitigate the impact of Covid-19, these costs were lower than in FY21. The Control Period to date spend is higher than the regulatory assumption, by virtue of the costs incurred this year, and the previous financial year, through Network Rail's response to the Covid-19 pandemic. These additional costs have led to financial underperformance this year and for the control period to date.
- (3) Signaller and level crossing keepers - costs are higher than the regulatory expectation for the Control Period to date and the current year. Savings made in the first year of the control period due to reduced recruitment, have been offset by increases in staff costs throughout the Covid-19 pandemic to ensure the railway kept moving – this included ensuring appropriate cover for sick and self-isolating staff.
- (4) Operations management - costs are higher than the regulatory expectation for the Control Period to date. Savings made in FY20 due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic – this included ensuring appropriate cover for sick and self-isolating staff.

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

In £m cash prices unless stated

- (5) Mobile operation managers – costs are higher than the regulatory target for this year and the Control Period to date. Premium hour costs have increased to provide extra resilience during the Covid-19 pandemic.
- (6) Managed stations – costs are line with the regulatory baseline, significantly lower than last year's actual, but are higher for the control period to date. In FY21, to ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding had been required. Extra agency staff had also been recruited to help manage passenger flow and help station staff enforce social distancing. These reasons account for the large variance in the control period to date and the comparison with the previous year's actuals.
- (7) Other – costs are broadly in line with the regulatory target, but significantly lower than last years actual. This is primarily due to additional investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure, or at strategically important points on the line in FY21. Control Period costs to date are significantly higher than the regulatory assumption, largely due to the aforementioned investment.

Centrally-managed operations expenditure

- (1) Network Services – costs are broadly consistent with the regulatory expectation and the previous year.

Great Britain

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	783	732	(51)	(51)	817
Signalling & Telecoms	317	284	(33)	(33)	323
Civils	230	218	(12)	(22)	212
Buildings	104	96	(8)	(2)	104
Electrical power and fixed plant	139	135	(4)	(4)	138
Other network operations	321	217	(104)	(104)	329
	1,894	1,682	(212)	(216)	1,923
Centrally-managed maintenance expenditure					
Telecoms	21	33	12	12	22
Route Services - Asset Information	35	35	-	-	34
STE Maintenance	4	4	-	-	3
Property	1	-	(1)	(1)	-
Route Services - Other	(7)	(7)	-	-	(5)
Other	(1)	-	1	(1)	11
	53	65	12	10	65
Total maintenance expenditure	1,947	1,747	(200)	(206)	1,988

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	2,271	2,161	(110)	(110)
Signalling & Telecoms	915	837	(78)	(78)
Civils	623	634	11	10
Buildings	300	286	(14)	(2)
Electrical power and fixed plant	393	394	1	1
Other network operations	885	662	(223)	(224)
	5,387	4,974	(413)	(403)
Centrally-managed maintenance expenditure				
Telecoms	61	87	26	26
Route Services - Asset Information	100	99	(1)	(8)
STE Maintenance	15	16	1	1
Property	10	6	(4)	(4)
Route Services - Other	7	(1)	(8)	(27)
Other	(4)	-	4	9
	189	207	18	(3)
Total maintenance expenditure	5,576	5,181	(395)	(406)

Statement 3.2: Analysis of maintenance expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall maintenance costs are higher than the regulatory baseline this year, but lower than last year's outturn. The primary causes for the increase in costs in comparison to the regulatory baseline is our response to Covid-19, the re-organisation surrounding PPF, the extra vegetation work undertaken by most regions, and the investment in performance improvement schemes in multiple DU's. These extra Covid-19 costs relate to the extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and in the previous year. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed maintenance costs

- (2) Overall maintenance costs are higher than the regulatory baseline this year, but lower than last year's outturn. The primary causes for the increase in costs in comparison to the regulatory baseline is our response to Covid-19, the re-organisation surrounding PPF, the extra vegetation work undertaken by most regions, and the investment in performance improvement schemes in multiple DU's. These extra Covid-19 costs relate to the extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and in the previous year. These additional costs have led to financial underperformance this year and for the control period to date.

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

In £m cash prices unless stated

- (3) Track – track maintenance costs are the largest component of Network Rail’s maintenance costs. Given the circa 20,000 miles of track that requires inspection and remediation this is perhaps unsurprising. This year, costs are higher than the regulatory baseline, but lower than last year’s expenditure. Investment was made this year on performance improvement schemes, such as initiatives for Wessex Inner and Outer DU’s. Implementation of the PPF restructure has also led to increased track related costs. Additional work was also undertaken this year to deal with vegetation network wide, as well as some commonwealth games preparations in NW&C. This variance is made larger due to the deferral of efficiencies in the Scotland region with regards to the national intelligent infrastructure scheme. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the increased costs incurred in our response to Covid-19.
- (4) Signalling & telecoms – This year, costs are higher than the regulatory baseline. Covid-19 has contributed to this extra spend which included additional staff costs to allow minimal disruption due to sick and self-isolating staff. Rapid response teams received investments in performance improvement initiatives in Scotland, increasing the cost this financial year. There has also been increased resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Costs are lower than the previous year due to the additional costs in the previous year resulting from compliance investment required to adhere to Covid-19 restrictions, such as the purchase and deployment of plastic shields to allow staff to be safe within working vehicles. Control period spend is higher than the regulatory baseline due to the aforementioned reasons.
- (5) Civils – costs were higher than the regulatory baseline, as despite reactive maintenance expenses being lower than the regulatory expectation, extra investment was required regarding CEFA and CAFA, inspections resulting from increased contractor rates and additional inspections to achieve compliance. Savings due to delays in Arches inspections, better contract negotiations and planning of works allowing more productive working patterns, have partially offset the additional costs mentioned above. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail’s Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail’s financial performance. This is in line with the treatment set out in Network Rail’s financial performance guidelines which have been agreed with ORR. Costs are higher than the previous year. Control Period to date spend is lower than the regulatory baseline, primarily due to savings in inspections costs in the previous year. Financial outperformance has been recognised in the control period to date due to savings in inspection costs, but these savings are partially offset by the increased spend this year, which has engendered financial underperformance.

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

In £m cash prices unless stated

- (6) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed. Reactive Maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher for the Control Period to date's regulatory baseline, primarily due to the additional costs incurred this year due to the inherent variability of Building's reactive maintenance costs.
- (7) Electrical power and fixed plant – costs are in line with the regulatory assumption this year, last year's spend and the control period to date baseline.
- (8) Other network operations – costs are significantly higher than the regulatory baseline, but lower than last year's actual. There are numerous factors leading to this increase spend, such as reorganisations like PPF, and Covid-19. This included additional staff required to allow the continuity of staff such that minimal disruption was felt when staff were sick or had to self-isolate. Furthermore, there were large investments in performance schemes such as in the Wessex route which invested in the Inner and Outer DU's, as well as setting up a Trespass and Welfare team for the route. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the compliance investment required in the previous year resulting from Covid-19.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period. Costs are marginally lower than the previous year.
- (3) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are lower than the previous year, resulting in an income. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are below the regulatory baseline as the extra costs last year were offset by savings in the first year of the control period, and income this year.

Great Britain

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	29	22	(7)	(7)	28
Finance	22	16	(6)	(6)	19
Accommodation	86	69	(17)	(17)	90
Utilities	76	72	(4)	(4)	76
Other	123	41	(82)	(82)	175
	336	220	(116)	(116)	388
Centrally-managed Support costs					
Finance & Legal	48	59	11	11	42
Communications	19	22	3	3	21
Human Resources	31	34	3	3	28
System Operator	47	71	24	24	35
Property	12	15	3	3	10
Telecoms	79	76	(3)	(3)	77
Network Services	-	-	-	-	21
Safety Technical and Engineering	45	44	(1)	(1)	41
RS - IT and Business Services	127	124	(3)	(3)	130
RS - Asset Information	16	32	16	16	14
RS - Directorate	41	24	(17)	(17)	39
Other corporate functions	20	4	(16)	(16)	12
Insurance	32	53	21	21	29
OPEX/CAPEX Adjustment	136	74	(62)	-	184
Group costs	(21)	28	49	49	(66)
	632	660	28	90	617
Total support costs	968	880	(88)	(26)	1,005

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	77	64	(13)	(13)
Finance	54	47	(7)	(7)
Accommodation	247	213	(34)	(34)
Utilities	222	215	(7)	(7)
Other	317	129	(188)	(188)
	917	668	(249)	(249)
Centrally-managed Support costs				
Finance & Legal	122	152	30	30
Communications	50	55	5	5
Human Resources	78	80	2	2
System Operator	119	170	51	51
Property	12	19	7	7
Telecoms	205	215	10	4
Network Services	40	64	24	24
Safety Technical and Engineering	118	126	8	8
RS - IT and Business Services	360	365	5	5
RS - Asset Information	43	81	38	38
RS - Directorate	96	68	(28)	(28)
Other corporate functions	58	69	11	(25)
Insurance	86	134	48	49
OPEX/CAPEX Adjustment	388	216	(172)	-
Group costs	(106)	144	250	169
	1,669	1,958	289	339
Total support costs	2,586	2,626	40	90

Statement 3.3: Analysis of support costs, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Support costs are higher than the regulatory baseline but lower than the previous year spend. Significant reasons for the additional spend this year include: continued implementation of the PPF re-organisation programme, performance improvement initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in Capex costs). The adjustment is higher compared to the baseline, as more schemes that are OPEX in nature have been delivered than expected.

These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce expected pay-outs for the last three years. Financial underperformance has been recognised this year, primarily due to the increased costs incurred due to the aforementioned reasons. For the Control Period to date, expenditure is lower than the regulatory baseline, as the additional costs incurred this year due to PPF restructuring, Opex/Capex adjustment and Covid-19 related expenditure are offset by the deferral of investing Crossrail Supplementary Access Charge (CSAC) income from the previous year and reduction in performance related pay-outs mentioned above.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are significantly higher than the regulatory baseline but lower than last years spend. Spend is higher than the baseline due to the continued implementation of the PPF re-organisation programme, Covid-19 related expenditure and delivery of performance initiatives but lower than last year, as although Covid-19 related expenditure is high, it is lower than that experienced in FY21. This extra spend is reflected in the Control Period to date spend, which is also significantly above the regulatory assumption, primarily because of the aforementioned reasons. This has also led to financial underperformance being recognised for both the current year, and the control period to date.

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

In £m cash prices unless stated

- (2) Human resources – costs in the current year are higher than the baseline expectation and slightly higher than the previous year. These costs are higher than the baseline reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in additional Human Resources staff situated locally, to support this initiative.
- (3) Finance – costs are higher than the baseline expectation for both the current year and the Control Period to date, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.
- (4) Accommodation – costs are higher than the baseline expectation and the Control Period to date, primarily as a result of Covid-19 compliance measures being implemented at NR sites.
- (5) Other – costs were significantly higher than the regulatory baseline this year, but lower than the previous year's outturn. This is primarily due to continued implementation of the PPF programme, Project Alpha performance programme delivery in NWAC and Covid-19 related expenditure, such as PPE purchases and extra staff costs.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are several areas with savings, the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This adjustment is lower than the previous year, as although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraints and other minor efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism.
- (3) Communications – costs this year and for the control period to date are slightly lower than the regulatory baseline. Costs are also slightly lower than the previous year despite the expectation of them to increase in the regulatory baseline; this arises from unexpected changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline. Costs are slightly higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening two years of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic.

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

In £m cash prices unless stated

- (6) Property – costs are slightly lower than the regulatory baseline this year and lower for the control period to date. Although extra costs have been incurred at corporate offices, these have been offset by the favourable settlement of a long-running commercial dispute in the FY20. Net costs are higher than the previous year mostly due to the devolution of accountabilities to the Regionally-managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are slightly higher than the target but lower than the regulatory baseline for the control period. This is primarily due to efficiencies arising from headcount control in previous years. Financial outperformance has been recognised for the Control Period to date due to efficiencies made in headcount mentioned above.
- (8) Network Services – this function no longer exists and has been devolved out to other functions within this statement.
- (9) Technical Authority – costs are in line with the regulatory baseline. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year which was anticipated within the regulatory baseline.
- (10) Route Services – IT and Business Services – costs are slightly higher than the regulatory baseline this year but slightly lower than regulatory baseline in the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs are lower than the previous year, which was expected in the lower regulatory baseline.
- (11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have slightly increased compared to the previous year due to the aforementioned legal fees being incurred.
- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support functions. Reprofiting of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganisational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.

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

In £m cash prices unless stated

- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments.
- (15) Opex/capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other notable savings include reductions in the FY22 performance-related pay following a decision to reduce expected pay-outs. This decision was taken at the end of the year, the benefit is currently showing in the Group category, but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by redundancy costs incurred as a result of modernisation. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is lower than the previous year (in other words, net costs are higher) as the benefits from performance-related pay reductions this year are offset by the additional costs in redundancy costs as mentioned above.

Great Britain

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	478	637	159	-	-
Business rates	246	237	(9)	-	-
British transport police costs	101	100	(1)	(1)	6
	825	974	149	(1)	6
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	446
Business rates	-	-	-	-	305
British transport police costs	-	-	-	-	93
ORR licence fee and railway safety levy	20	20	-	-	20
RDG membership costs	3	3	-	-	3
RSSB costs	12	12	-	-	13
Reporters fees	-	-	-	-	2
Other industry costs	-	1	1	-	-
	35	36	1	-	882
Total traction electricity, industry costs and rates	860	1,010	150	-	1
					888

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	478	637	159	-	
Business rates	246	237	(9)	-	
British transport police costs	110	104	(6)	(6)	
	834	978	144	(6)	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	865	1,083	218	3	
Business rates	518	461	(57)	-	
British transport police costs	180	185	5	5	
ORR licence fee and railway safety levy	59	58	(1)	-	
RDG membership costs	9	9	-	-	
RSSB costs	35	36	1	-	
Reporters fees	3	-	(3)	-	
Other industry costs	-	2	2	-	
	1,669	1,834	165	8	
Total traction electricity, industry costs and rates	2,503	2,812	309	2	

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

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

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year, which can be seen in last years centrally-manged section, due to higher network traffic. This has been offset by increased charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to. Costs this year were higher than expected which has led to higher expenses in the control period to date; costs were lower compared to the prior year, which can be seen in the centrally-managed section of this statement. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British transport police costs from centrally-managed to the geographic regions those costs relate to. Costs were broadly in line with the regulatory baseline and the previous year, which can be seen in the centrally-managed section of this statement due to additional services requested to keep the travelling public safe.

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

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to.
- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally-managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Great Britain

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

				Of which financial out / (under)	
2021-22	Actual	Regulatory baseline	Variance	performance	2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	333	291	(42)	(65)	287
Access charge supplement Income	(252)	(258)	(6)	-	(229)
Net (income)/cost	81	33	(48)	(65)	58
Schedule 8					
Performance element income	(233)	-	233	233	(327)
Performance element costs	33	45	12	12	14
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(200)	45	245	245	(313)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(9)	53	62	62	16
Access charge supplement Income	(65)	(66)	(1)	-	(55)
Net (income)/cost	(74)	(13)	61	62	(39)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	11	11	-	-	(51)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	11	11	-	-	(51)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	324	344	20	(3)	303
Access charge supplement Income	(317)	(324)	(7)	-	(284)
Net (income)/cost	7	20	13	(3)	19
Schedule 8					
Performance element income	(233)	-	233	233	(327)
Performance element costs	44	56	12	12	(37)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(189)	56	245	245	(364)
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under)	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	923	827	(96)	(118)	-
Access charge supplement Income	(742)	(750)	(8)	-	-
Net (income)/cost	181	77	(104)	(118)	
Schedule 8					
Performance element income	(658)	-	658	658	-
Performance element costs	208	167	(41)	(41)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(450)	167	617	617	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(8)	155	163	162	-
Access charge supplement Income	(174)	(176)	(2)	-	-
Net (income)/cost	(182)	(21)	161	162	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(29)	31	60	60	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(29)	31	60	60	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	915	982	67	44	-
Access charge supplement Income	(916)	(926)	(10)	-	-
Net (income)/cost	(1)	56	57	44	
Schedule 8					
Performance element income	(658)	-	658	658	-
Performance element costs	179	198	19	19	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(479)	198	677	677	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Despite a few disturbances caused by adverse weather, such as the storms in January/February time, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline. Slight financial underperformance has been recognised in year despite the arithmetic variance highlighting an underspend. This is due to the fact that the volume of renewals delivered requiring disruptive possessions was lower than the baselined assumed, leading to this financial underperformance.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality this control period. This has resulted in the highly favourable position in the control period to date too. Resultantly, financial outperformance is recognised for the current year and control period to date.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are higher than the regulatory baseline and last year's actual. There were several individual storms in FY22 (Arwen, Barra, Dudley, Eunice, and Franklin) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or Regionally, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional costs incurred at regional level. Financial underperformance has been recognised as reduced renewal delivery requiring disruptive possessions, means the cost incurred, was higher than expected for this level of activity. The control period to date expenditure is higher than the regulatory expectation and we have recognised financial underperformance for this cost category. This is partly due to the aforementioned reasons, but also due the adverse impact from weather events, notably the storms experienced throughout the control period. As well as being the wettest February on record in 2020, there were several individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators.
- (2) Schedule 8 experienced another exceptional year this year. The continued impact of Covid-19 led to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance in the control period. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 and 2020/21 has resulted in a highly favourable control period to date position.

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is marginally lower than the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow much greater than the regulatory baseline resulting from Schedule 4 costs in FY21/22 returning an income. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.

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

In £m cash prices unless stated

- (3) Schedule 8 – this year's cost is directly in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally-managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

Great Britain

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	287	271	(16)	-	319
PL Replace Partial	198	178	(20)	-	231
PL High Output	144	151	7	-	142
PL Refurbishment	64	65	1	-	66
PL Track Slab Track	15	1	(14)	-	8
Switches & Crossing - Replace	168	190	22	-	210
Switches & Crossing - Other	84	49	(35)	-	62
Off Track	101	62	(39)	-	109
Track Other	52	21	(31)	-	60
	1,113	988	(125)	(113)	1,207
Signalling					
Signalling Full	288	405	117	-	336
Signalling Partial	105	52	(53)	-	50
Signalling Refurb	141	191	50	-	109
Level crossings	66	116	50	-	81
Minor works	197	210	13	-	203
Other	(1)	6	7	-	3
	796	980	184	(79)	782
Civils					
Underbridges	213	284	71	-	232
Overbridges	55	72	17	-	40
Major structures	28	18	(10)	-	34
Tunnels	28	38	10	-	21
Minor works	79	63	(16)	-	90
Other	53	49	(4)	-	59
	456	524	68	(7)	476
Earthworks					
Earthworks - Embankments	114	70	(44)	-	167
Earthworks - Soil Cuttings	119	85	(34)	-	105
Earthworks - Rock Cuttings	52	23	(29)	-	49
Earthworks - Other	15	14	(1)	-	13
	300	192	(108)	(23)	334
Buildings					
Managed stations	43	68	25	-	41
Franchised stations	163	152	(11)	-	211
Light maint depots	19	24	5	-	22
Depot plant	3	10	7	-	13
Lineside buildings	19	7	(12)	-	24
MDU buildings	31	26	(5)	-	33
Other	3	-	(3)	-	1
	281	287	6	(28)	345
Electrical power and fixed plant					
AC distribution	12	22	10	-	11
Overhead Line	140	76	(64)	-	109
DC distribution	56	47	(9)	-	48
Conductor rail	27	17	(10)	-	19
Signalling Power Supplies	38	73	35	-	38
Other	12	40	28	-	33
Fixed plant	31	22	(9)	-	28
	316	297	(19)	(26)	286
Drainage					
Drainage (Track)	58	55	(3)	-	74
Drainage (Earthworks)	7	13	6	-	25
Drainage (Resilience)	5	8	3	-	6
	70	76	6	(16)	105
Property					
Property	63	44	(19)	-	34
	63	44	(19)	-	34
Total Regionally-managed renewals expenditure					
	3,395	3,388	(7)	(292)	3,569

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	11	22	11	-	9
Network	13	13	-	-	9
SISS	15	66	51	-	15
Projects and other	5	3	(2)	-	5
Non-route capital expenditure	63	70	7	-	83
	107	174	67	(7)	121
Wheeled plant and machinery					
High output	28	15	(13)	-	22
Incident response	1	-	(1)	-	-
Infrastructure monitoring	3	19	16	-	4
Intervention	14	27	13	-	15
Materials delivery	10	36	26	-	(3)
On track plant	4	20	16	-	4
Seasonal	3	11	8	-	6
Other	34	16	(18)	-	27
	97	144	47	-	75
Route Services					
Business Improvement	53	7	(46)	-	77
IT Renewals	27	79	52	-	42
Asset Information	9	11	2	-	10
Other	13	3	(10)	-	7
	102	100	(2)	-	136
STE Renewals					
Intelligent infrastructure	84	52	(32)	-	72
Faster Isolations	51	75	24	-	67
Centrally Managed Signalling Costs	6	9	3	-	6
Research and development	39	51	12	-	57
Integrated Management System (Incl. BCR)	-	11	11	-	-
Other National SCADA Programmes	19	7	(12)	-	22
Small plant	9	9	-	-	7
Other	94	9	(85)	-	76
	302	223	(79)	-	307
Property					
Property	3	20	17	-	12
	3	20	17	-	12
Other renewals					
ETCS	30	37	7	(3)	22
Digital Railway	16	(20)	(36)	-	4
Civils & Drainage - Insurance Fund	2	28	26	42	15
Buildings - Insurance Fund	-	17	17	-	-
OPEX/CAPEX Adjustment	(132)	(74)	58	-	(166)
Phasing overlay	-	(139)	(139)	-	-
System Operator	22	23	1	-	13
Other renewals	4	6	2	12	1
	(58)	(122)	(64)	51	(111)
Total centrally-managed renewals expenditure	553	539	(14)	44	540
TOTAL RENEWALS EXPENDITURE	3,948	3,927	(21)	(248)	4,109

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	831	738	(93)	-
PL Replace Partial	568	461	(107)	-
PL High Output	418	468	50	-
PL Refurbishment	179	186	7	-
PL Track Slab Track	27	9	(18)	-
Switches & Crossing - Replace	565	582	17	-
Switches & Crossing - Other	184	135	(49)	-
Off Track	270	184	(86)	-
Track Other	154	48	(106)	-
	3,196	2,811	(385)	(281)
Signalling				
Signalling Full	820	918	98	-
Signalling Partial	219	238	19	-
Signalling Refurb	292	449	157	-
Level crossings	184	293	109	-
Minor works	532	505	(27)	-
Other	3	15	12	-
	2,050	2,418	368	(159)
Civils				
Underbridges	573	690	117	-
Overbridges	124	163	39	-
Major structures	78	63	(15)	-
Tunnels	71	97	26	-
Minor works	227	174	(53)	-
Other	144	143	(1)	-
	1,217	1,330	113	(31)
Earthworks				
Earthworks - Embankments	370	211	(159)	-
Earthworks - Soil Cuttings	292	224	(68)	-
Earthworks - Rock Cuttings	130	70	(60)	-
Earthworks - Other	32	27	(5)	-
	824	532	(292)	(72)
Buildings				
Managed stations	122	166	44	-
Franchised stations	495	433	(62)	-
Light maint depots	53	41	(12)	-
Depot plant	18	24	6	-
Lineside buildings	63	24	(39)	-
MDU buildings	91	80	(11)	-
Other	5	-	(5)	-
	847	768	(79)	(59)
Electrical power and fixed plant				
AC distribution	34	59	25	-
Overhead Line	320	213	(107)	-
DC distribution	122	99	(23)	-
Conductor rail	59	38	(21)	-
Signalling Power Supplies	115	177	62	-
Other	54	80	26	-
Fixed plant	86	68	(18)	-
	790	734	(56)	(42)
Drainage				
Drainage (Track)	176	184	8	-
Drainage (Earthworks)	48	44	(4)	-
Drainage (Resilience)	15	20	5	-
	239	248	9	(28)
Property				
Property	96	81	(15)	-
	96	81	(15)	-
Total Regionally-managed renewals expenditure	9,259	8,922	(337)	(672)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	18	-	(18)	-
	18	-	(18)	-
Telecoms				
Operational communications	29	61	32	-
Network	27	40	13	-
SISS	38	115	77	-
Projects and other	13	8	(5)	-
Non-route capital expenditure	231	215	(16)	-
	338	439	101	(15)
Wheeled plant and machinery				
High output	65	69	4	-
Incident response	1	-	(1)	-
Infrastructure monitoring	10	38	28	-
Intervention	36	67	31	-
Materials delivery	19	100	81	-
On track plant	10	30	20	-
Seasonal	11	31	20	-
Other	67	22	(45)	-
	219	357	138	-
Route Services				
Business Improvement	223	135	(88)	-
IT Renewals	107	174	67	-
Asset Information	19	27	8	-
Other	23	9	(14)	-
	372	345	(27)	-
STE Renewals				
Intelligent infrastructure	181	128	(53)	-
Faster Isolations	154	191	37	-
Centrally Managed Signalling Costs	16	28	12	-
Research and development	123	121	(2)	-
Integrated Management System (Incl. BCR)	-	35	35	-
Other National SCADA Programmes	66	62	(4)	-
Small plant	19	26	7	-
Other	185	47	(138)	-
	744	638	(106)	-
Property				
Property	35	74	39	-
	35	74	39	-
Other renewals				
ETCS	66	82	16	(3)
Digital Railway	21	(37)	(58)	-
Civils & Drainage - Insurance Fund	16	82	66	54
Buildings - Insurance Fund	-	49	49	-
OPEX/CAPEX Adjustment	(367)	(216)	151	-
Phasing overlay	-	(312)	(312)	-
System Operator	42	49	7	-
Other renewals	3	15	12	47
	(219)	(288)	(69)	98
Total centrally-managed renewals expenditure	1,507	1,565	58	83
TOTAL RENEWALS EXPENDITURE	10,766	10,487	(279)	(589)

Statement 3.6: Analysis of renewals expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall, Renewals expenditure is slightly higher than the regulatory baseline but lower than last year's outturn. Spend was abnormally high in FY21, as regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes for this include financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. Continued overspend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of acceleration and higher like for like costs highlighted above.

Regionally-managed renewals

- (1) Regional expenditure is slightly higher than the regulatory baseline but lower than last year's outturn. In FY21, Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes for this include, financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. Continued extra spend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of acceleration and higher like for like costs highlighted above.

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

In £m cash prices unless stated

- (2) Track – investment is significantly higher than the regulatory baseline but lower than last year's outturn. Plain line Volumes delivered in year are lower than that assumed in the regulatory baseline, and although S&C volumes are higher, there has been a shift in asset management strategy to deliver less replacements and more refurbishments. We have incurred significant financial underperformance in year, due to a multitude of factors. This included the additional costs projects had to bear due to Covid-19 and deferral of high Output plain line volumes due to safety stand downs, machine failure and inclement weather experienced. This compounds the underperformance experienced in the control period to date. Last year several regions had to re prioritise work due to Covid-19. Extra welfare, increased labour, PPE purchases and vehicle costs were borne, to ensure adherence to social distancing rules. Lost volumes, particularly in High Output where operators were stranded in eastern Europe due to Covid-19 travelling restrictions, also contributed to the financial underperformance in FY21. The control period to date expenditure is significantly higher than the regulatory baseline, due to the extra volume that was delivered in year one of the control period, plus the increase in financial underperformance mentioned above.
- (3) Signalling – expenditure is lower than the regulatory baseline this year and for the control period to date, mainly due to slower progress on large projects, particularly Edinburgh recontrol, Port Talbot West Phase 2, Integrated Crewe programme and Birmingham New Street. Delivery on Level crossing schemes is also lower than expected due to access constraints and delays finalising designs and asset management solutions. Covid-19 led to the workbank needing to be re prioritised, which impacted the ability to deliver on time. Financial underperformance has been recognised in the current year and for the control period to date. Higher input prices, contractor claims, Covid-19 prolongation costs and increased delivery costs for Feltham Resignalling are key contributors to the underperformance. Control period to date underperformance is a result of the above being augmented by issues arising in previous years such as higher tender prices necessitating a change in design, the added complexity of certain schemes, such as ECTS in Eastern and the move to a low cost digital ready signalling system in Wales, have hindered progress. Covid-19 has impacted the signalling portfolio too, as we have seen prolongation in programmes, plus the associated claims have led to projects incurring extra cost.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges, Overbridges and Tunnels, which is similar to last year. Many schemes have been reprofiled into the last two years of the control period and we have also seen Asset management led decisions to prioritise investment on other assets such as Track and Earthworks. The aforementioned reasons also explain the underspend experienced in the control period to date. Financial underperformance has been experienced this year largely due to difficulties in project delivery, such as changes in delivery methodology and difficulty getting access. Control period to date spend is below the regulatory expectation due to the aforementioned reasons. Financial underperformance in the control period to date has been recognised mainly due to Covid-19 and extra work items being required to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather and associated flooding during the Christmas of 2020, a number of reactive schemes needed to be urgently delivered. Expenditure was lower than the previous year caused by a portion of the FY20 portfolio slipping into FY21 and increasing spend.

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

In £m cash prices unless stated

- (5) Earthworks – investment in the year, and control period to date, was notably higher than the regulatory baseline. The Stonehaven derailment led to increased focus on Network Rails management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. There was also acceleration of activity to utilise available resources this year and remediation costs required in the aftermath of damage caused by the storms in February 2022. Financial underperformance was experienced due to difficulties correctly assessing project requirements and thus having to change plans and invest more in works to achieve volumes. Financial underperformance is recognised in the control period to date as a result of the impact of Covid-19 and reactive jobs arising to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather resulting in numerous landslips, particularly in the southern region, and associated flooding during the Christmas of 2020, reactive schemes needed to be quickly mobilised and delivered.
- (6) Buildings – investment was broadly in line with the regulatory baseline this year but lower than last years spend. Last year, regions accelerated activity to optimise available resources and access in stations, which led to a significant increase in investment. Financial underperformance was experienced this year as a result of scope creep due to inspection reports underrepresenting the work required and extensive additional work required for Liverpool Street Station Roof Design than was initially assumed in the baseline. Financial underperformance has been recognised for the control period as the aforementioned reasons compound issues experienced previously such as higher costs caused by increased project complexity, discovery of asbestos in year 1 which led to higher design and delivery costs, and the impact of Covid-19.
- (7) Electrical power and fixed plant – investment was higher than the regulatory baseline this year. This is mainly due to higher net like-for-like costs across the portfolio. Delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia, increased access requirements during Christmas in Stratford and changes in scope within the North West and Central E&FP portfolio, led to extra costs being incurred. Financial underperformance has been recognised for the year and the control period to date. This is due to the aforementioned costs being compounded by AFC increases experienced in FY21 due to the impact of Covid-19, retendering of jobs due to underperformance from contractors, which led to prolongation costs and higher than anticipated supply chain prices. Expenditure was higher than the previous year, which was assumed in the regulatory baseline for the year.
- (8) Drainage – expenditure is lower than the regulatory baseline and last year's outturn. Financial underperformance was experienced due to site investigations works carried out, as well as increased complexity of the sites worked on this year. The control period to date position also reports underperformance additionally resulting from Covid-19 and extra work required to combat inclement weather. There were also additional costs incurred as surveys identified additional complexities across the portfolio.
- (9) Property – expenditure is significantly higher than last year's actual and the regulatory baseline. This is due to some of the centrally-managed property renewals, being flexed over to the regional teams as part of the PPF programme.

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

In £m cash prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is over the regulatory baseline this year, with higher spend on STE programmes and overspend as a result of the phasing overlay in Group, being slightly offset by underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, primarily due to less spend being transferred to OPEX this year. Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in telecoms and wheeled plant and machinery activities.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs
- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. There has been financial underperformance experienced this year due to commercial pressures and design issues. This results from tender prices that were higher than original estimates anticipated, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

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

In £m cash prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:
- a. High output – investment was higher than the regulatory baseline and higher than last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year includes renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.
 - c. Intervention – costs were lower than the regulatory baseline and slightly lower than last year's outturn. This is mainly due to delays in replacing track plain line stoneblower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred due to sunk costs realised in production of the sleeper factory which have been expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower than the regulatory baseline but in line with the previous year. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. The reason for the significant increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.
- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.

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

In £m cash prices unless stated

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation but lower than last year's expenditure. Notable variances at Key Cost Line include:

- a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
- b. Faster isolations – costs are lower than the regulator baseline and last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
- c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but in line with last year's outturn. This reflects the lower overall signalling costs this year compared to expectation.
- d. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line in the control period to date.
- e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.
- f. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
- g. Small Plant – investment is broadly in line with the regulatory baseline this year but slightly higher than last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.
- h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.

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

In £m cash prices unless stated

- (7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is lower than the regulatory baseline but higher than last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund. The financial outperformance recognised control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored
 - c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.
 - d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being reclassified as OPEX.
 - e. System Operator – expenditure this year is in line with the regulatory baseline but higher than last year's outturn

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

In £m cash prices unless stated

- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Great Britain

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	21	11	-	155	167	-
Great Western Electrification	29	29	-	242	268	(53)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	24	18	-	69	69	-
West Anglia Main Line Capacity	-	(4)	-	5	5	-
Midland Main Line Programme	101	104	2	551	584	-
Wessex Enhancements (Waterloo and South London HV Grid)	2	(27)	2	13	12	-
Trans Pennine Route Upgrade	438	(69)	13	886	884	16
Hope Valley Capacity	16	(6)	-	18	24	-
Cambridge South Station Dvpt 2	8	4	(1)	15	15	-
Critical Stations Improvement Fund	13	29	-	15	34	-
Gatwick Station	45	72	9	107	112	(1)
East West Rail Phase 2	261	290	(1)	560	600	-
Oxford Corridor Capacity Phase 2	16	(8)	-	24	29	-
GWEP Distribution Network Operators clearance work	1	(13)	-	6	(7)	-
East Coast Main Line Enhancements Programme	104	102	(25)	478	514	(29)
Manchester Improvements	10	28	1	29	60	1
Reading Independent Feeder (Power Supply)	19	(27)	(4)	29	34	(4)
Bristol East Junction	47	66	25	89	119	23
Kings Lynn to Cambridge 8 Car	-	3	(2)	26	25	(3)
South West Rail Resilience Programme	40	42	(3)	85	92	(3)
St Albans Station Capacity	2	2	-	4	6	-
London Euston (in support of High Speed Rail Group scheme)	15	7	(1)	32	23	(1)
SFN-Freight Forecasts project	6	(11)	4	30	27	4
Access for All	50	47	-	81	133	-
Thameslink Resilience Programme	5	(2)	(1)	23	23	1
Midlands Hub - Continued Design and Early Development	3	5	-	4	6	-
Western Rail Access to Heathrow	1	(21)	1	15	16	1
Welsh Valleys	-	-	-	-	-	-
Crossrail	73	22	(62)	186	174	(139)
Integrated Crewe Hub - HS2	-	(2)	2	6	6	2
Reading, Ascot to Waterloo Train Lengthening	-	(6)	(1)	15	15	-
Dr Days to Filton Abbey Wood Capacity	1	3	-	10	10	-
Portfolio Contingency (including T-12)	-	(37)	-	10	13	37
Depots & Stabling Fund	9	(1)	-	30	30	-
Northern Hub	-	12	7	49	54	5
Thames Valley EMU Capability	-	6	-	10	11	-
West Coast PSU	(5)	3	2	7	19	2
IEP Western Capability	2	5	-	17	19	-
West of England Plat Length	1	(1)	-	4	4	-
Feltham	2	(3)	-	9	9	-
High Speed 2	-	-	-	7	-	-
Birmingham New Street Gateway	8	9	(6)	22	19	(14)
Access to Assets	4	(4)	-	9	14	-
Restoring Your Railway	45	27	-	52	50	-
University Station	12	5	-	12	11	-
Energy Coast Rail Upgrade Project	1	(2)	2	6	5	3
GWML W10-W12 Gauge Enhancement	1	2	-	11	10	-
NWEP Phase 7 Lostock - Wigan	5	(4)	-	6	5	-
Crumlin River Bridge	-	(1)	-	4	4	1
W009 West of England DMU Capability	-	(5)	-	6	7	-
Anglia Traction PSU	3	-	(1)	8	4	(1)
EC Digital	106	86	-	106	86	-
Ely Area Capacity Enh	10	12	-	10	12	-
Ashford to Ramsgate	2	8	-	2	8	-
Clapham Junction Short-term	2	5	-	2	5	-
Darlington Station Improvements	3	9	-	3	9	-
Denmark Hill Congestion Relief	3	8	-	3	8	-
Tactile Paving Installation	6	10	-	6	10	-
New Stations Fund	2	16	-	2	16	-
River Irwell FI Resil	3	6	-	3	6	-
Other	34	(35)	(11)	123	58	(9)
Total	1,610	824	(49)	4,363	4,602	(161)

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	2	(2)	(4)	56	56	(6)
Aberdeen to Inverness	-	-	-	70	72	4
Kintore Station	-	2	-	14	16	(1)
Rolling Programme of Electrification	1	(12)	5	15	16	-
East Kilbride Barrhead	(1)	4	-	22	25	-
New Down Platform Dunbar	-	-	-	7	9	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	1	(7)	-	4	10	-
Cadder HST Depot	12	14	(2)	32	34	(2)
Hairmyres Land Purchase	-	2	-	14	14	-
Feeder St/Power Mod Ele	19	43	-	46	54	-
Edinburgh Waverley Western Approaches	2	-	(1)	6	14	-
Reston Station	13	8	-	16	20	-
North Hanover Street Development	1	1	-	5	13	-
West of Fife Enhancements	1	(3)	-	5	6	-
A9 Interface- Lynebeg Bridge	7	6	1	9	13	1
Far North Line Route Enhanceme	3	4	-	10	14	-
East Linton Station	5	2	-	11	9	-
Busby Jn to Barrhead Ele	15	26	-	15	26	-
Dalcross New Station	12	19	-	12	19	-
Levenmouth	12	14	-	12	14	-
GLAB Currie Feeder St	9	12	-	9	12	-
Cadder Buildings	6	4	(1)	6	4	(1)
Fife Decarbonisation	6	13	-	6	13	-
Millerhill Interventions	1	6	-	1	6	-
Barrhead Kilmarnock Ele	-	8	-	-	8	-
Aberdeen Cent Belt Elec	6	6	-	6	6	-
Portobello Junction	3	13	-	3	13	-
Aberdeen Cen Journey	4	5	-	4	5	-
Other	21	(8)	1	90	89	1
Total	161	180	(1)	512	617	2
Other Capital Expenditure	16	-	-	356	-	-
Other third party funded schemes						
HS2	188	-	-	624	-	-
Other third Party	217	-	-	612	-	-
Total	405	-	-	1,236	-	-
Total enhancements	2,192	1,004	(50)	6,467	5,219	(159)
Total enhancements less Other third party funded schemes						
	1,787	1,004	(50)	5,231	5,219	(159)

Statement 3.7: Analysis of enhancement expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT and TS). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies other than the core Network Rail funders of DfT and TS.
- (3) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (either Department for Transport or Transport Scotland). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with funders (DfT and TS).
- (6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) Enhancement expenditure in the year paid for by the core Network Rail funders (DfT and Transport Scotland) was £1,787m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,192m) less the PAYGO schemes funded by other third parties (£405m).
- (2) Enhancement expenditure this year is greater than the latest regulatory baseline agreed with DfT, however CP6 cumulative spend is broadly in line with the baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21). Financial underperformance has been recognised this year, primarily in connection with ECML, Crossrail and Birmingham New Street Gateway. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS)).

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

In £m cash prices unless stated

- (3) Department for Transport funded schemes – expenditure this year is higher than the regulatory baseline. This mainly related to revised SR21 Baseline, offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Thameslink – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than the baseline with majority of the works relating to Three Bridges Rail Operating Centre (TBROC) and some minor improvements work still being made at London Bridge station of adding new retail units and improving facilities. Cumulative expenditure is lower than the baseline due to works being re-profiled for Chart Leacon into future control periods.
 - b. Great Western Electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been with baseline. Cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.
 - c. Brighton Main Line Upgrade Programme – The Croydon Area Remodelling Scheme (CARS) is part of the longer-term Brighton Main Line upgrade proposals. Infrastructure Investment will provide major improvements at East Croydon and Norwood Junction stations and facilitate better timetables, a reduction in reactionary delay and permit additional peak trains in response to high levels of standing passengers on the London to South Coast rail network. In year performance is achievement of design works and improved business case to re-baseline the scheme to incorporate outcomes from the Spending Review (SR21).
 - d. Midland Main Line Programme (MML) – The programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Progress against London to Corby Electrification (L2C) and other key outputs have progressed slower than the baseline expectations due to phase 3 works pending further release of government investment and re-alignment of works into future years for efficient delivery. Cumulative financial performance being in line with the remitted scope of works.
 - e. Wessex enhancements (Waterloo and South London HV Grid) – This project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes. Cumulative performance is inline with baseline and incorporates funding descope from the Spending Review (SR21) outcome.

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

In £m cash prices unless stated

- f. Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. In year and cumulative acceleration is due to maturity of the West of Leeds programme. Financial out performance on Leeds Intermediate Interventions is due to contractor efficient delivery of works and risk management.
- g. Hope Valley capacity – This project is to increase passenger and freight capacity on the Hope Valley line between Sheffield and Manchester. Works have progressed slower than anticipated in year due to delay in release of government investment and re-profiled in future years.
- h. Critical station improvements fund– The programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Station improvements at Surbiton, Peckham Rye, London Liverpool Street and Stratford and other projects. Works have progressed slower than anticipated in year due to delay in scope finalisation and release of government investment.
- i. Gatwick Airport Station – The project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. In year and cumulative adverse financial performance is a result of additional scope required to meet regulatory standards relating to improved physical security at the station.
- j. East West Rail Phase 2 – The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This structure, whilst delivering benefits, has led to slower decision-making processes which has been exacerbated by HM Treasury's understandable interest in authorising tranches of work on the programme. Progress in year has been slower than baseline due to risk management and pending further release of government investment.
- k. Oxford Corridor Capacity Phase 2 – The project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services. Progress has been slower than anticipated this year pending release of further government investment and re-profiling works into future years following submission of a Transport and Works Act Order (TWAo) for land purchase.
- l. East Coast Main Line Enhancements Programme – The programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Slower progress and under financial performance in the year is partially due to Covid-19 and retiming of East Coast Programme, Werrington and Kings Cross to reduce the impact on passengers by allowing the running of more services during partial closures.

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

In £m cash prices unless stated

- m. Manchester Improvement Programme (MIP) – Programme includes improvements to increase capacity along the Castlefield corridor between Manchester' piccadilly and oxford road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Progress on the North Train Lengthening has progressed slower than the baseline expectations, pending release of government investment and reprofiling activities into the future years
- n. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Cumulative underspend and financial underperformance is due to works been reprofiled into future years of the control period.
- o. Bristol East Junction – This project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
- p. Kings Lynn to Cambridge 8 Car – Projects will upgrade platform extensions at Waterbeach and Littleport station and provide a eight car service trains between Cambridge and King's Lynn to reduce overcrowding on existing services. Financial underperformance is due to additional re-design works.
- q. South West Rail Resilience Programme – This programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Financial underperformance is due to programme anticipated final cost is greater than baselined.
- r. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is slower than baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- s. Thameslink Resilience Programme – Strategic enabling programme to increase asset resilience on critical sections of Thameslink related routes. Greater progress has been made this year, interfacing with other projects on the network to minimise disruption to passengers. Cumulative outperformance is due to reduction in anticipated total programme costs following effective work bank planning and cost savings negotiated on possession management.
- t. 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. The programme adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London.

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

In £m cash prices unless stated

- u. Portfolio Contingency (including T-12) – Cumulative performance in this category are for the additional schedule 4 payments to TOC's, which resulted from Covid-19 related delays to publishing timetables.
 - v. Northern Hub Programme will improve rail travel in the North of England, easing the rail bottleneck around Manchester Piccadilly Station by providing additional services, increased capacity and platform improvements. Cumulative financial outperformance has been recognised as the programme anticipated final cost is less than baselined.
 - w. Birmingham New Street Gateway – This project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Increased spend in year and adverse financial performance relate to ongoing remediation in the steelworks of the Birmingham New Street atrium roof and on-going compensation and associated costs relating to the multi-storey car park.
 - x. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial underperformance is mainly relating to Coastway Level Crossing Closure due to delayed delivery and associated prolongation costs.
- (4) Transport Scotland funded schemes - Enhancement expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio and financial underperformance. Some notable variances at programme level this year include:
- a. Edinburgh to Glasgow Improvement Programme (EGIP) – The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Cumulative expenditure is greater than baseline and financial underperformance is a result of Covid-19 impact and additional platform and staircase works on Glasgow Queen Street station project.
 - b. Aberdeen to Inverness – This project to upgrade the railway structure provided capacity for the construction of two new stations Kintore and Inverness Airport. Infrastructure works consist of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Cumulative Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
 - c. Rolling Programme of Electrification – This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Cumulative financial performance includes final compensation settlements on completed programme.

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

In £m cash prices unless stated

- d. Feeder Station/Power Modelling Electrification – Projects part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. In year and cumulative delivery has progressed slower than anticipated due to Covid-19 impact and delay in Transport Scotland funding release, resulting in reprofiling works into the future years on the full traction power modelling for new and enhanced feeder stations.
 - e. Other – this heading captures investment activity on numerous smaller programmes that have incurred small amount of FPM
- (5) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements.
- (6) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year include Brent Cross new station development, Merseyrail power supply, Thanet Parkway Station and Soham Station

Great Britain

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21		
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	293	166	1,765	294	1,413
	PL Replace Partial	km	336	919	366	369	387
	PL High Output	km	201	167	1,204	157	1,266
	PL Refurbishment	km	120	826	145	126	146
	PL Track Slab Track	km	1	1	1,000	-	-
	Switches & Crossing - Replace	point ends	183	327	560	133	496
	Switches & Crossing - Other	point ends	151	1,276	118	1,202	93
	Off Track	km/No.	184	3,946	47	4,144	42
	Track Other		-	-	-	-	-
Total		1,469	-	-	1,367	-	-
Signalling	Signalling Full	SEU	196	486	403	153	429
	Signalling Partial	SEU	41	218	188	44	198
	Signalling Refurb	SEU	195	493	396	161	540
	Level crossings	No.	82	201	408	128	444
	Minor works		-	-	-	-	-
	Other		-	-	-	-	-
	Total	514	-	-	486	-	-
Civils	Underbridges	m2	327	102,033	3	298	3
	Overbridges (incl BG3)	m2	54	18,314	3	55	4
	Major Structures		-	-	-	-	-
	Tunnels	m2	38	130,425	0	12	0
	Culverts	m2	25	5,886	4	19	3
	Footbridges	m2	15	3,786	4	13	6
	Coastal & Estuarial Defences	m2	10	2,507	4	9	1
	Retaining Walls	m2	10	5,158	2	21	1
	Structures Other	m2	-	-	-	-	-
	Other		-	-	-	-	-
Total		479	-	-	427	-	-
Earthworks	Earthworks - Embankments	No.	177	2,769	64	192	69
	Earthworks - Soil Cuttings	No.	181	3,898	46	153	17
	Earthworks - Rock Cuttings	No.	68	965	70	58	49
	Earthworks - Other	No.	10	94	106	7	29
	Drainage - Earthworks	m	25	141,478	0	26	0
	Drainage - Other	m	109	223,433	0	120	0
	TOTAL	570	-	-	556	-	-
Buildings	Buildings (MS)	m2	2	35,630	0	4	0
	Platforms (MS)	m2	25	910	27	25	61
	Canopies (MS)	m2	-	-	-	-	-
	Train sheds (MS)	m2	1	11,410	0	1	0
	Footbridges (MS)	m2	-	1,500	-	-	-
	Other (MS)	m2	13	22,258	1	7	2
	Buildings (FS)	m2	20	59,340	0	15	1
	Platforms (FS)	m2	60	81,084	1	67	1
	Canopies (FS)	m2	23	12,155	2	44	1
	Train sheds (FS)	m2	1	550	2	-	-
	Footbridges (FS)	m2	36	7,033	5	46	6
	Lifts & Escalators (FS)	m2	2	3	667	3	200
	Other (FS)	m2	31	237,674	0	34	0
	Light Maintenance Depots	m2	15	124,137	0	21	0
	Depot Plant	m2	1	6	167	3	2
	Lineside Buildings	m2	33	106,882	0	36	0
	MDU Buildings	m2	36	95,062	0	69	0
	NDS Depot	m2	-	-	-	-	-
	Other	m2	-	-	-	-	-
Total		299	-	-	375	-	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	34	134	254	41	90	456
	mid-life refurbishment	Wire runs	109	162	673	-	-	-
	structure renewals	No.	42	785	54	44	908	48
	other OLE		-	-	-	1	2	500
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	32	103	311	35	107	327
	HV Switchgear Renewal AC	No.	5	67	75	6	72	83
	HV Cables AC	No.	2	3	667	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	17	-	-	-	-
	Other AC	No.	1	6	167	-	-	-
	HV switchgear renewal DC	No.	18	25	720	20	21	952
	HV cables DC	km	35	48	729	17	33	515
	LV cables DC	km	4	23	174	4	28	143
	Transformer Rectifiers DC	No.	3	2	1,500	-	1	-
	LV switchgear renewal DC	No.	2	18	111	-	-	-
	Protection Relays DC	No.	1	22	45	-	10	-
	FSP	No.	3	116	26	-	-	-
	SCADA	RTU	-	1	-	-	-	-
	UPS (#)	No.	10	112	89	11	104	106
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	3	51	59	1	20	50
	Signalling Power Cables	km	30	343	87	83	350	237
	Signalling Supply Points	point end	3	3	1,000	9	14	643
	NSCD / Track Feeder Switch (#)		11	84	131	11	476	23
	Total		348	-	-	283	-	-
Telecoms	Customer Information Systems	No.	10	1,003	10	2	146	14
	Public Address	No.	-	113	-	-	12	-
	CCTV	No.	5	582	9	2	417	5
	Other Surveillance	No.	1	118	8	-	10	-
	PABX Concentrator	No.	12	7,979	2	11	5,920	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	9	111	1	16	63
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	47	-	-	-	-
	HMI Large	No.	1	28	36	-	7	-
	Radio		1	8	125	-	-	-
	Power		6	398	15	6	465	13
	Other comms		-	-	-	-	-	-
	Network		5	69	72	2	30	67
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		42	-	-	24	-	-

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – There has been an increase in the unit cost of PL Replace Full in the year. This can partially be explained by complex jobs in the Eastern and Wales & Western regions in the year. There has been an increase in the unit costs for Switches and Crossings in the year in both the Replace and Other categories. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There has been an increase in the unit rate in Off Track in the year. However Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore each year there will be a different mix in the renewal work being done making it difficult to do any comparisons.
- (3) Signalling - There has been a decrease in the unit cost of Signalling Refurb in the year. There was a major project in the year in Wales & Western (Paddington) which delivered more than half of the volumes across the network. This project has a low unit cost so skewed the rate downwards
- (4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

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

In £m cash prices unless stated

- (5) Earthworks & Drainage – There has been an increase in the unit cost of Soil Cuttings in the year. This is because there has been a higher proportion of expensive renew work in the current year compared to refurb and maintain work in 2020/21. There has been an increase in the unit cost of Rock Cuttings in the year for a similar reason. There was a larger proportion of the least expensive maintain work in the prior year. There has also been an increase in the unit cost of Earthwork Other in the year. In 2020/21 there was a major project in the North West & Central region which delivered over three quarters of all the total volumes in this category and skewed the unit cost downwards.
- (6) Buildings – There has been a decrease in the unit cost of Managed Stations Platforms in the year. There aren't many projects in this category but there is a major one in Kings Cross in the Eastern region which is now planning to deliver a much greater number of volumes in the control period. There has been an increase in the unit cost of Franchised Stations Lifts and Escalators in the year. This is due to one particularly expensive project at Liphook Station in Southern in the current year which is dragging up the unit cost. There has also been a large increase in the unit cost of Depot Plant in the year. In 2020/21 there was a major project at Bedford in the Eastern Region that had a much lower unit cost than all the others and so the rate was lower in that year.
- (7) Electrification & Plant - There has been a decrease in the unit cost of Wiring in the year. This is down to a lower than average unit cost in the North West & Central region. These projects have a higher proportion of partial refurb work which is less expensive than a full re-wire. There has been a decrease in the unit cost of HV Switchgear Renewal DC in the year. There have been relatively less expensive projects such as at Acton Lane Feeder station compared to the projects at East Croydon and Godlington in the prior year. However there has been an increase in the unit cost of HV Cables DC in the year. There were only a few projects delivering volumes in 2020/21 so that sample size is too small to do any useful analysis. There has been an increase in the unit cost of LV Cables DC in the year. However, there was only one project delivering volumes in the prior year so as above the low sample size is making any analysis meaningless. There has been an increase in the unit cost for point heaters. As above there was only one project in the prior year. There has been a decrease in the unit cost of Signalling Power Cables. In the prior year there were complex projects in the North West & Central and Wales & Western regions which dragged up the unit cost as a whole. There has been an increase in the unit cost of Signalling Supply Points but there was only one project in the year doing renewals at Carlisle, Preston and Warrington. There has also been an increase in the unit cost of NSCD/ Track Feeder Switch. There was only one project that spanned both years in the Southern region and there was a large reduction in the total planned volumes delivered this year which has resulted in an increase in the unit cost.
- (8) Telecoms – There has been an increase in the unit cost of DOO CCTV in the year. However, there was only one project in each year with the one in North West & Central this year having a higher rate than the one in Bromley in the Southern region last year. There has also been an increase in the unit cost of Network in the year. Once again there was only one project in the year and that project was one of two last year so the sample size is too small to do any useful analysis.

Great Britain

Statement 3.9: Analysis of staff costs

Cash prices

Workforce information

(Headcount)	Male		Female		Total
	Permanent Full time	Part time	Permanent Full time	Part time	
66 and over	628	42	57	8	735
61-65	2,481	46	205	24	2,756
56-60	4,327	12	547	32	4,918
51-55	5,101	15	818	33	5,967
46-50	4,398	7	923	71	5,399
41-45	3,624	12	1,030	113	4,779
36-40	4,144	9	1,114	121	5,388
31-35	4,417	5	1,197	68	5,687
26-30	3,731	4	1,154	17	4,906
21-25	2,019	16	605	10	2,650
20 and under	193	2	48	4	247
Total staff employed (Headcount)	35,063	170	7,698	501	43,432
of which:					
train drivers	-	-	-	-	-
apprentices	898	-	117	-	1,015
Agency staff / Contingent Labour	914	2	296	-	1,212
of which apprentices	-	-	-	-	-

(FTE)	Headcount			Full time equivalent		
	Male	Female	Total	Male	Female	Total
Board executive	17	5	22	17	5	22
Executive director / director	66	16	82	66	16	81
Bands 1	439	113	552	439	113	552
Bands 2	1,517	527	2,044	1,514	522	2,036
Bands 3	3,280	1,338	4,618	3,269	1,320	4,589
Bands 4	3,989	1,920	5,909	3,979	1,899	5,878
Signallers	4,352	465	4,817	4,346	464	4,809
Electrical control operators	187	4	191	188	4	192
Maintenance	15,936	240	16,176	15,926	236	16,162
Controllers	404	71	475	403	71	474
Bands 5-8	4,045	3,406	7,451	4,030	3,329	7,359
Other	1,001	94	1,095	1,002	94	1,095
Total permanent staff	35,233	8,199	43,432	35,178	8,072	43,249
Agency staff / Contingent Labour	916	296	1,212	916	296	1,212
Total staff (FTE)	36,149	8,495	44,644	36,094	8,368	44,461

Statement 3.9: Analysis of staff costs - Continued

(on an FTE basis)	Salary	Performance Allowances	Related Bonus	Overtime	Employer pension	Employer national insurance	Total paybill for payroll staff	Total cost for contingent labour	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	1	-	-	-	-	-	1	-	-	1
Executive director / director	15	-	2	-	1	2	21	-	-	21
Bands 1	59	4	4	-	5	8	81	-	-	81
Bands 2	153	15	-	-	13	20	202	-	-	202
Bands 3	247	10	-	2	20	29	308	-	-	308
Bands 4	247	13	-	3	18	28	309	-	-	309
Signallers	198	10	-	65	14	31	318	-	-	318
Electrical control operators	12	-	-	6	1	2	22	-	-	22
Maintenance	577	54	1	192	40	91	954	-	-	954
Controllers	29	1	-	8	2	5	45	-	-	45
Bands 5-8	200	10	-	10	12	19	252	-	-	252
Other	59	3	-	22	4	10	99	-	-	99
Total Paybill	1,798	122	8	308	130	246	2,611	-	-	2,611
Agency staff / Contingent Labour								136		136
Total Staff Costs	1,798	122	8	308	130	246	2,611	136	-	2,748

Staff costs information

	Male	Female	Total
Salary	1,478	320	1,798
Allowances	106	16	122
Performance related pay	7	1	8
Overtime	298	10	308
Employer pension contribution	107	23	130
Employer NI contribution	209	36	246
Total Paybill	2,205	406	2,611
Agency staff / Contingent Labour			136
Total Staff Costs	2,205	406	2,748

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	593,000	13.8
Number of employees paid in excess of highest paid director	0	
Median remuneration of workforce	42,971	

Remuneration ranged from £0 to £593,000 (2020-21 £0 to £557,000)

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

Statement 3.9: Analysis of staff costs, Great Britain

In £m cash prices unless stated

Notes:

- (1) The format of the headcount information is determined by ORR through their Regulatory Accounting Guidelines (December 2019). This requires Network Rail to include data split between “Male” and “Female”. Reporting data in this binary manner is not particularly inclusive or representative of the diverse nature of the individuals employed by Network Rail.
- (2) The payroll amounts included in this statement are taken from Network Rail’s payroll records and reflect payments made to employees in the year in line with the Regulatory Accounting Guidelines (December 2019). Therefore, the values in this statement may not be exactly the same as the staff costs disclosed in Network Rail’s Annual Report and Accounts for the year ended 31 March 2022 which are prepared on an accruals basis and include adjustments for actuarial assessments of pension liabilities and performance related pay.
- (3) Headcount information is based on average headcount throughout the year.

Comments:

- (1) The first part of this statement sets out the proportion of the workforce based on the binary Male/ Female classification mandated by ORR. This shows that the proportion of Female staff is in line with last year. There has been a small increase of female staff in managerial posts this year compared to the prior year proportion. There is still much for Network Rail to undertake to meet its diversity objectives, but these figures demonstrate that change is happening. Network Rail are actively pursuing strategies to improve diversity amongst the work force, and will continue to do so.
- (2) The Remuneration ranges in the organisation are wider compared to the previous year. This is because in 2020/21 the chief executive took a voluntary reduction in remuneration for four months during the height of the pandemic. The median pay ratio in the year has reduced due to an increase in the median remuneration of the workforce. The table below is taken from the Annual Report and Accounts which states that the decrease in pay ratios can be attributed to higher remunerated employees at the 25th, 50th and 75th percentiles in the latest 2021 gender pay gap data for pay ratio calculations.

Percentile	Total pay & benefits
25 th Percentile	£34,608
50 th Percentile	£43,043
75 th Percentile	£53,183

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

Cash prices

Reporter information

	2021-22	2020-21
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.49	0.47
Fees payable to the company's auditors for other audit related services:		
The audit of the company's subsidiaries	0.06	0.06
Regulatory accounts audit and interim review	0.07	0.06
Total amounts payable to auditors	0.62	0.59

In addition to the audit information fee given in the table the group pays £0.2m for the audit of subsidiaries that are not performed by the group auditor

Independent Reporters

	2021-22	
	Independent Reporter	
	Expenditure (in year)*	Total in Year Expenditure
Expenditure with Independent Reporters		
Asset Management Consulting Ltd	0.1	0.1
Ove Arup & Partners Ltd	0.3	39.2
The Nichols Group Ltd	0.1	1.5
Total Expenditure with Independent Reporters	0.5	40.8

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

In £m cash prices unless stated

Note:

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

Great Britain

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	72,689
Indexation to 2021-22 prices	76,396
RAB additions	
Renewals expenditure	3,948
Enhancements expenditure	-
Less amortisation	(3,948)
Property Sales	(83)
Closing RAB	76,313

Net debt

	£m
Opening net debt	53,592
Income	(9,771)
Expenditure	8,575
Financing Costs - Government borrowing	885
Financing Costs - index linked debt	1,783
Financing Costs - Other	115
Corporation tax	0
Working capital	280
Closing net debt	55,459

Statement 4: Regulatory financial position, Great Britain

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of Network Rail and how it has moved in the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £3.9bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT, Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt** of Network Rail and how it has moved during the year. Note that Regulatory debt is calculated using the rules set out in the Regulatory Accounting Guidelines (December 2019) and is different to the net debt presented in Network Rail's annual report and accounts. A reconciliation is included in the Appendices to these financial statements.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's closing debt is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.

Statement 4: Regulatory financial position, Great Britain – continued

In £m cash prices unless stated

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

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

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

(13) Working capital – this largely relates to timing differences between when government grants are received from funders to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

England & Wales

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	5,859	6,517	(658)	-	6,326
Franchised track access charges	2,206	2,473	(267)	(86)	2,196
Other Single Till Income	619	636	(17)	(51)	488
Total Income	8,684	9,626	(942)	(137)	9,010
Operating expenditure					
Network operations	651	619	(32)	(32)	687
Support costs	861	807	(54)	2	907
Traction electricity, industry costs and rates	787	926	139	(1)	817
Maintenance	1,754	1,585	(169)	(173)	1,800
Schedule 4	295	328	33	11	278
Schedule 8	(201)	55	256	256	(361)
	4,147	4,320	173	63	4,128
Capital expenditure					
Renewals	3,466	3,440	(26)	(228)	3,612
Enhancements	1,626	824	(802)	(49)	1,534
	5,092	4,264	(828)	(277)	5,146
Risk expenditure					
Risk (Centrally-held)	-	184	184	-	-
Risk (Route-controlled)	-	128	128	-	-
Risk (Contingent asset management)	-	203	203	-	-
	-	515	515	-	-
Other expenditure					
Financing costs	2,502	2,030	(472)	-	1,602
Corporation tax	-	58	58	-	49
	2,502	2,088	(414)	-	1,651
Total expenditure	11,741	11,187	(554)	(214)	10,925

Total Financial Out/(under) performance

(351)

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	16,666	17,738	(1,072)	-
Franchised track access charges	6,506	7,066	(560)	(158)
Other Single Till Income	2,187	1,924	263	(248)
Total Income	25,359	26,728	(1,369)	(406)
Operating expenditure				
Network operations	1,910	1,836	(74)	(78)
Support costs	2,304	2,389	85	121
Traction electricity, industry costs and rates	2,292	2,574	282	2
Maintenance	5,040	4,687	(353)	(354)
Schedule 4	841	937	96	75
Schedule 8	(498)	175	673	674
	11,889	12,598	709	440
Capital expenditure				
Renewals	9,476	9,099	(377)	(535)
Enhancements	4,706	4,602	(104)	(161)
	14,182	13,701	(481)	(696)
Risk expenditure				
Risk (Centrally-held)	-	302	302	-
Risk (Route-controlled)	-	224	224	-
Risk (Contingent asset management)	-	382	382	-
	-	908	908	-
Other expenditure				
Financing costs	5,922	6,055	133	-
Corporation tax	46	87	41	-
	5,968	6,142	174	-
Total expenditure	32,039	33,349	1,310	(256)

Total Financial Out/(under) performance

(662)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of England & Wales' income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £1.5bn higher than the regulatory baseline and £0.06bn higher than the control period to date regulatory baseline. The higher net expenditure experienced this year relates to reduced grant and franchised track access charge incomes, greater spend in the enhancement's portfolio due to reprofiling works to this year and higher than anticipated financing costs. The control period to date net expenditure is broadly in line with the regulatory baseline as the increase in expenditure this year is offset by lower net expenditure in prior years due to Schedule 8 inflow and increased single till income.
- (2) This statement also shows that Network Rail E&W has recognised financial underperformance of £351m this year and £662m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, other single till income and franchise track access charges being lower than anticipated, and maintenance expenditure being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This is mostly due to the network grant being lower because of different phasing of activity being undertaken than anticipated in the regulatory baseline. Internal financing grant was also lower than anticipated as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Variances in Grant income is outside of the scope of financial performance. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity income, as fewer trains ran in year as a result of the Covid-19 pandemic. Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in Fixed track access charges are outside of the calculation. Financial underperformance has been recognised in year due to lower than expected variable track access. This is a direct consequence of Covid-19 leading to operators reducing the number of trains being run due to lower demand. Franchised track access income is lower than the previous year mostly due to the reduction in variable usage charged mentioned above. Franchised track access income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home at various points throughout the year, meaning fewer people have used the retail facilities at managed stations. Other single till income is higher than the previous year, as whilst Covid-19 impacted FY22, the restrictions in place were more severe in FY21. Other single till income is lower than regulatory baseline for the control period to date. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the FY21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network operations costs are higher than the regulatory baseline but lower than the previous year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide additional resilience. Network Operations costs are discussed in more detail in Statement 3.1. These extra costs resulted in financial underperformance this year.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline but lower than previous year spend. Significant reasons for the additional spend this year include: continued implementation of the PPF re-organisation programme, performance improvement initiatives being delivered, Covid-19 related expenditure and higher than expected Opex/Capex adjustment. Support costs are discussed in more detail in Statement 3.3
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - Maintenance costs are higher than the regulatory baseline which included extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. These extra costs resulted in financial underperformance this year. Costs are lower than previous year, as the impact of Covid-19 was more severe in FY21. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Although costs are lower than the regulatory baseline, there was lower activity on the aforementioned class of renewals this year meaning that the financial outperformance reported, is lower than the arithmetic variance. Schedule 4 costs are set out in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. This has also resulted in the financial outperformance recognised for the current year and control period to date. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is slightly higher than the regulatory baseline but lower than last year's outturn. Spend was abnormally high in FY21, as regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes for this include financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. Continued overspend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of acceleration and higher like for like costs highlighted above. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancement's expenditure this year is higher than the regulatory baseline. This mainly due to an updated CP6 cumulative baseline as agreed with the DfT which incorporates the outcomes from the Spending Review 2021 (SR21). Financial underperformance has been recognised this year, mostly in connection with ECML, Crossrail and Birmingham New Street Gateway. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT)). Enhancement investment is set out in more detail in Statement 3.7.
- (14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.

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

In £m cash prices unless stated

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

England & Wales

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	963	997	(34)	-	1,009
Variable usage charge	196	261	(65)	(65)	192
Electrification asset usage charge	18	25	(7)	(7)	18
Capacity charge	-	-	-	-	-
Open access income	29	30	(1)	(1)	26
Managed stations long term charge	67	67	-	-	70
Franchised stations long term charge	155	162	(7)	(7)	164
Traction electricity charges	438	583	(145)	-	-
Schedule 4 access charge supplement	240	246	(6)	(6)	216
	2,106	2,371	(265)	(86)	1,695
Other single till income					
Freight income					
Freight variable usage charge	57	57	-	-	51
Freight other income	1	1	-	-	1
	58	58	-	-	52
Stations income					
Managed stations qualifying expenditure	87	93	(6)	(6)	90
Franchised stations lease income	55	52	3	3	55
	142	145	(3)	(3)	145
Facility and financing charges					
Facility charges	60	61	(1)	(1)	63
	60	61	(1)	(1)	63
Property income					
Property rental	156	233	(77)	(77)	68
Property sales	65	17	48	16	16
	221	250	(29)	(61)	84
Depots Income	95	87	8	8	94
Other income	6	5	1	1	7
Freight traction electricity charges	9	7	2	-	-
Total other single till income	591	613	(22)	(56)	445
Total Regionally-managed income	2,697	2,984	(287)	(142)	2,140
Centrally-managed income					
Network grant	4,674	5,028	(354)	-	4,965
Internal financing grant	557	800	(243)	-	613
External financing grant	536	539	(3)	-	607
BTP grant	92	91	1	-	92
Corporation tax grant	-	59	(59)	-	49
Infrastructure cost charges	38	39	(1)	-	40
Schedule 4 access charge supplement	62	63	(1)	-	52
Traction electricity charges	-	-	-	-	409
Freight traction electricity charges	-	-	-	-	7
	5,959	6,619	(660)	-	6,834
Other single till income					
Property income					
Property rental	10	14	(4)	(4)	11
Property sales	18	9	9	9	25
	28	23	5	5	36
Total other single till income	28	23	5	5	36
Total centrally-managed income	5,987	6,642	(655)	5	6,870
Total income	8,684	9,626	(942)	(137)	9,010

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	2,868	2,927	(59)	-
Variable usage charge	611	737	(126)	(126)
Electrification asset usage charge	55	67	(12)	(12)
Capacity charge	2	-	2	2
Open access income	83	87	(4)	(4)
Managed stations long term charge	198	197	1	2
Franchised stations long term charge	465	477	(12)	(12)
Traction electricity charges	438	583	(145)	-
Schedule 4 access charge supplement	707	715	(8)	(8)
	5,427	5,790	(363)	(158)
Other single till income				
Freight income				
Freight variable usage charge	156	157	(1)	(1)
Freight other income	3	3	-	-
	159	160	(1)	(1)
Stations income				
Managed stations qualifying expenditure	255	270	(15)	(15)
Franchised stations lease income	158	152	6	7
	413	422	(9)	(8)
Facility and financing charges				
Facility charges	179	182	(3)	(4)
	179	182	(3)	(4)
Property income				
Property rental	221	457	(236)	(236)
Property sales	80	45	35	3
	301	502	(201)	(233)
Depots Income	270	254	16	16
Other income	18	13	5	4
Freight traction electricity charges	9	7	2	-
Total other single till income	1,349	1,540	(191)	(226)
Total Regionally-managed income	6,776	7,330	(554)	(384)
Centrally-managed income				
Network grant	12,839	13,435	(596)	-
Internal financing grant	1,770	2,189	(419)	-
External financing grant	1,746	1,762	(16)	-
BTP grant	265	264	1	-
Corporation tax grant	46	88	(42)	-
Infrastructure cost charges	118	119	(1)	-
Schedule 4 access charge supplement	166	168	(2)	-
Traction electricity charges	795	989	(194)	-
Freight traction electricity charges	13	13	-	-
	17,758	19,027	(1,269)	-
Other single till income				
Property income				
Property rental	258	258	-	2
Property sales	567	113	454	(24)
	825	371	454	(22)
Total other single till income	825	371	454	(22)
Total centrally-managed income	18,583	19,398	(815)	(22)
Total income	25,359	26,728	(1,369)	(406)

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to reduced grant income, lower property rental income and less traction electricity charges passed onto operators. Income is lower than the previous year due to less grant income of almost all types, reflecting the new financial framework for CP6. Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received plus lower than anticipated traction electricity and property rentals income. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services compared to the regulatory baseline. Regionally-managed income is greater than last year due to increased passenger footfall on the network. This is a result of Covid-19 restrictions reducing over FY22. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was lower than the baseline this year. The shortfall is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income for the control period to date is lower than the regulatory baseline, as inflation has been lower than the baseline assumed in the past three years, leading to reduced income. Income is lower than the previous year which was anticipated in the regulatory baseline.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to Covid-19. Income generated under this mechanism is marginally higher than the previous year as a result of the reduction to Covid-19 restrictions over FY22 compared to FY21.

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

In £m cash prices unless stated

- (4) Electric Asset Usage is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As fewer trains ran due to Covid-19 restrictions, less EAU income was received leading to financial underperformance.
- (5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. Expected market price increases have not yet materialised, reducing 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 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In FY22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to. Income was higher than the previous year, which can be seen in last year's centrally-managed income, due to Covid-19 restrictions reducing throughout the year, leading to an increasing number of train services being ran when compared to FY21. This was largely offset by costs payable by Network Rail for electricity (as shown in Statement 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (7) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only varies to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the schedule 4 mechanism. Income was greater than the previous year, which was in line with the regulator's assumption.
- (8) Freight Income – income is in line with the regulatory baseline this year. Freight income is directly in line with the control period regulatory baseline. Income is greater than the previous year due to the impact of Covid-19 on freight being lower this year.
- (9) Managed stations Qualifying expenditure – income is lower than the regulatory assumption this year and the control period to date. This is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them.
- (10) Property rental – this years income is lower than the regulatory expectation due to the impact of Covid-19. However, in comparison to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions and increased footfall in stations as passengers become more willing and able to travel via the rail network. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the macroscopic effects are still supressing.

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

In £m cash prices unless stated

- (11) Property sales – the current year is greater than the regulatory baseline and income is greater than the previous year. These variances are largely attributable to the divestment of Cannon Street, London. This disposal counteracts the impact of Covid-19 and thus financial overperformance is observed within the control period to date.
- (12) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2020/21.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower network and internal financing grant income. Income is lower than the previous year mostly due to reduction in grant income and movement of traction electricity charges income from centrally managed to regionally managed income. Financial outperformance has been recognised this year, however an underperformance has been recognised for the control period to date. This is due to current years over performance in property sales income being offset by lower than expected property related income in previous years as a result of Covid-19.
- (2) Grant. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.
- (3) Network grant – income is lower than the regulatory baseline for the year and the control period to date as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (5) External financing grants – grants received in the year and for the control period to date are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.

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

In £m cash prices unless stated

- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is lower than the previous year, where because of the higher grant received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the regulatory baseline for the control period to date.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflects the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only varies to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. Income is higher than the previous year reflecting the regulatory determination for CP6. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section.
- (10) Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand and is broadly in line with the previous year.
- (11) Property sales – income was greater than the regulatory baseline this year but lower than last years outturn. Sales within the southern region such as Black first station south and Land mark court sales, are the key contributors to the revenue received this year.

England & Wales

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	628	598	(30)	(30)	667
Maintenance	1,707	1,527	(180)	(182)	1,741
Support costs	299	202	(97)	(97)	351
Traction electricity, industry costs and rates	756	894	138	(1)	6
Schedule 4	304	277	(27)	(49)	263
Schedule 8	(212)	45	257	257	(318)
	3,482	3,543	61	(102)	2,710
Capital expenditure					
Renewals	2,963	2,953	(10)	(267)	3,126
Enhancements	1,610	861	(749)	(49)	1,367
	4,573	3,814	(759)	(316)	4,493
Total Regionally-managed expenditure	8,055	7,357	(698)	(418)	7,203
Centrally-managed expenditure					
Operating expenditure					
Network operations	23	21	(2)	(2)	20
Maintenance	47	58	11	9	59
Support costs	562	605	43	99	556
Traction electricity, industry costs and rates	31	32	1	-	811
Schedule 4	(9)	51	60	60	15
Schedule 8	11	10	(1)	(1)	(43)
	665	777	112	165	1,418
Capital expenditure					
Renewals	503	487	(16)	39	486
Enhancements	16	(37)	(53)	-	167
	519	450	(69)	39	653
Risk Expenditure	-	515	515	-	-
Other					
Financing costs	2,502	2,030	(472)	-	1,602
Taxation	-	58	58	-	49
	2,502	2,088	(414)	-	1,651
Total centrally-managed expenditure	3,686	3,830	144	204	3,722
Total expenditure	11,741	11,187	(554)	(214)	10,925

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	1,850	1,770	(80)	(80)
Maintenance	4,871	4,503	(368)	(351)
Support costs	813	605	(208)	(208)
Traction electricity, industry costs and rates	765	898	133	(6)
Schedule 4	850	788	(62)	(82)
Schedule 8	(477)	146	623	623
	8,672	8,710	38	(104)
Capital expenditure				
Renewals	8,116	7,698	(418)	(608)
Enhancements	4,353	4,589	236	(198)
	12,469	12,287	(182)	(806)
Total Regionally-managed expenditure	21,141	20,997	(144)	(910)
Centrally-managed expenditure				
Operating expenditure				
Network operations	60	66	6	2
Maintenance	169	184	15	(3)
Support costs	1,491	1,784	293	329
Traction electricity, industry costs and rates	1,527	1,676	149	8
Schedule 4	(9)	149	158	157
Schedule 8	(21)	29	50	51
	3,217	3,888	671	544
Capital expenditure				
Renewals	1,360	1,401	41	73
Enhancements	353	13	(340)	37
Other	-	-	-	-
	1,713	1,414	(299)	110
Risk Expenditure	-	908	908	-
Other				
Financing costs	5,922	6,055	133	-
Taxation	46	87	41	-
	5,968	6,142	174	-
Total centrally-managed expenditure	10,898	12,352	1,454	654
Total expenditure	32,039	33,349	1,310	(256)

Statement 3: Analysis of expenditure, England & Wales

In £m cash prices unless stated

Comments:

- 1) Overall, expenditure is higher than the regulatory baseline this year. This is primarily due to greater than anticipated enhancements delivery and increased financing costs only being partially offset by the underspend in operating and risk expenditure. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and risk underspend. Costs are higher than the previous year mainly due to increased financing costs. The financial underperformance recognised this year and for the Control Period to date primarily relates to underperformance realised in the Capital expenditure category. A significant amount of this underperformance is due to the impact of Covid-19 on project delivery and higher like for like costs within the portfolio.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to greater than anticipated enhancements delivery. Costs are higher than the previous year due to the increased Enhancements delivery, plus the transfer of traction electricity costs from centrally managed technical authority function to the regions. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date primarily relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio. Maintenance and support underperformance as a result of Covid-19 and the PPF restructure, has also contributed to this position.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline. This is due to savings made against the risk fund, schedule 4 and taxation, offsetting the impact of greater than expected financing costs. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. Therefore, savings every year against this line, plus operating expenditure savings, lower performance regime costs and industry expenses experienced, have led to centrally-managed costs being considerably lower than the regulatory baseline for the control period. Costs are broadly in line with last years costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

England & Wales

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	259	249	(10)	(10)	269
Operations Management	83	70	(13)	(13)	79
Controllers	65	60	(5)	(5)	63
Electrical control room operators	20	18	(2)	(2)	20
	427	397	(30)	(30)	431
Non signaller expenditure					
Mobile operations managers	44	37	(7)	(7)	47
Managed stations	76	75	(1)	(1)	94
Performance	3	12	9	9	6
Other	78	77	(1)	(1)	89
Total Regionally-managed Operations expenditure	628	598	(30)	(30)	667
Centrally-managed Operations expenditure					
Network Services	23	21	(2)	(2)	20
Total centrally-managed Operations expenditure	23	21	(2)	(2)	20
Total operations expenditure	651	619	(32)	(32)	687

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	762	745	(17)	(17)
Operations Management	224	207	(17)	(17)
Controllers	185	182	(3)	(3)
Electrical control room operators	53	53	-	-
	1,224	1,187	(37)	(37)
Non signaller expenditure				
Mobile operations managers	128	112	(16)	(16)
Managed stations	237	220	(17)	(17)
Performance	18	37	19	19
Other	243	214	(29)	(29)
Total Regionally-managed Operations expenditure	1,850	1,770	(80)	(80)
Centrally-managed Operations expenditure				
Network Services	60	66	6	2
Total centrally-managed Operations expenditure	60	66	6	2
Total operations expenditure	1,910	1,836	(74)	(78)

Statement 3.1: Analysis of operations expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall operations costs are higher than the regulatory baseline, but lower than the previous year's actuals. The primary reason for the spend being higher than the regulatory baseline is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide additional resilience than were assumed in the baseline. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Although costs were incurred to mitigate the impact of Covid-19, these costs were lower than in FY21. The Control period to date spend is higher than the regulatory assumption, by virtue of the aforementioned costs. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year, but lower than last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. These costs were augmented by investment in performance improvement initiatives. Although costs were incurred to mitigate the impact of Covid-19, these costs were lower than in FY21. The Control period to date spend is higher than the regulatory assumption, by virtue of the costs incurred this year, and the previous financial year, through Network Rail's response to the Covid-19 pandemic. These additional costs have led to financial underperformance this year and for the control period to date.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation for the current year and the Control period to date. Savings made in the first year of the control period due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic.
- (3) Operations management - costs are higher than the regulatory expectation for the Control period to date. Savings made last year due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic – this included ensuring appropriate cover for sick and self-isolating staff.

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

In £m cash prices unless stated

- (4) Mobile operation managers – costs are higher than the regulatory target for this year and the Control period to date. Premium hour costs have increased over the pandemic to provide extra resilience during the Covid-19 pandemic.
- (5) Managed stations – costs are line with the regulatory baseline, significantly lower than last year's actual, but are higher for the Control period to date. In FY21, to ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding had been required. Extra agency staff had also been recruited to help manage passenger flow and help station staff enforce social distancing. These reasons account for the large variance in the control period to date and the comparison with the previous years actuals.
- (6) Performance – costs are much lower than the regulatory baseline and the previous financial year. This has led to a position in the control period to date that is largely favourable.
- (7) Other – costs are broadly in line with the regulatory target, but significantly lower than last years actual. This is primarily due to additional investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure, or at strategically important points on the line in FY21. Control period to date costs are significantly higher than the regulatory assumption, largely due to the aforementioned reasons.

Centrally-managed operations expenditure

- (1) Network Services – costs are broadly in line with the regulatory baseline and the previous year however are lower for the Control period to date.

England & Wales

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	692	654	(38)	(38)	728
Signalling & Telecoms	290	264	(26)	(26)	296
Civils	197	191	(6)	(15)	189
Buildings	97	90	(7)	-	96
Electrical power and fixed plant	126	126	-	-	125
Other network operations	305	202	(103)	(103)	307
	1,707	1,527	(180)	(182)	1,741
Centrally-managed maintenance expenditure					
Telecoms	19	29	10	10	20
Route Services - Asset Information	31	31	-	-	30
STE Maintenance	3	4	1	1	3
Property	1	-	(1)	(1)	-
Route Services - Other	(6)	(6)	-	-	(4)
Other	(1)	-	1	(1)	10
	47	58	11	9	59
Total maintenance expenditure	1,754	1,585	(169)	(173)	1,800

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	2,018	1,921	(97)	(97)
Signalling & Telecoms	840	777	(63)	(63)
Civils	541	553	12	18
Buildings	279	269	(10)	2
Electrical power and fixed plant	357	366	9	9
Other network operations	836	617	(219)	(220)
	4,871	4,503	(368)	(351)
Centrally-managed maintenance expenditure				
Telecoms	55	77	22	22
Route Services - Asset Information	88	88	-	(6)
STE Maintenance	13	14	1	2
Property	10	6	(4)	(4)
Route Services - Other	7	(1)	(8)	(25)
Other	(4)	-	4	8
	169	184	15	(3)
Total maintenance expenditure	5,040	4,687	(353)	(354)

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall maintenance costs are higher than the regulatory baseline this year, but lower than last year's outturn. The primary causes for the increase in costs is our response to Covid-19, the re-organisation surrounding PPF, the extra vegetation work undertaken by most regions, and the investment in performance schemes. These extra Covid-19 costs relate to the extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff. Performance schemes include the introduction of Trespass and Welfare Teams in the Wessex route and initiatives in multiple DU's. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and in the previous year surrounding Covid-19. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, but lower than last year's outturn. The primary causes for the increase in costs is our response to Covid-19, the re-organisation surrounding PPF, the extra vegetation work undertaken by most regions, and the investment in performance schemes. These extra Covid-19 costs relate to the extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff. Performance schemes include the introduction of Trespass and Welfare Teams in the Wessex route and initiatives in multiple DU's. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and in the previous year surrounding Covid-19. These additional costs have led to financial underperformance this year and for the control period to date.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the circa 20,000 miles of track that requires inspection and remediation this is perhaps unsurprising. This year, costs are higher than the regulatory baseline, but lower than last year's expenditure. Investment was made this year on performance schemes, such as initiatives for Wessex Inner and Outer DU's. Implementation of the PPF restructure has also led to increased track related costs. Additional work was also undertaken this year to deal with vegetation network wide, as well as some commonwealth games preparations in NW&C. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the increased costs incurred in our response to Covid-19.

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

In £m cash prices unless stated

- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline. Covid-19 has contributed to this extra spend. This included additional staff costs to allow minimal disruption due to sick and self-isolating staff. There has also been further resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Costs are lower than the previous year due to the additional costs in the previous year resulting from compliance investment required to adhere to Covid-19 restrictions, such as the purchase and deployment of plastic shields to allow staff to be safe within working vehicle. Control period spend is higher than the regulatory baseline reflecting the increased allowances in the regulatory baselines due to the asset management requirements of CP6.
- (1) Civils – costs were higher than the regulatory baseline, as despite reactive maintenance expenses being lower than the regulatory expectation, extra investment was required surrounding CEFA and CAFA standards largely resulting from increased rates. Delays in Arches inspections and savings in inspections through better contract negotiations and planning of works allowing more productive workings patterns, have been offset by increased CEFA 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 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Costs are higher than the previous year. Control period to date spend is lower than the regulatory baseline, primarily due to savings in inspections costs in the previous year, and higher reactive maintenance spend overall. Financial underperformance has been recognised in this year. Control period to date shows outperformance, as a result of the savings in inspection costs recognised in FY21.
- (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 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is slightly higher than the regulator assumed. Reactive Maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are marginally higher for the Control period to date's regulatory baseline, primarily due to the additional costs incurred this year due to the inherent variability of Building's reactive maintenance costs.
- (5) Electrical power and fixed plant – costs for the current year are larger than the regulatory expectation and than the previous year. The increase from the previous year is across most Regions and was expected in the regulatory baselines. This reflects the asset management and outputs required for CP6. Control period to date spend is lower than the regulatory baseline, primarily due to the delays in recruitment in FY21.

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

- (6) Other network operations – costs are significantly higher than the regulatory baseline, but lower than last year's actual. There are numerous contributory factors including Covid-19 contributing to this extra spend. This included additional staff required to allow the continuity of staff such that minimal disruption was felt when staff were sick or had to self-isolate. Furthermore, there were large investments in performance schemes such as in the Wessex route which invested £6m in the Inner and Outer DU's, as well as setting up a Trespass and Welfare team for the route. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the compliance investment required in the previous year resulting from Covid-19.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms - costs are lower than the regulatory baseline this year and in the Control period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the first year of the control period. Costs are slightly lower than the previous year.
- (3) Other - costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are lower than the previous year, resulting in an income. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control period to date are below the regulatory baseline as the extra costs last year were offset by savings in the first year of the control period, and income this year.

England & Wales

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	24	19	(5)	(5)	24
Finance	19	14	(5)	(5)	17
Accommodation	76	59	(17)	(17)	82
Utilities	68	68	-	-	68
Other	112	42	(70)	(70)	160
	299	202	(97)	(97)	351
Centrally-managed Support costs					
Finance & Legal	43	53	10	10	38
Communications	17	20	3	3	19
Human Resources	28	31	3	3	25
System Operator	42	62	20	20	31
Property	10	14	4	3	9
Telecoms	71	68	(3)	(3)	69
Network Services	-	-	-	-	19
Safety Technical and Engineering	39	38	(1)	(1)	36
RS - IT and Business Services	114	112	(2)	(2)	117
RS - Asset Information	14	28	14	14	13
RS - Directorate	37	22	(15)	(15)	35
Other corporate functions	18	4	(14)	(13)	11
Insurance	29	48	19	19	26
OPEX/CAPEX Adjustment	123	67	(56)	-	165
Group costs	(23)	38	61	61	(57)
	562	605	43	99	556
Total support costs	861	807	(54)	2	907

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	65	56	(9)	(9)
Finance	48	41	(7)	(7)
Accommodation	212	178	(34)	(34)
Utilities	200	203	3	3
Other	288	127	(161)	(161)
	813	605	(208)	(208)
Centrally-managed Support costs				
Finance & Legal	110	137	27	27
Communications	45	50	5	5
Human Resources	70	73	3	3
System Operator	106	149	43	43
Property	8	19	11	10
Telecoms	185	192	7	1
Network Services	36	58	22	22
Safety Technical and Engineering	103	109	6	6
RS - IT and Business Services	324	330	6	6
RS - Asset Information	38	71	33	33
RS - Directorate	86	62	(24)	(24)
Other corporate functions	52	63	11	(21)
Insurance	77	122	45	45
OPEX/CAPEX Adjustment	349	195	(154)	-
Group costs	(98)	154	252	173
	1,491	1,784	293	329
Total support costs	2,304	2,389	85	121

Statement 3.3: Analysis of support costs, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline but lower than the previous year spend. Significant reasons for the additional spend this year include continued implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline, transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in Capex costs). The adjustment is higher compared to the baseline, as more schemes that are OPEX in nature have been delivered. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. Financial overperformance has been recognised this year, primarily due to the savings as per the aforementioned reasons. For the Control period to date, expenditure is lower than the regulatory baseline, as the additional costs incurred this year due to PPF restructuring, Opex/Capex adjustment and Covid-19 related expenditure are offset by the deferral of investing Crossrail Supplementary Access Charge (CSAC) income from the previous year and reduction in performance related pay-outs mentioned above.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are significantly higher than the regulatory baseline, due to the implementation of the PPF re-organisation programme, Covid-19 related expenditure and delivery of performance initiatives. This is reflected in the Control period to date spend, which is also significantly higher than the regulatory assumption. Costs are lower than the previous year as a result of lower Covid-19 expenditure.

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

In £m cash prices unless stated

- (2) Human resources – costs in the current year are higher than the baseline expectation and in line with the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative. This narrative is reflected in the higher than expected Control period to date cost.
- (3) Finance – costs in the current year and control period to date are higher than the baseline expectation and the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.
- (4) Accommodation – costs are markedly higher than the baseline expectation and the previous year, as a result of further spend on Covid-19 compliancy measures for NR offices. Control period to date spend is also larger than the regulatory assumption as a result of Covid-19.
- (5) Other – costs were significantly higher than the regulatory baseline this year and previous outturn. This is primarily due to implementation of the PPF programme, Project Alpha performance programme delivery in NWAC and Covid-19 related expenditure, such as PPE purchases and extra staff costs.

Centrally-managed support costs

- (1) Aggregate centrally-managed support costs are lower than the regulatory baselines this year and broadly in line with last years actual. Whilst there are several areas with savings, the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is lower than the previous year as, although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes, reduced staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are slightly lower than the previous year despite the expectation of them to increase in the regulatory baseline; this arises from unexpected changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are slightly higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.

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

In £m cash prices unless stated

- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Property – costs are lower than the regulatory baseline this year and for the control period to date. Although extra costs have been incurred at corporate offices, these have been offset by the favourable settlement of a long-running commercial dispute in FY20. Net costs are slightly higher than the previous year mostly due to the devolution of accountabilities to the regionally-managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are broadly in line with target but lower than the regulatory baseline for the control period. This is primarily due to efficiencies arising from headcount control in previous years. Financial outperformance has been recognised for the Control period to date due to efficiencies made in headcount mentioned above.
- (8) Network Services – this function no longer exists and has been devolved out to other functions within this statement.
- (9) Technical Authority – costs are in line with the regulatory baseline this year. Costs are slightly lower than the control period to date due to further efficiencies that were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (10) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly lower for the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs are lower than the previous year, which was expected in the lower regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.

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

In £m cash prices unless stated

- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support functions. Reprofiting of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganisational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.
- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments.
- (15) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.

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

In £m cash prices unless stated

- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other notable savings include reductions in the FY22 performance-related pay following a decision to reduce pay-outs. This decision was taken at the end of the year and the benefit is currently showing within the Group category, but the benefit will be transferred to the individual Regional and Central managed costs in future years. These savings have been offset by redundancy costs incurred as a result of modernisation. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is lower than the previous year (in other words, net costs are higher) as the benefits from performance-related pay reductions this year are offset by the additional costs in redundancy costs as mentioned above.

England & Wales

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	443	591	148	-	-
Business rates	221	212	(9)	-	-
British transport police costs	92	91	(1)	(1)	6
	756	894	138	(1)	6
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	412
Business rates	-	-	-	-	280
British transport police costs	-	-	-	-	85
ORR licence fee and railway safety levy	17	17	-	-	18
RDG membership costs	3	3	-	-	2
RSSB costs	11	11	-	-	12
Reporters fees	-	-	-	-	2
Other industry costs	-	1	1	-	-
	31	32	1	-	811
Total traction electricity, industry costs and rates	787	926	139 -	1	817

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	443	591	148	-
Business rates	221	212	(9)	-
British transport police costs	101	95	(6)	(6)
	765	898	133	(6)
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	800	1,002	202	3
Business rates	470	412	(58)	-
British transport police costs	164	169	5	5
ORR licence fee and railway safety levy	51	50	(1)	-
RDG membership costs	8	8	-	-
RSSB costs	31	33	2	-
Reporters fees	3	-	(3)	-
Other industry costs	-	2	2	-
	1,527	1,676	149	8
Total traction electricity, industry costs and rates	2,292	2,574	282	2

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

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

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher network traffic, which can be seen in last years centrally-managed section. This has been offset by increased charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to. Costs this year were higher than expected which has led to higher expenses in the control period to date; costs were lower compared to the prior year, which can be seen in the centrally-managed section of this statement. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out british transport police costs from centrally-managed to the geographic regions those costs relate to. Costs were broadly in line with the regulatory baseline and the previous year, which can be seen in the centrally-managed section of this statement due to additional services requested to keep the travelling public safe.

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

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to.
- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally-managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance

England & Wales

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

				Of which financial out / (under)	
2021-22	Actual	Regulatory baseline	Variance	performance	2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	304	277	(27)	(49)	263
Access charge supplement Income	(240)	(249)	(9)	-	(217)
Net (income)/cost	64	28	(36)	(49)	46
Schedule 8					
Performance element income	(233)	-	233	233	(329)
Performance element costs	21	45	24	24	11
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(212)	45	257	257	(318)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(9)	51	60	60	15
Access charge supplement Income	(62)	(63)	(1)	-	(52)
Net (income)/cost	(71)	(12)	59	60	(37)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	11	10	(1)	(1)	(43)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	11	10	(1)	(1)	(43)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	295	328	33	11	278
Access charge supplement Income	(302)	(312)	(10)	-	(269)
Net (income)/cost	(7)	16	23	11	9
Schedule 8					
Performance element income	(233)	-	233	233	(329)
Performance element costs	32	55	23	23	(32)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(201)	55	256	256	(361)

				Of which financial out / (under)	
Cumulative	Actual	Regulatory baseline	Variance	performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	850	788	(62)	(82)	-
Access charge supplement Income	(707)	(724)	(17)	-	-
Net (income)/cost	143	64	(79)	(82)	-
Schedule 8					
Performance element income	(660)	-	660	660	-
Performance element costs	183	146	(37)	(37)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(477)	146	623	623	-
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(9)	149	158	157	-
Access charge supplement Income	(166)	(169)	(3)	-	-
Net (income)/cost	(175)	(20)	155	157	-
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(21)	29	50	51	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(21)	29	50	51	-
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	841	937	96	75	-
Access charge supplement Income	(873)	(893)	(20)	-	-
Net (income)/cost	(32)	44	76	75	-
Schedule 8					
Performance element income	(660)	-	660	660	-
Performance element costs	162	175	13	14	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(498)	175	673	674	-

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events, which has allowed for financial outperformance to be recognised. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Despite a few disturbances caused by adverse weather, such as the storms in January/February time, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality this control period. This has resulted in the highly favourable position in the control period to date too. Resultantly, financial outperformance is recognised for the current year and control period to date.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are higher than the regulatory baseline and last year's actual. There were several individual storms in FY22 (Arwen, Barra, Dudley, Eunice, and Franklin) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional costs incurred at regional level. Financial underperformance has been recognised as reduced renewal delivery means the cost incurred, was higher than expected for this level of activity. The control period to date expenditure is higher than the regulatory expectation and we have recognised financial under performance for this cost category. This is partly due to the aforementioned reason, but also due the adverse impact from weather events, notably the storms in February 2020 and February 2021. As well as being the wettest February on record in 2020, there were several individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators.
- (2) Schedule 8 experienced another exceptional year this year. The continued impact of Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance in the control period. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 and 2020/21 has resulted in a highly favourable control period to date position.

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is marginally lower than the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is a net inflow much greater than the regulatory baseline resulting from Schedule 4 costs in FY21/22 returning an income. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.

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

In £m cash prices unless stated

- (3) Schedule 8 – this year's cost is directly in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally-managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

England & Wales

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	244	218	(26)	-	267
PL Replace Partial	170	143	(27)	-	188
PL High Output	122	114	(8)	-	120
PL Refurbishment	57	62	5	-	61
PL Track Slab Track	8	1	(7)	-	1
Switches & Crossing - Replace	144	173	29	-	188
Switches & Crossing - Other	77	33	(44)	-	55
Off Track	90	52	(38)	-	100
Track Other	34	4	(30)	-	38
	946	800	(146)	(105)	1,018
Signalling					
Signalling Full	282	368	86	0	331
Signalling Partial	79	45	(34)	0	20
Signalling Refurb	124	180	56	0	98
Level crossings	59	110	51	0	74
Minor works	184	193	9	0	191
Other	(1)	6	7	0	3
	727	902	175	(59)	717
Civils					
Underbridges	180	251	71	-	189
Overbridges	43	55	12	-	32
Major structures	20	17	(3)	-	22
Tunnels	21	30	9	-	21
Minor works	66	51	(15)	-	79
Other	43	38	(5)	-	45
	373	442	69	(14)	388
Earthworks					
Earthworks - Embankments	102	65	(37)	-	160
Earthworks - Soil Cuttings	93	64	(29)	-	85
Earthworks - Rock Cuttings	44	19	(25)	-	43
Earthworks - Other	13	11	(2)	-	12
	252	159	(93)	(23)	300
Buildings					
Managed stations	41	64	23	-	39
Franchised stations	146	134	(12)	-	187
Light maint depots	17	23	6	-	20
Depot plant	3	10	7	-	13
Lineside buildings	18	7	(11)	-	21
MDU buildings	31	26	(5)	-	32
Other	2	-	(2)	-	1
	258	264	6	(26)	313
Electrical power and fixed plant					
AC distribution	11	21	10	-	10
Overhead Line	121	73	(48)	-	106
DC distribution	56	47	(9)	-	48
Conductor rail	27	17	(10)	-	19
Signalling Power Supplies	36	64	28	-	33
Other	7	39	32	-	30
Fixed plant	27	20	(7)	-	26
	285	281	(4)	(25)	272
Drainage					
Drainage (Track)	50	48	(2)	-	68
Drainage (Earthworks)	7	11	4	-	11
Drainage (Resilience)	5	7	2	-	6
	62	66	4	(15)	85
Property					
Property	60	39	(21)	-	33
	60	39	(21)	-	33
Total Regionally-managed renewals expenditure					
	2,963	2,953	(10)	(267)	3,126

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	9	20	11	-	8
Network	12	12	-	-	8
SISS	12	60	48	-	14
Projects and other	4	3	(1)	-	4
Non-route capital expenditure	56	62	6	-	74
	93	157	64	(7)	108
Wheeled plant and machinery					
High output	26	14	(12)	-	19
Incident response	1	-	(1)	-	-
Infrastructure monitoring	3	17	14	-	4
Intervention	13	24	11	-	14
Materials delivery	9	32	23	-	(3)
On track plant	1	14	13	-	1
Seasonal	3	9	6	-	5
Other	31	15	(16)	-	26
	87	125	38	-	66
Route Services					
Business Improvement	48	6	(42)	-	70
IT Renewals	24	72	48	-	38
Asset Information	8	10	2	-	8
Other	12	3	(9)	-	6
	92	91	(1)	-	122
STE Renewals					
Intelligent infrastructure	76	46	(30)	-	64
Faster Isolations	48	70	22	-	66
Centrally Managed Signalling Costs	5	8	3	-	6
Research and development	35	46	11	-	51
Integrated Management System (Incl. BCR)	-	10	10	-	-
Other National SCADA Programmes	17	6	(11)	-	19
Small plant	9	8	(1)	-	6
Other	86	8	(78)	-	71
	276	202	(74)	-	283
Property					
Property	3	19	16	-	12
	3	19	16	-	12
Other renewals					
ETCS	30	33	3	(2)	20
Digital Railway	14	(18)	(32)	-	4
Civils & Drainage - Insurance Fund	2	26	24	38	13
Buildings - Insurance Fund	-	15	15	-	-
OPEX/CAPEX Adjustment	(119)	(67)	52	-	(148)
Phasing overlay	-	(121)	(121)	-	-
System Operator	20	20	-	-	12
Other renewals	5	5	-	10	(6)
	(48)	(107)	(59)	46	(105)
Total centrally-managed renewals expenditure	503	487	(16)	39	486
TOTAL RENEWALS EXPENDITURE	3,466	3,440	(26)	(228)	3,612

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	692	599	(93)	-
PL Replace Partial	477	384	(93)	-
PL High Output	371	381	10	-
PL Refurbishment	163	178	15	-
PL Track Slab Track	9	3	(6)	-
Switches & Crossing - Replace	497	520	23	-
Switches & Crossing - Other	165	106	(59)	-
Off Track	241	155	(86)	-
Track Other	109	(1)	(110)	-
	2,724	2,325	(399)	(253)
Signalling				
Signalling Full	808	860	52	-
Signalling Partial	142	152	10	-
Signalling Refurb	260	388	128	-
Level crossings	167	266	99	-
Minor works	499	458	(41)	-
Other	3	15	12	-
	1,879	2,139	260	(130)
Civils				
Underbridges	469	595	126	-
Overbridges	97	127	30	-
Major structures	52	42	(10)	-
Tunnels	63	86	23	-
Minor works	195	139	(56)	-
Other	114	121	7	-
	990	1,110	120	(30)
Earthworks				
Earthworks - Embankments	342	195	(147)	-
Earthworks - Soil Cuttings	235	174	(61)	-
Earthworks - Rock Cuttings	108	54	(54)	-
Earthworks - Other	29	20	(9)	-
	714	443	(271)	(80)
Buildings				
Managed stations	118	159	41	-
Franchised stations	442	382	(60)	-
Light maint depots	48	36	(12)	-
Depot plant	18	24	6	-
Lineside buildings	57	23	(34)	-
MDU buildings	89	80	(9)	-
Other	4	-	(4)	-
	776	704	(72)	(54)
Electrical power and fixed plant				
AC distribution	30	57	27	-
Overhead Line	295	206	(89)	-
DC distribution	122	99	(23)	-
Conductor rail	59	38	(21)	-
Signalling Power Supplies	107	159	52	-
Other	47	76	29	-
Fixed plant	77	61	(16)	-
	737	696	(41)	(39)
Drainage				
Drainage (Track)	157	155	(2)	-
Drainage (Earthworks)	32	38	6	-
Drainage (Resilience)	15	17	2	-
	204	210	6	(22)
Property				
Property	92	71	(21)	-
	92	71	(21)	-
Total Regionally-managed renewals expenditure	8,116	7,698	(418)	(608)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	16	-	(16)	-
	16	-	(16)	-
Telecoms				
Operational communications	25	52	27	-
Network	24	33	9	-
SISS	33	102	69	-
Projects and other	11	8	(3)	-
Non-route capital expenditure	207	191	(16)	-
	300	386	86	(14)
Wheeled plant and machinery				
High output	57	61	4	-
Incident response	1	-	(1)	-
Infrastructure monitoring	10	34	24	-
Intervention	33	60	27	-
Materials delivery	17	89	72	-
On track plant	4	21	17	-
Seasonal	10	26	16	-
Other	62	21	(41)	-
	194	312	118	-
Route Services				
Business Improvement	201	120	(81)	-
IT Renewals	96	158	62	-
Asset Information	17	24	7	-
Other	21	8	(13)	-
	335	310	(25)	-
STE Renewals				
Intelligent infrastructure	163	114	(49)	-
Faster Isolations	147	176	29	-
Centrally Managed Signalling Costs	14	26	12	-
Research and development	110	108	(2)	-
Integrated Management System (Incl. BCR)	-	31	31	-
Other National SCADA Programmes	58	55	(3)	-
Small plant	18	23	5	-
Other	170	42	(128)	-
	680	575	(105)	-
Property				
Property	32	71	39	-
	32	71	39	-
Other renewals				
ETCS	62	73	11	(2)
Digital Railway	19	(33)	(52)	-
Civils & Drainage - Insurance Fund	14	75	61	49
Buildings - Insurance Fund	-	43	43	-
OPEX/CAPEX Adjustment	(329)	(195)	134	-
Phasing overlay	-	(272)	(272)	-
System Operator	38	43	5	-
Other renewals	(1)	13	14	40
	(197)	(253)	(56)	87
Total centrally-managed renewals expenditure	1,360	1,401	41	73
TOTAL RENEWALS EXPENDITURE	9,476	9,099	(377)	(535)

Statement 3.6: Analysis of renewals expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is slightly higher than the regulatory baseline but lower than last year's outturn. In FY21, Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes for this include, financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. The negative impact of Covid-19 materialising in FY21 has also contributed to overspend in FY22. Continued overspend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of acceleration of projects and higher like for like costs highlighted above.

Regionally-managed renewals

- (1) Regional expenditure is slightly higher than the regulatory baseline but lower than last year's outturn. In FY21, Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes for this include financial underperformance within the track portfolio due to High Output deferrals resulting from inclement weather challenges, machine failure and Covid-19. The negative impact of Covid-19 materialising in FY21 has also contributed to overspend in FY22. Continued extra spend in the Earthworks programme post the Stonehaven derailment, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, have also contributed to the underperformance experienced. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of acceleration of projects and higher like for like costs highlighted above.

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

In £m cash prices unless stated

- (1) Track – investment is significantly higher than the regulatory baseline but lower than last year's outturn. Plain line Volumes delivered in year are lower than that assumed in the regulatory baseline, and although S&C volumes are higher, there has been a shift in asset management strategy to deliver less replacements and more refurbishments. We have incurred significant financial underperformance in year, due to a multitude of factors. This included the additional costs projects had to bear due to Covid-19 and deferral of high Output plain line volumes due to safety stand downs, machine failure and inclement weather experienced. This compounds the underperformance experienced in the control period to date. Furthermore, last year several regions had to re prioritise work due to Covid-19 as well as additional welfare, labour, PPE purchases and vehicle costs were borne, to ensure adherence to social distancing rules. Lost volumes, particularly in High Output where operators were stranded in eastern Europe due to Covid-19 travelling restrictions, also contributed to the financial underperformance in FY21. The control period to date expenditure is significantly higher than the regulatory baseline, due to the extra volume that was delivered in year one of the control period, plus the increase in financial underperformance mentioned above.
- (2) Signalling – expenditure is lower than the regulatory baseline this year and for the control period to date, mainly due to slower progress on large projects, particularly Edinburgh recontrol, Port Talbot West Phase 2, Integrated Crewe programme and Birmingham New Street. Delivery on Level crossing schemes is also lower than expected due to access constraints and delays finalising designs and asset management solutions. Covid-19 led to the workbank needing to be re prioritised, which impacted the ability to deliver on time. Financial underperformance has been recognised in the current year and for the control period to date. Higher input prices, contractor claims, Covid-19 prolongation costs and increased delivery costs for Feltham resignalling are key contributors to the underperformance. Control period to date underperformance is a result of the above being augmented by issues arising in previous years such as, higher tender prices necessitating a change in design, the added complexity of certain schemes such as ECTS in Eastern and the move to a low cost digital ready signalling system in Wales having hindered progress. Covid-19 has impacted the signalling portfolio too, as we have seen prolongation in programmes, plus the associated claims have led to projects incurring extra cost.
- (3) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges, Overbridges and Tunnels, which is similar to last year. Many schemes have been reprofiled into the last two years of the control period and we have also seen Asset management led decisions to carry out reduced reactive maintenance activity, which is classified an OPEX intervention, and prioritising investment on other assets such as Track and Earthworks. The aforementioned reasons also explain the underspend experienced in the control period to date. Financial underperformance has been experienced this year largely due to difficulties in project delivery, such as continual changes in methodology and difficulty getting access. Control period to date spend is below the regulatory expectation due to the aforementioned. Financial underperformance in the control period to date has been recognised mainly due to Covid-19 and extra work items being required to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather and associated flooding during the Christmas of 2020, a number of reactive schemes needed to be urgently delivered. Expenditure was lower than the previous year caused by a portion of the FY20 portfolio slipping into FY21 and increasing costs.

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

In £m cash prices unless stated

- (4) Earthworks – investment in the year, and control period to date, was notably higher than the regulatory baseline. The Stonehaven derailment in FY21 led to increased focus on Network Rails management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. There was also acceleration of activity to utilise available resources this year and remediation costs required in the aftermath of damage caused by the storms in February 2022. Financial underperformance was experienced due to difficulties correctly assessing project requirements and thus having to change plans and invest more in works to achieve volumes. Financial underperformance is recognised in the control period to date as a result of the impact of Covid-19 and reactive jobs arising to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather resulting in numerous landslips, particularly in the southern region, and associated flooding during the Christmas of 2020, reactive schemes needed to be quickly mobilised and delivered.
- (5) Buildings – investment was broadly in line with the regulatory baseline this year but lower than last years spend. Last year, regions accelerated activity to optimise available resources and access in stations, which led to a significant increase in investment. Financial underperformance was experienced this year as a result of scope creep due to inspection reports underrepresenting the work required and extensive additional work required for Liverpool Street Station Roof Design than was initially assumed in the baseline. Financial underperformance has been recognised for the control period as the aforementioned reasons compound issues experienced previously such as higher costs caused by increased project complexity, discovery of asbestos in year 1 which led to higher design and delivery costs and the impact of Covid-19.
- (6) Electrical power and fixed plant – investment was higher than the regulatory baseline this year. This is mainly due to higher net like-for-like costs across the portfolio. Delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia, increased access requirements during Christmas in Stratford and changes in scope within the North West and Central E&FP portfolio, led to extra costs being incurred. Financial underperformance has been recognised for the year and the control period to date. This is due to the aforementioned costs being compounded by AFC increases experienced in FY21 due to the impact of Covid-19, retendering of jobs due to underperformance from contractors, which led to prolongation costs and higher than anticipated supply chain prices. Expenditure was higher than the previous year, which was assumed in the regulatory baseline for the year.
- (7) Drainage – expenditure is lower than the regulatory baseline and last year's outturn. Financial underperformance was experienced due to site investigations works carried out, as well as increased complexity of the sites worked on this year. The control period to date position also reports underperformance additionally resulting from Covid-19 and extra work required to combat inclement weather. There were also additional costs incurred as surveys identified additional complexities across the portfolio.
- (8) Property – expenditure is significantly higher than last year's actual and the regulatory baseline. This is due to some of the centrally-managed property renewals, being flexed over to the regional teams as part of the PPF programme.

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

In £m cash prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is slightly over the regulatory baseline this year, with higher spend on STE programmes and overspend as a result of the phasing overlay in Group, being slightly offset by underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, primarily due to less spend being transferred to OPEX this year. Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in telecoms and wheeled plant and machinery activities.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs
- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. There has been financial underperformance experienced this year due to commercial pressures and design challenges. This results from tender prices that were higher than original estimates anticipated, and original design and implementation plans for project Railnet IP did not provide a sustainable solution and thus a new contractor was appointed.

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

In £m cash prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:
- a. High output – investment was higher than the regulatory baseline and higher than last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year includes renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.
 - c. Intervention – costs were lower than the regulatory baseline and slight lower than last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred last year due to sunk costs realised in production of the sleeper factory which were expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is lower than the regulatory baseline but in line with the previous year. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. The reason for the increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.
- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes including a new data centre to replace life-expired assets, reducing ongoing operating costs and improving customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.

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

In £m cash prices unless stated

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation but lower than last year's expenditure. Notable variances at Key Cost Line include:

- a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend is due to additional scope of works. More initiatives were undertaken than baseline, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
- b. Faster isolations – costs are lower than the regulator baseline and last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
- c. Centrally-managed signalling costs – costs are lower than the regulatory baseline and slightly lower than last year's outturn. This reflects the lower overall signalling costs this year compared to expectation.
- d. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line in the control period to date.
- e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised to other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.
- f. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme, but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
- g. Small Plant – investment is broadly in line with the regulatory baseline this year but higher than last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.
- a. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.

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

In £m cash prices unless stated

- (7) Property – expenditure is lower than the regulatory baseline this year and control period to date, mainly due to centrally-managed property being transferred to regions
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is lower than the regulatory baseline but higher than last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund.
 - c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.
 - d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being reclassified as OPEX.
 - e. System Operator – expenditure this year is in line with the regulatory baseline but higher than last year's outturn

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

In £m cash prices unless stated

- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.
- (9) Other expenditure – Corporation tax costs were not incurred this as we have continued to invest heavily in the railway network this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.”

England & Wales

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	21	11	-	155	167	-
Great Western Electrification	29	29	-	242	268	(53)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	24	18	-	69	69	-
West Anglia Main Line Capacity	-	(4)	-	5	5	-
Midland Main Line Programme	101	104	2	551	584	-
Wessex Enhancements (Waterloo and South London HV Grid)	2	(27)	2	13	12	-
Trans Pennine Route Upgrade	438	(69)	13	886	884	16
Hope Valley Capacity	16	(6)	-	18	24	-
Cambridge South Station Dvpt 2	8	4	(1)	15	15	-
Critical Stations Improvement Fund	13	29	-	15	34	-
Gatwick Station	45	72	9	107	112	(1)
East West Rail Phase 2	261	290	(1)	560	600	-
Oxford Corridor Capacity Phase 2	16	(8)	-	24	29	-
GWEP Distribution Network Operators clearance work	1	(13)	-	6	(7)	-
East Coast Main Line Enhancements Programme	104	102	(25)	478	514	(29)
Manchester Improvements	10	28	1	29	60	1
Reading Independent Feeder (Power Supply)	19	(27)	(4)	29	34	(4)
Bristol East Junction	47	66	25	89	119	23
Kings Lynn to Cambridge 8 Car	-	3	(2)	26	25	(3)
South West Rail Resilience Programme	40	42	(3)	85	92	(3)
St Albans Station Capacity	2	2	-	4	6	-
London Euston (in support of High Speed Rail Group scheme)	15	7	(1)	32	23	(1)
SFN-Freight Forecasts project	6	(11)	4	30	27	4
Access for All	50	47	-	81	133	-
Thameslink Resilience Programme	5	(2)	(1)	23	23	1
Midlands Hub - Continued Design and Early Development	3	5	-	4	6	-
Western Rail Access to Heathrow	1	(21)	1	15	16	1
Welsh Valleys	-	-	-	-	-	-
Crossrail	73	22	(62)	186	174	(139)
Integrated Crewe Hub - HS2	-	(2)	2	6	6	2
Reading, Ascot to Waterloo Train Lengthening	-	(6)	(1)	15	15	-
Dr Days to Filton Abbey Wood Capacity	1	3	-	10	10	-
Portfolio Contingency (including T-12)	-	(37)	-	10	13	37
Depots & Stabling Fund	9	(1)	-	30	30	-
Northern Hub	-	12	7	49	54	5
Thames Valley EMU Capability	-	6	-	10	11	-
West Coast PSU	(5)	3	2	7	19	2
IEP Western Capability	2	5	-	17	19	-
West of England Plat Length	1	(1)	-	4	4	-
Feltham	2	(3)	-	9	9	-
High Speed 2	-	-	-	7	-	-
Birmingham New Street Gateway	8	9	(6)	22	19	(14)
Access to Assets	4	(4)	-	9	14	-
Restoring Your Railway	45	27	-	52	50	-
University Station	12	5	-	12	11	-
Energy Coast Rail Upgrade Project	1	(2)	2	6	5	3
GWML W10-W12 Gauge Enhancement	1	2	-	11	10	-
NWEP Phase 7 Lostock - Wigan	5	(4)	-	6	5	-
Crumlin River Bridge	-	(1)	-	4	4	1
W009 West of England DMU Capability	-	(5)	-	6	7	-
Anglia Traction PSU	3	-	(1)	8	4	(1)
EC Digital	106	86	-	106	86	-
Ely Area Capacity Enh	10	12	-	10	12	-
Ashford to Ramsgate	2	8	-	2	8	-
Clapham Junction Short-term	2	5	-	2	5	-
Darlington Station Improvements	3	9	-	3	9	-
Denmark Hill Congestion Relief	3	8	-	3	8	-
Tactile Paving Installation	6	10	-	6	10	-
New Stations Fund	2	16	-	2	16	-
River Irwell FI Resil	3	6	-	3	6	-
Other	34	(35)	(11)	123	58	(9)
Total	1,610	824	(49)	4,363	4,602	(161)

Statement 3.7: Analysis of enhancements expenditure - continued

Other Capital Expenditure	16	-	-	343	-	-
Other third party funded schemes						
HS2	188	-	-	624	-	-
Other third Party	213	-	-	608	-	-
Total	401	-	-	1,232	-	-
Total enhancements	2,027	824	(49)	5,938	4,602	(161)
Total enhancements less Other third party funded schemes	1,626	824	(49)	4,706	4,602	(161)

Statement 3.7: Analysis of enhancement expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with England and Wales's core funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies other than the core Network Rail funder (DfT).
- (3) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by the government. This organisation plays an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with the England and Wales's core funder DfT.
- (6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) Enhancement expenditure in the year paid for by the core England & Wales funder (DfT) was £1,626m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,027m) less the PAYGO schemes funded by other third parties (£401m).
- (2) Enhancement expenditure this year is greater than the latest regulatory baseline agreed with DfT. This mainly due to CP6 cumulative baseline as agreed with the DfT incorporates the outcomes from the Spending Review 2021 (SR21), offset by related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial underperformance has been recognised this year, mostly in connection with ECML, Crossrail and Birmingham New Street Gateway. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT))

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

In £m cash prices unless stated

- (1) Department for Transport funded schemes – expenditure this year is higher than the regulatory baseline. This mainly related to revised SR21 Baseline, offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Thameslink – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than the baseline with majority of the works relating to Three Bridges Rail Operating Centre (TBROC) and some minor improvements work still being made at London Bridge station of adding new retail units and improving facilities. Cumulative expenditure is lower than the baseline due to works being re-profiled for Chart Leacon into future control periods.
 - b. Great Western Electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been with baseline. Cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.
 - c. Brighton Main Line Upgrade Programme – The Croydon Area Remodelling Scheme (CARS) is part of the longer-term Brighton Main Line upgrade proposals. Infrastructure Investment will provide major improvements at East Croydon and Norwood Junction stations and facilitate better timetables, a reduction in reactionary delay and permit additional peak trains in response to high levels of standing passengers on the London to South Coast rail network. In year performance is achievement of design works and improved business case to re-baseline the scheme to incorporate outcomes from the Spending Review (SR21).
 - d. Midland Main Line Programme (MML) – The programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Progress against London to Corby Electrification (L2C) and other key outputs have progressed slower than the baseline expectations due to phase 3 works pending further release of government investment and re-alignment of works into future years for efficient delivery. Cumulative financial performance being in line with the remitted scope of works.
 - e. Wessex enhancements (Waterloo and South London HV Grid) – This project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes. Cumulative performance is inline with baseline and incorporates funding descope from the Spending Review (SR21) outcome.
 - f. Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. In year and cumulative acceleration is due to maturity of the West of Leeds programme. Financial out performance on Leeds Intermediate Interventions is due to contractor efficient delivery of works and risk management.

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

In £m cash prices unless stated

- g. Hope Valley capacity – This project is to increase passenger and freight capacity on the Hope Valley line between Sheffield and Manchester. Works have progressed slower than anticipated in year due to delay in release of government investment and re-profiled in future years.
- h. Critical station improvements fund– The programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Station improvements at Surbiton, Peckham Rye, London Liverpool Street and Stratford and other projects. Works have progressed slower than anticipated in year due to delay in scope finalisation and release of government investment.
- i. Gatwick Airport Station – The project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. In year and cumulative adverse financial performance is a result of additional scope required to meet regulatory standards relating to improved physical security at the station.
- j. East West Rail Phase 2 – The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This structure, whilst delivering benefits, has led to slower decision-making processes which has been exacerbated by HM Treasury's understandable interest in authorising tranches of work on the programme. Progress in year has been slower than baseline due to risk management and pending further release of government investment.
- k. Oxford Corridor Capacity Phase 2 – The project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services. Progress has been slower than anticipated this year pending release of further government investment and re-profiling works into future years following submission of a Transport and Works Act Order (TWAo) for land purchase.
- l. East Coast Main Line Enhancements Programme – The programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Slower progress and under financial performance in the year is partially due to Covid-19 and retiming of East Coast Programme, Werrington and Kings Cross to reduce the impact on passengers by allowing the running of more services during partial closures.
- m. Manchester Improvement Programme (MIP) – Programme includes improvements to increase capacity along the Castlefield corridor between Manchester' piccadilly and oxford road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Progress on the North Train Lengthening has progressed slower than the baseline expectations, pending release of government investment and reprofiling activities into the future years

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

In £m cash prices unless stated

- n. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Cumulative underspend and financial underperformance is due to works been reprofiled into future years of the control period.
- o. Bristol East Junction – This project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
- p. Kings Lynn to Cambridge 8 Car – Projects will upgrade platform extensions at Waterbeach and Littleport station and provide a eight car service trains between Cambridge and King's Lynn to reduce overcrowding on existing services. Financial underperformance is due to additional re-design works.
- q. South West Rail Resilience Programme – This programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Financial underperformance is due to programme anticipated final cost is greater than baselined.
- r. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is slower than baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- s. Thameslink Resilience Programme – Strategic enabling programme to increase asset resilience on critical sections of Thameslink related routes. Greater progress has been made this year, interfacing with other projects on the network to minimise disruption to passengers. Cumulative outperformance is due to reduction in anticipated total programme costs following effective work bank planning and cost savings negotiated on possession management.
- t. 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. The programme adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London.
- u. Portfolio Contingency (including T-12) – Cumulative performance in this category are for the additional schedule 4 payments to TOC's, which resulted from Covid-19 related delays to publishing timetables.

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

In £m cash prices unless stated

- v. Northern Hub Programme will improve rail travel in the North of England, easing the rail bottleneck around Manchester Piccadilly Station by providing additional services, increased capacity and platform improvements. Cumulative financial outperformance has been recognised as the programme anticipated final cost is less than baselined.
- w. Birmingham New Street Gateway – This project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Increased spend in year and adverse financial performance relate to ongoing remediation in the steelworks of the Birmingham New Street atrium roof and on-going compensation and associated costs relating to the multi-storey car park.
- x. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial underperformance is mainly relating to Coastway Level Crossing Closure due to delayed delivery and associated prolongation costs.

England & Wales

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21			
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	264	146	1,808	219	146	1,500
	PL Replace Partial	km	249	654	381	274	666	411
	PL High Output	km	176	144	1,222	134	114	1,175
	PL Refurbishment	km	102	643	159	107	655	163
	PL Track Slab Track	km	1	1	1,000	-	-	-
	Switches & Crossing - Replace	point ends	148	276	536	121	243	498
	Switches & Crossing - Other	point ends	128	1,089	118	79	933	85
	Off Track	km/No.	153	2,700	57	142	2,913	49
	Track Other		-	-	-	-	-	-
Total		1,221			1,076			
Signalling	Signalling Full	SEU	189	475	398	151	353	428
	Signalling Partial	SEU	33	211	156	44	222	198
	Signalling Refurb	SEU	191	482	396	156	288	542
	Level crossings	No.	73	196	372	127	287	443
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		486			478			
Civils	Underbridges	m2	239	66,331	4	220	59,925	4
	Overbridges (incl BG3)	m2	39	14,345	3	43	11,734	4
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	38	130,376	0	12	38,967	0
	Culverts	m2	14	4,351	3	12	4,706	3
	Footbridges	m2	15	3,786	4	11	1,686	7
	Coastal & Estuarial Defences	m2	7	1,532	5	9	16,425	1
	Retaining Walls	m2	9	4,291	2	10	9,381	1
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		361			317			
Earthworks	Earthworks - Embankments	No.	162	2,494	65	178	2,230	80
	Earthworks - Soil Cuttings	No.	132	2,665	50	103	7,444	14
	Earthworks - Rock Cuttings	No.	57	720	79	42	888	47
	Earthworks - Other	No.	10	72	139	6	242	25
	Drainage - Earthworks	m	20	105,505	0	13	72,385	0
	Drainage - Other	m	89	183,651	0	98	213,139	0
TOTAL		470			440			
Buildings	Buildings (MS)	m2	2	35,630	0	3	34,076	0
	Platforms (MS)	m2	25	910	27	25	410	61
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	1	11,410	0	1	11,915	0
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	13	20,758	1	7	4,064	2
	Buildings (FS)	m2	15	53,814	0	15	23,829	1
	Platforms (FS)	m2	55	64,185	1	53	80,213	1
	Canopies (FS)	m2	23	12,155	2	44	48,135	1
	Train sheds (FS)	m2	-	550	-	-	-	-
	Footbridges (FS)	m2	34	6,142	6	45	6,769	7
	Lifts & Escalators (FS)	m2	2	3	667	3	15	200
	Other (FS)	m2	31	237,674	0	34	303,617	0
	Light Maintenance Depots	m2	13	118,774	0	21	236,656	0
	Depot Plant	m2	1	5	200	3	1,773	2
	Lineside Buildings	m2	33	106,882	0	36	83,641	0
	MDU Buildings	m2	36	95,062	0	68	173,802	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		284			358		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	34	134	254	41	90	456
	mid-life refurbishment	Wire runs	109	162	673	-	-	-
	structure renewals	No.	42	784	54	44	908	48
	other OLE		-	-	-	1	2	500
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	32	103	311	35	107	327
	HV Switchgear Renewal AC	No.	-	-	-	2	5	400
	HV Cables AC	No.	2	3	667	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	18	25	720	20	21	952
	HV cables DC	km	35	48	729	17	33	515
	LV cables DC	km	4	23	174	4	28	143
	Transformer Rectifiers DC	No.	3	2	1,500	-	1	-
	LV switchgear renewal DC	No.	2	18	111	-	-	-
	Protection Relays DC	No.	1	22	45	-	10	-
	FSP	No.	3	116	26	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	9	89	101	11	102	108
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	3	51	59	1	20	50
	Signalling Power Cables	km	28	322	87	79	288	274
	Signalling Supply Points	point end	3	3	1,000	8	11	727
	NSCD / Track Feeder Switch (#)		11	84	131	11	476	23
	Total		339			274		
Telecoms	Customer Information Systems	No.	4	395	10	2	146	14
	Public Address	No.	-	113	-	-	12	-
	CCTV	No.	5	582	9	2	417	5
	Other Surveillance	No.	-	15	-	-	10	-
	PABX Concentrator	No.	12	7,893	2	11	5,920	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	9	111	1	16	63
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	44	-	-	-	-
	HMI Large	No.	1	28	36	-	7	-
	Radio		-	-	-	-	-	-
	Power		6	397	15	6	465	13
	Other comms		-	-	-	-	-	-
	Network		5	69	72	2	30	67
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		34			24		

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - There has been an increase in the unit cost of PL Replace Full in the year. This can partially be explained by complex jobs in the Eastern and Wales & Western regions in the year. There has been an increase in the unit costs for Switches and Crossings in the year in both the Replace and Other categories. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There has been a number of complex jobs in the Eastern and North West & Central regions. There has been an increase in the unit rate in Off Track in the year. However Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore each year there will be a different mix in the renewal work being done making it difficult to do any comparisons.

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

In £m cash prices unless stated

- (3) Signalling – There has been a decrease in the unit cost of Signalling Refurb in the year. There was a major project in the year in Wales & Western (Paddington) which delivered more than half of the volumes across the network. This project has a low unit cost so skewed the rate downwards. There has been a decrease in the unit cost of Signalling Partial in the year. This was because in 2020/21 there was a large project in Ditton in the North West & Central regions which had a very high unit cost. This project was completed last year so had no effect on the current year analysis. Finally, there has been a decrease in the unit cost of Level Crossings in the year. In the prior year there were a number of complex projects in the Wales & Western and Eastern regions which had a high unit cost and increased the overall rate
- (4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (5) Earthworks & Drainage – There has been an increase in the unit cost of Soil Cuttings in the year. This is because there has been a higher proportion of expensive renew work in the current year compared to refurb and maintain work in 2020/21. There has been an increase in the unit cost of Rock Cuttings in the year for a similar reason. There was a larger proportion of the least expensive maintain work in the prior year. There has also been an increase in the unit cost of Earthwork Other in the year. In 2020/21 there was a major project in the North West & Central region which delivered over three quarters of all the total volumes in this category and skewed the unit cost upwards.
- (6) Buildings – There has been a decrease in the unit cost of Managed Stations Platforms in the year. There aren't many projects in this category but there is a major one in Kings Cross in the Eastern region which is now planning to deliver a much greater number of volumes in the control period. There has been an increase in the unit cost of Franchised Stations Lifts and Escalators in the year. This is due to one particularly expensive project at Liphook Station in Southern in the current year which is dragging up the unit cost. There has also been a large increase in the unit cost of Depot Plant in the year. In 2020/21 there was a major project at Bedford in the Eastern Region that had a much lower unit cost than all the others and so the rate was lower in that year.
- (7) Electrical Power and Fixed Plant – There has been a decrease in the unit cost of Wiring in the year. This is down to a lower than average unit cost in the North West & Central region. These projects have a higher proportion of partial refurb work which is less expensive than a full re-wire. There has been a decrease in the unit cost of HV Switchgear Renewal DC in the year. There have been relatively less expensive projects such as Acton Lane Feeder station compared to the projects at East Croydon and Godlington in the prior year. However there has been an increase in the unit cost of HV Cables DC in the year. There were only a few projects delivering volumes in 2020/21 so that sample size is too small to do any useful analysis. There has been an increase in the unit cost of LV Cables DC in the year. However, there was only one project delivering volumes in the prior year so as above the low sample size is making any analysis meaningless. There has been an increase in the unit cost for point heaters. As above there was only one project in the prior year. There has been a decrease in the unit cost of Signalling Power Cables. In the prior year there were complex projects in the North West & Central and Wales & Western regions which dragged up the unit cost as a whole. There has been an increase in the unit cost of Signalling Supply Points but there was only one project in the year doing renewals at Carlisle, Preston and Warrington. There has also been an increase in the unit cost of NSCD/ Track Feeder Switch. There was only one project that spanned both years in the Southern region and there was a large reduction in the total planned volumes delivered this year which has driven down the unit cost.

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

In £m cash prices unless stated

- (8) Telecoms – There has been an increase in the unit cost of DOO CCTV in the year. However, there was only one project in each year with the one in North West & Central this year having a higher rate than the one in Bromley in the Southern region last year. There has also been an increase in the unit cost of Network in the year. There was only one project in the year and that project was one of two last year so the sample size is too small to do any useful analysis.

England & Wales

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	65,118
Indexation to 2021-22 prices	68,439
RAB additions	
Renewals expenditure	3,466
Enhancements expenditure	-
Less amortisation	(3,466)
Property Sales	(83)
Closing RAB	68,356

Net debt

	£m
Opening net debt	48,192
Income	(8,684)
Expenditure	7,613
Financing Costs - Government borrowing	796
Financing Costs - index linked debt	1,603
Financing Costs - Other	103
Corporation tax	-
Working capital	252
Closing net debt	49,875

Statement 4: Regulatory financial position, England & Wales

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of England & Wales Regions and how it has moved in the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £3.5bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the England & Wales Regions and how it has moved during the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's closing debt attributable to England & Wales Regions is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.

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

In £m cash prices unless stated

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

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

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

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

Scotland's Railway

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	654	635	19	-	654
Franchised track access charges	393	420	(27)	(9)	394
Other Single Till Income	40	45	(5)	(6)	33
Total Income	1,087	1,100	(13)	(15)	1,081
Operating expenditure					
Network operations	66	52	(14)	(14)	63
Support costs	107	73	(34)	(28)	98
Traction electricity, industry costs and rates	73	84	11	-	71
Maintenance	193	162	(31)	(33)	188
Schedule 4	29	16	(13)	(14)	25
Schedule 8	12	1	(11)	(11)	(3)
	480	388	(92)	(100)	442
Capital expenditure					
Renewals	482	487	5	(20)	497
Enhancements	161	180	19	(1)	169
	643	667	24	(21)	666
Risk expenditure					
Risk (Centrally-held)	-	7	7	-	-
Risk (Route-controlled)	-	67	67	-	-
Risk (Contingent asset management funding)	-	-	-	-	-
	-	74	74	-	-
Other expenditure					
Financing costs	281	225	(56)	-	180
Corporation tax	-	7	7	-	6
	281	232	(49)	-	186
Total expenditure	1,404	1,361	(43)	(121)	1,294
Total Financial Out/(under) performance				(136)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	1,748	1,773	(25)	-
Franchised track access charges	1,134	1,193	(59)	(25)
Other Single Till Income	112	133	(21)	(21)
Total Income	2,994	3,099	(105)	(46)
Operating expenditure				
Network operations	178	157	(21)	(20)
Support costs	282	237	(45)	(31)
Traction electricity, industry costs and rates	211	238	27	-
Maintenance	536	494	(42)	(52)
Schedule 4	74	45	(29)	(31)
Schedule 8	19	23	4	3
	1,300	1,194	(106)	(131)
Capital expenditure				
Renewals	1,290	1,388	98	(54)
Enhancements	525	617	92	2
	1,815	2,005	190	(52)
Risk expenditure				
Risk (Centrally-held)	-	11	11	-
Risk (Route-controlled)	-	104	104	-
Risk (Contingent asset management funding)	-	-	-	-
	-	115	115	-
Other expenditure				
Financing costs	662	672	10	-
Corporation tax	6	10	4	-
	668	682	14	-
Total expenditure	3,783	3,996	213	(183)
Total Financial Out/(under) performance				(229)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Scotland Railway's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Scotland's Railway's net expenditure (Total income less Total expenditure) was around £0.1bn higher than the regulatory baseline and £0.1bn lower than the control period to date regulatory baseline. The higher net expenditure this year relates to increased operating expenditure and financing costs experienced in year. The control period variance relates to lower than anticipated capital expenditure experienced so far in CP6.
- (2) This statement also shows that Network Rail Scotland has recognised financial underperformance of £136m this year and £229m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, other single till income and operating expenditure.
- (3) Income - Grant income in the year was higher than the regulatory baseline. This was mostly due to different phasing of activity being undertaken compared to that assumed in the baseline. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in the year due to the Covid-19 pandemic. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Financial underperformance has been recognised in year due to lower than expected variable track access. This is a direct consequence of Covid-19 leading to operators reducing the number of trains being run due to lower demand. Franchised track access income is broadly in line with last year. Franchised track access income is discussed in more detail in Statement 2.
- (5) Income – Other single till income in the year income is lower than the regulatory expectation due to the impact of Covid-19. However, in comparison to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions in comparison to prior year and increased footfall in stations as passengers become more willing and able to travel via the rail network. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the macroscopic effects are still suppressing. Other single till income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (6) Operating expenditure - Network operations costs are higher than the regulatory baseline and slightly higher than the previous year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide extra resilience. Control Period to date is higher than the regulator's assumption, largely due to the additional costs incurred this year from Network Rail's response to the Covid-19 pandemic. These additional costs have also led to the financial underperformance both for the current year, and for the control period to date. Network Operations costs are set out in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Primary reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. These costs are reflected in the financial underperformance recognised for the current year and the control period to date. The Control Period to date spend is higher than the regulatory assumption as the additional spend this year was partially offset by savings in the previous year, slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4
- (9) Operating expenditure - Overall, maintenance costs are higher than the regulatory baseline this year and for the Control Period to date. The primary causes for this increase in cost is Network Rail's continued response to the Covid-19 pandemic, the investment in performance improvement initiatives and further investment to ensure CEFA standards are achieved. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This is realised through increased staff premium costs and headcount to make sure there was cover available for sick and self-isolating staff. These further costs are reflected in the financial underperformance both for this year, and the control period to date. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Overall Schedule 4 costs are higher than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Disturbances caused by adverse weather, such as the storms on the network, resulted in higher costs. Costs are also higher for the control period to date, as there is a higher level of compensation payable to long distance operators (which attract higher compensation than the local operators) compared to the modelled assumption in the regulatory baseline. As a result, financial underperformance is recognised for both the current year and the control period to date. Costs are slightly higher than the previous year as a result of the storms experienced this year. Schedule 4 costs are discussed in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are adverse to the regulatory baseline this year due to the adverse weather in Scotland affecting the ability to run to timetable. However, the control period to date outperformance is due to bad weather experienced in Scotland being offset by the impact of Covid-19 which has resulted in fewer passengers and services hence lower Schedule 8 costs. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Overall, Renewals expenditure is broadly in line with the regulatory baseline, but below last year's expenditure. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancements expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio. When assessing financial performance, projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs, and costs with Transport Scotland. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of Transport Scotland. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.
- (15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (except for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.
- (16) Other expenditure – Corporation tax costs were not incurred this as we have continued to invest heavily in the railway network this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Scotland's Railway

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	280	286	(6)	-	283
Variable usage charge	20	28	(8)	(8)	18
Electrification asset usage charge	2	3	(1)	(1)	2
Capacity charge	-	-	-	-	-
Open access income	1	-	1	1	-
Managed stations long term charge	7	8	(1)	(1)	7
Franchised stations long term charge	22	22	-	-	22
Traction electricity charges	34	46	(12)	-	-
Schedule 4 access charge supplement	12	12	-	-	13
	378	405	(27)	(9)	345
Other single till income					
Freight income					
Freight variable usage charge	3	3	-	-	2
Freight other income	-	-	-	-	-
	3	3	-	-	2
Stations income					
Managed stations qualifying expenditure	7	9	(2)	(2)	7
Franchised stations lease income	2	2	-	-	2
	9	11	(2)	(2)	9
Facility and financing charges					
Facility charges	1	1	-	-	1
	1	1	-	-	1
Property income					
Property rental	10	19	(9)	(9)	5
Property sales	-	-	-	(1)	1
	10	19	(9)	(10)	6
Depots Income	14	8	6	6	11
Other income	1	-	1	1	1
Freight traction electricity charges	1	1	-	-	-
Total other single till income	39	43	(4)	(5)	30
Total Regionally-managed income	417	448	(31)	(14)	375
Centrally-managed income					
Network grant	525	471	54	-	504
Internal financing grant	61	89	(28)	-	68
External financing grant	59	60	(1)	-	68
BTP grant	9	9	-	-	8
Corporation tax grant	-	6	(6)	-	6
Infrastructure cost charges	12	12	-	-	13
Schedule 4 access charge supplement	3	3	-	-	3
Traction electricity charges	-	-	-	-	33
Freight traction electricity charges	-	-	-	-	-
	669	650	19	-	703
Other single till income					
Property income					
Property rental	1	-	1	1	1
Property sales	-	2	(2)	(2)	2
	1	2	(1)	(1)	3
Total other single till income	1	2	(1)	(1)	3
Total centrally-managed income	670	652	18	(1)	706
Total income	1,087	1,100	(13)	(15)	1,081

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	804	811	(7)	-
Variable usage charge	61	82	(21)	(21)
Electrification asset usage charge	6	7	(1)	(1)
Capacity charge	-	-	-	-
Open access income	1	1	-	-
Managed stations long term charge	21	23	(2)	(3)
Franchised stations long term charge	64	64	-	-
Traction electricity charges	34	46	(12)	-
Schedule 4 access charge supplement	35	35	-	-
	1,026	1,069	(43)	(25)
Other single till income				
Freight income				
Freight variable usage charge	8	8	-	-
Freight other income	-	-	-	-
	8	8	-	-
Stations income				
Managed stations qualifying expenditure	21	27	(6)	(6)
Franchised stations lease income	6	5	1	-
	27	32	(5)	(6)
Facility and financing charges				
Facility charges	3	3	-	1
	3	3	-	1
Property income				
Property rental	15	35	(20)	(20)
Property sales	1	-	1	-
	16	35	(19)	(20)
Depots Income	33	23	10	10
Other income	3	1	2	3
Freight traction electricity charges	1	1	-	-
Total other single till income	91	103	(12)	(12)
Total Regionally-managed income	1,117	1,172	(55)	(37)
Centrally-managed income				
Network grant	1,328	1,300	28	-
Internal financing grant	196	243	(47)	-
External financing grant	193	196	(3)	-
BTP grant	25	25	-	-
Corporation tax grant	6	9	(3)	-
Infrastructure cost charges	36	36	-	-
Schedule 4 access charge supplement	8	8	-	-
Traction electricity charges	64	80	(16)	-
Freight traction electricity charges	1	1	-	-
	1,857	1,898	(41)	-
Other single till income				
Property income				
Property rental	18	24	(6)	(7)
Property sales	2	5	(3)	(2)
	20	29	(9)	(9)
Total other single till income	20	29	(9)	(9)
Total centrally-managed income	1,877	1,927	(50)	(9)
Total income	2,994	3,099	(105)	(46)

Statement 2: Analysis of income, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Infrastructure cost charged, Variable usage charge, Traction electricity charges and Property income received, as a direct consequence of Covid-19. Current year and Control Period to date underperformance is largely due to adverse variances in Property income and variable usage charges. Income is higher than the previous year mostly due to additional grant income from funders (Transport Scotland and DfT), reflecting the new financial framework for CP6.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services compared to the regulatory baseline. Regionally-managed income is greater than last year mainly due to traction electricity charges being devolved from centrally-managed to the geographic regions which obtain the income. There has also been an increase in property rental income compared to last year's actuals. This is due to Covid-19 restrictions reducing over FY22 when compared to FY21, and thus increased passenger demand. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was slightly lower than the baseline this year and the prior year. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to Covid-19. Income generated under this mechanism is marginally higher than the previous year as a result of the reduction to Covid-19 restrictions over FY22.
- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges.

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

In £m cash prices unless stated

- (5) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised, reducing 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 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance. In FY22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to. Income was marginally higher than the previous year, which can be seen in last year's centrally-managed income, due to Covid-19 restrictions reducing throughout the year, leading to an increasing number of train services being ran when compared to FY21. This was largely offset by costs payable by Network Rail for electricity (as shown in Statement 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (6) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements. Income was in line with the previous year, which was also in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the schedule 4 mechanism.
- (7) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19. However, in comparison to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions in comparison to prior year and increased footfall in stations as passengers become more willing and able to travel via the rail network. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the macroscopic effects are still supressing.
- (8) Depots income – revenue is higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2020/21.

Centrally-managed income

- (1) Aggregate Centrally-managed income is larger than the CP6 baseline this year, entirely due to a larger Network grant than was anticipated. Income is slightly lower than the previous year once the movement of traction electricity charges is considered due to reduced internal and external financing grants.

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

In £m cash prices unless stated

- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.
- (3) Network grant – income is higher than the regulatory baseline and previous year, and the control period to date.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (5) External financing grants – grants received in the year and for the control period to date are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source lower than the previous year, where because of the higher grant received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the control period to date regulatory baseline.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.

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

In £m cash prices unless stated

- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region the reside in and narrative on variances are mentioned in the regionally managed income section.

Scotland's Railway

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	64	50	(14)	(14)	61
Maintenance	187	155	(32)	(34)	182
Support costs	37	18	(19)	(19)	37
Traction electricity, industry costs and rates	69	80	11	-	-
Schedule 4	29	14	(15)	(16)	24
Schedule 8	12	-	(12)	(12)	5
	398	317	(81)	(95)	309
Capital expenditure					
Renewals	432	435	3	(25)	443
Enhancements	161	180	19	(1)	169
	593	615	22	(26)	612
Total Regionally-managed expenditure	991	932	(59)	(121)	921
Centrally-managed expenditure					
Operating expenditure					
Network operations	2	2	-	-	2
Maintenance	6	7	1	1	6
Support costs	70	55	(15)	(9)	61
Traction electricity, industry costs and rates	4	4	-	-	71
Schedule 4	-	2	2	2	1
Schedule 8	-	1	1	1	(8)
	82	71	(11)	(5)	133
Capital expenditure					
Renewals	50	52	2	5	54
Enhancements	-	-	-	-	-
	50	52	2	5	54
Risk Expenditure	-	74	74	-	-
Other					
Financing costs	281	225	(56)	-	180
Taxation	-	7	7	-	6
	281	232	(49)	-	186
Total centrally-managed expenditure	413	429	16	-	373
Total expenditure	1,404	1,361	(43)	(121)	1,294

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	172	151	(21)	(21)
Maintenance	516	471	(45)	(52)
Support costs	104	63	(41)	(41)
Traction electricity, industry costs and rates	69	80	11	-
Schedule 4	73	39	(34)	(36)
Schedule 8	27	21	(6)	(6)
	961	825	(136)	(156)
Capital expenditure				
Renewals	1,143	1,224	81	(64)
Enhancements	512	617	105	2
	1,655	1,841	186	(62)
Total Regionally-managed expenditure	2,616	2,666	50	(218)
Centrally-managed expenditure				
Operating expenditure				
Network operations	6	6	-	1
Maintenance	20	23	3	-
Support costs	178	174	(4)	10
Traction electricity, industry costs and rates	142	158	16	-
Schedule 4	1	6	5	5
Schedule 8	(8)	2	10	9
	339	369	30	25
Capital expenditure				
Renewals	147	164	17	10
Enhancements	13	-	(13)	-
	160	164	4	10
Risk Expenditure	-	115	115	-
Other				
Financing costs	662	672	10	-
Taxation	6	10	4	-
	668	682	14	-
Total centrally-managed expenditure	1,167	1,330	163	35
Total expenditure	3,783	3,996	213	(183)

Statement 3: Analysis of expenditure, Scotland's Railway

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is higher than the regulatory baseline this year. This is primarily due to increased operating and financing costs only being partially offset by the underspend in risk expenditure. The control period to date position is lower than the regulatory baseline as we have seen capital expenditure and risk underspend, being partially offset by increased operating expenditure. Costs are higher than the previous year mainly due to increased financing costs. The financial underperformance recognised this year and for the Control Period to date primarily relates to underperformance realised in both Operating and Capital expenditure categories. A significant amount of this underperformance is due to the impact of Covid-19 and higher like for like costs within the capital portfolio.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline mainly due to increased operating expenditure spend as a result of Covid-19 and train performance challenges. Costs are higher than the previous year due to the increased Enhancements delivery, plus the transfer of traction electricity costs from centrally managed technical authority function to the regions. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. Financial underperformance has been recognised for the control period to date, primarily due to the increased operating expenditure costs.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline due to lower risk expenditure being partially offset by increases in financing costs. Costs are higher than the previous year due to higher financing costs. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Scotland's Railway

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	33	29	(4)	(4)	34
Operations Management	4	2	(2)	(2)	4
Controllers	5	5	-	-	5
Electrical control room operators	2	1	(1)	(1)	2
	44	37	(7)	(7)	45
Non signaller expenditure					
Mobile operations managers	4	3	(1)	(1)	3
Managed stations	6	6	-	-	9
Performance	7	2	(5)	(5)	2
Other	3	2	(1)	(1)	2
Total Regionally-managed Operations expenditure	64	50	(14)	(14)	61
Centrally-managed Operations expenditure					
Network Services	2	2	-	-	2
Total centrally-managed Operations expenditure	2	2	-	-	2
Total operations expenditure	66	52	(14)	(14)	63

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	94	90	(4)	(4)
Operations Management	11	7	(4)	(4)
Controllers	14	14	-	-
Electrical control room operators	6	3	(3)	(3)
	125	114	(11)	(11)
Non signaller expenditure				
Mobile operations managers	10	9	(1)	(1)
Managed stations	20	18	(2)	(2)
Performance	11	5	(6)	(6)
Other	6	5	(1)	(1)
Total Regionally-managed Operations expenditure	172	151	(21)	(21)
Centrally-managed Operations expenditure				
Network Services	6	6	-	1
Total centrally-managed Operations expenditure	6	6	-	1
Total operations expenditure	178	157	(21)	(20)

Statement 3.1: Analysis of operations expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and slightly higher than the previous year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide extra resilience. Control Period to date is higher than the regulator's assumption, largely due to the additional costs incurred this year from Network Rail's response to the Covid-19 pandemic. These additional costs have also led to the financial underperformance both for the current year, and for the control period to date.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year and slightly higher than the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff and extra costs for additional cleaning requirements at managed stations. Control Period to date is higher than the regulator's assumption, primarily due to the additional costs incurred from the aforementioned reasons. These additional costs have also led to the financial underperformance both for the current year, and for the control period to date.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation this year as well as in the control period to date, but in line with the previous year's actual. Savings made in the first year of the period have been offset by increases in staff costs to provide extra resilience and ensure the continuation of the railway's function during the Covid-19 pandemic, resulting in an underperformance to date in the control period.
- (3) Performance – costs are higher than the regulatory baseline and the prior year. This is the result of the movement of costs from Support Other in FY20 to Performance in CP6. This also accounts for the adverse position seen in the control period to date.

Centrally-managed operations expenditure

- (1) Network Services – costs are in line with the regulatory baseline, the previous year and the Control Period to date.

Scotland's Railway

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	91	78	(13)	(13)	89
Signalling & Telecoms	27	20	(7)	(7)	27
Civils	33	27	(6)	(7)	23
Buildings	7	6	(1)	(2)	8
Electrical power and fixed plant	13	9	(4)	(4)	13
Other network operations	16	15	(1)	(1)	22
	187	155	(32)	(34)	182
Centrally-managed maintenance expenditure					
Telecoms	2	4	2	2	2
Route Services - Asset Information	4	4	-	-	4
STE Maintenance	1	-	(1)	(1)	-
Property	-	-	-	-	-
Route Services - Other	(1)	(1)	-	-	(1)
Other	-	-	-	-	1
	6	7	1	1	6
Total maintenance expenditure	193	162	(31)	(33)	188

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	253	240	(13)	(13)
Signalling & Telecoms	75	60	(15)	(15)
Civils	82	81	(1)	(8)
Buildings	21	17	(4)	(4)
Electrical power and fixed plant	36	28	(8)	(8)
Other network operations	49	45	(4)	(4)
	516	471	(45)	(52)
Centrally-managed maintenance expenditure				
Telecoms	6	10	4	4
Route Services - Asset Information	12	11	(1)	(2)
STE Maintenance	2	2	-	(1)
Property	-	-	-	-
Route Services - Other	-	-	-	(2)
Other	-	-	-	1
	20	23	3	-
Total maintenance expenditure	536	494	(42)	(52)

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and for the Control Period to date. The primary causes for this increase in cost is Network Rails continued response to the Covid-19 pandemic, the investment in performance improvement initiatives and further investment to ensure CEFA standards are achieved. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This is realised through increased staff premium costs and headcount to make sure there was cover available for sick and self-isolating staff. These further costs are reflected in the financial underperformance both for this year, and the control period to date.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year and slightly higher than previous year's actuals. The primary causes for this increase in cost is Network Rails continued response to the Covid-19 pandemic and further investment to ensure CEFA standards are achieved. This has also been augmented with investment in additional schemes to help asset resilience and train performance. Control Period to date spend is higher than the regulatory assumption, due to the aforementioned reasons. These further costs are also reflected in the financial underperformance both for this year, and the control period to date.
- (2) Track – track maintenance costs are traditionally the largest component of Network Rail's maintenance costs. This year, costs are higher than the regulatory baseline and broadly in line with previous year's expenditure; Covid-19 resilience and additional vegetation investment has led to this increase in costs. Further underperformance is observed as a result of the deferral of intelligent infrastructure efficiencies in FY22 to be realised in future financial years. Control Period to date spend is higher than the regulatory assumption because of the aforementioned costs.

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m cash prices unless stated

- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline and in line with previous year's expenditure; Covid-19 resilience and compliance investment has largely contributed to this extra spend. This included additional staff costs and the procurement of Covid-19 secure PPE. There has also been additional spend in performance related schemes, particularly relating to rapid response teams. Control Period to date is higher than the regulatory assumption due to the aforementioned reasons.
- (4) Civils – costs were higher than the regulatory baseline this year, mainly due to increased rates which directly impacted CEFA costs. Costs are higher than the previous year due to FY21 having lower levels of reactive maintenance activity and the previously mentioned increased CEFA rates. 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. Control Period to date is in line with the regulatory assumption as reduced expenditure in FY21 is counteracted by the increased costs recognised this year.
- (5) Buildings – costs were in line with the regulatory baseline this year and marginally lower than the previous year's actuals. Control Period to date is also slightly higher than the regulatory assumption as a result of increases in reactive expenditure in FY21.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are slightly lower than the regulatory baseline. As expected by the regulatory baselines, costs were in line with the previous year.

Scotland's Railway

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	5	3	(2)	(2)	4
Finance	3	2	(1)	(1)	2
Accommodation	10	10	-	-	8
Utilities	8	4	(4)	(4)	8
Other	11	(1)	(12)	(12)	15
	37	18	(19)	(19)	37
Centrally-managed Support costs					
Finance & Legal	5	6	1	1	4
Communications	2	2	-	-	2
Human Resources	3	3	-	-	3
System Operator	5	9	4	4	4
Property	2	1	(1)	-	1
Telecoms	8	8	-	-	8
Network Services	-	-	-	-	2
Safety Technical and Engineering	6	6	-	-	5
RS - IT and Business Services	13	12	(1)	(1)	13
RS - Asset Information	2	4	2	2	1
RS - Directorate	4	2	(2)	(2)	4
Other corporate functions	2	-	(2)	(3)	1
Insurance	3	5	2	2	3
OPEX/CAPEX Adjustment	13	7	(6)	-	19
Group costs	2	(10)	(12)	(12)	(9)
	70	55	(15)	(9)	61
Total support costs	107	73	(34)	(28)	98

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	12	8	(4)	(4)
Finance	6	6	-	-
Accommodation	35	35	-	-
Utilities	22	12	(10)	(10)
Other	29	2	(27)	(27)
	104	63	(41)	(41)
Centrally-managed Support costs				
Finance & Legal	12	15	3	3
Communications	5	5	-	-
Human Resources	8	7	(1)	(1)
System Operator	13	21	8	8
Property	4	-	(4)	(3)
Telecoms	20	23	3	3
Network Services	4	6	2	2
Safety Technical and Engineering	15	17	2	2
RS - IT and Business Services	36	35	(1)	(1)
RS - Asset Information	5	10	5	5
RS - Directorate	10	6	(4)	(4)
Other corporate functions	6	6	-	(4)
Insurance	9	12	3	4
OPEX/CAPEX Adjustment	39	21	(18)	-
Group costs	(8)	(10)	(2)	(4)
	178	174	(4)	10
Total support costs	282	237	(45)	(31)

Statement 3.3: Analysis of support costs, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Primary reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. These costs are reflected in the financial underperformance recognised for the current year and the control period to date. The Control Period to date spend is higher than the regulatory assumption as the additional spend this year was partially offset by savings in the previous year, slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline, but in line with the previous year spend, due to the implementation of the PPF re-organisation programme and the costs surrounding legal fees and claims. This, and the extra cost incurred in FY21 surrounding Covid-19, has largely contributed to the adverse variance for the control period to date. These further costs are also reflected in the financial underperformance recognised for the current year and the control period to date.
- (2) Human resources – costs in the current year are higher than the baseline expectation and the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative. This narrative is reflected in the higher than expected Control Period to date cost.
- (3) Other – costs were significantly higher than the regulatory baseline this year, but lower than the previous year's outturn. This is due to additional building costs resulting from the non purchase of an office in CP5, compensation costs and legal fees for events including Stonehaven, and devolution to Scotland through PPF as we ensure more decision making is sat closer to passengers.

Statement 3.3: Analysis of support costs, Scotland's Railway - continued

In £m cash prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are higher than the regulatory baselines this year and higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: reduction in headcount and in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is lower than the previous year as, although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism. Costs this year are broadly in line with last years outturn.
- (3) Communications – costs this year and for the control period to date are in line with the regulatory baseline.
- (4) Human Resources – costs this year and for the control period to date are in line with the regulatory baseline.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are broadly in line with last years outturn
- (6) Telecoms – costs are broadly in line with target but lower than the regulatory baseline for the control period. This is primarily due to efficiencies arising from headcount control in previous years. Financial overperformance has been recognised for the Control Period to date due to efficiencies made in headcount mentioned above.
- (7) Network Services – this function no longer exists and has been devolved out to other functions within this statement.
- (8) Technical Authority – costs are in line with the regulatory baseline and slightly higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (9) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly higher in the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs are in line with the previous year.

Statement 3.3: Analysis of support costs, Scotland's Railway - continued

In £m cash prices unless stated

- (10)Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but broadly in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (11)Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised in the past two years. Costs are in line with the previous year.
- (12)Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support. Reprofiling of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.
- (13)Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.
- (14)Opex/capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (15)Group – there is a noticeable variance from the baseline this year. As a result of a number of budget flexes from group finance to other cost lines in the regional numbers (including providing flexes to the regional teams for PPF) the group budget baseline in Scotland has become a negative budget. Although savings in group such a reduction in PRP payments have been realised, these haven't reduced so drastically to lead to a negative cost, which has led to a variance to budget.

Scotland's Railway

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	35	46	11	-	-
Business rates	25	25	-	-	-
British transport police costs	9	9	-	-	-
	69	80	11	-	-
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	34
Business rates	-	-	-	-	25
British transport police costs	-	-	-	-	8
ORR licence fee and railway safety levy	3	3	-	-	2
RDG membership costs	-	-	-	-	1
RSSB costs	1	1	-	-	1
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	4	4	-	-	71
Total traction electricity, industry costs and rates	73	84	11	-	71

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	35	46	11	-
Business rates	25	25	-	-
British transport police costs	9	9	-	-
	69	80	11	-
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	65	81	16	-
Business rates	48	49	1	-
British transport police costs	16	16	-	-
ORR licence fee and railway safety levy	8	8	-	-
RDG membership costs	1	1	-	-
RSSB costs	4	3	(1)	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	142	158	16	-
Total traction electricity, industry costs and rates	211	238	27	-

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to.
- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally-managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

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

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to increased network traffic, which can be seen in last years centrally-managed section. This has been offset by increased charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to. Costs this year are in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – Costs are in line with the regulatory baseline and slightly higher than the previous year's actuals. Last year's numbers can be seen in the centrally-managed section of the statement. Costs are in line with the regulatory baseline for the control period to date.

Scotland's Railway

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	29	14	(15)	(16)	24
Access charge supplement Income	(12)	(9)	3	-	(12)
Net (income)/cost	17	5	(12)	(16)	12
Schedule 8					
Performance element income	-	-	-	-	2
Performance element costs	12	-	(12)	(12)	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	12	-	(12)	(12)	5
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	2	2	2	1
Access charge supplement Income	(3)	(3)	-	-	(3)
Net (income)/cost	(3)	(1)	2	2	(2)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	-	1	1	1	(8)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	-	1	1	1	(8)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	29	16	(13)	(14)	25
Access charge supplement Income	(15)	(12)	3	-	(15)
Net (income)/cost	14	4	(10)	(14)	10
Schedule 8					
Performance element income	-	-	-	-	2
Performance element costs	12	1	(11)	(11)	(5)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	12	1	(11)	(11)	(3)
Cumulative					
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	73	39	(34)	(36)	-
Access charge supplement Income	(35)	(26)	9	-	-
Net (income)/cost	38	13	(25)	(36)	
Schedule 8					
Performance element income	2	-	(2)	(2)	-
Performance element costs	25	21	(4)	(4)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	27	21	(6)	(6)	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	6	5	5	-
Access charge supplement Income	(8)	(7)	1	-	-
Net (income)/cost	(7)	(1)	6	5	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(8)	2	10	9	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(8)	2	10	9	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	74	45	(29)	(31)	-
Access charge supplement Income	(43)	(33)	10	-	-
Net (income)/cost	31	12	(19)	(31)	
Schedule 8					
Performance element income	2	-	(2)	(2)	-
Performance element costs	17	23	6	5	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	19	23	4	3	

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are higher than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Disturbances caused by adverse weather, such as the storms on the network, resulted in higher costs. Costs are also higher for the control period to date, as there is a higher level of compensation payable to long distance operators (which attract higher compensation than the local operators) compared to the modelled assumption in the regulatory baseline. As a result, financial underperformance is recognised for both the current year and the control period to date. Costs are slightly higher than the previous year as a result of the storms experienced this year.
- (2) Overall Schedule 8 costs are adverse to the regulatory baseline this year due to the adverse weather in Scotland affecting the ability to run to timetable. However, the control period to date outperformance is due to bad weather experienced in Scotland being offset by the impact of Covid-19 which has resulted in fewer passengers and services hence lower Schedule 8 costs.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland's Railway – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline due to the adverse impact from weather events. There were several individual storms in FY22 (Arwen, Barra, Dudley, Eunice, and Franklin). Costs also exceed the regulatory baseline for the control period to date. The inclement weather experienced in prior years including storms like, Ciara, Dennis and Jorge, which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Costs are also higher due to a higher level of compensation payable to long distance operators (which attract higher compensation than the local operators) compared to the modelled assumption in the regulatory baseline. Costs are higher than last year's actuals.
- (2) Schedule 8 costs are adverse against the regulatory baseline and the control period to date due. This underperformance is a result of train performance being significantly impacted by inclement weather experienced in Scotland in FY22, especially the storms experienced throughout the winter months.

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for this year and higher for the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is a small net inflow resulting from Schedule 4 costs in FY21/22 returning an income. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.
- (3) Schedule 8 – this year's cost is broadly in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally-managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

Scotland's Railway

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	43	53	10	-	52
PL Replace Partial	28	35	7	-	43
PL High Output	22	37	15	-	22
PL Refurbishment	7	3	(4)	-	5
PL Track Slab Track	7	-	(7)	-	7
Switches & Crossing - Replace	24	17	(7)	-	22
Switches & Crossing - Other	7	16	9	-	7
Off Track	11	10	(1)	-	9
Track Other	18	17	(1)	-	22
	167	188	21	(8)	189
Signalling					
Signalling Full	6	37	31	-	5
Signalling Partial	26	7	(19)	-	30
Signalling Refurb	17	11	(6)	-	11
Level crossings	7	6	(1)	-	7
Minor works	13	17	4	-	12
Other	-	-	-	-	-
	69	78	9	(20)	65
Civils					
Underbridges	33	33	-	-	43
Overbridges	12	17	5	-	8
Major structures	8	1	(7)	-	12
Tunnels	7	8	1	-	-
Minor works	13	12	(1)	-	11
Other	10	11	1	-	14
	83	82	(1)	7	88
Earthworks					
Earthworks - Embankments	12	5	(7)	-	7
Earthworks - Soil Cuttings	26	21	(5)	-	20
Earthworks - Rock Cuttings	8	4	(4)	-	6
Earthworks - Other	2	3	1	-	1
	48	33	(15)	-	34
Buildings					
Managed stations	2	4	2	-	2
Franchised stations	17	18	1	-	24
Light maint depots	2	1	(1)	-	2
Depot plant	-	-	-	-	-
Lineside buildings	1	-	(1)	-	3
MDU buildings	-	-	-	-	1
Other	1	-	(1)	-	-
	23	23	-	(2)	32
Electrical power and fixed plant					
AC distribution	1	1	-	-	1
Overhead Line	19	3	(16)	-	3
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	2	9	7	-	5
Other	5	1	(4)	-	3
Fixed plant	4	2	(2)	-	2
	31	16	(15)	(1)	14
Drainage					
Drainage (Track)	8	7	(1)	-	6
Drainage (Earthworks)	-	2	2	-	14
Drainage (Resilience)	-	1	1	-	-
	8	10	2	(1)	20
Property					
Property	3	5	2	-	1
	3	5	2	-	1
Total Regionally-managed renewals expenditure					
	432	435	3	(25)	443

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	2	2	-	-	1
Network	1	1	-	-	1
SISS	3	6	3	-	1
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	7	8	1	-	9
	14	17	3	-	13
Wheeled plant and machinery					
High output	2	1	(1)	-	3
Incident response	-	-	-	-	-
Infrastructure monitoring	-	2	2	-	-
Intervention	1	3	2	-	1
Materials delivery	1	4	3	-	-
On track plant	3	6	3	-	3
Seasonal	-	2	2	-	1
Other	3	1	(2)	-	1
	10	19	9	-	9
Route Services					
Business Improvement	5	1	(4)	-	7
IT Renewals	3	7	4	-	4
Asset Information	1	1	-	-	2
Other	1	-	(1)	-	1
	10	9	(1)	-	14
STE Renewals					
Intelligent infrastructure	8	6	(2)	-	8
Faster Isolations	3	5	2	-	1
Centrally Managed Signalling Costs	1	1	-	-	-
Research and development	4	5	1	-	6
Integrated Management System (Incl. BCR)	-	1	1	-	-
Other National SCADA Programmes	2	1	(1)	-	3
Small plant	-	1	1	-	1
Other	8	1	(7)	-	5
	26	21	(5)	-	24
Property					
Property	-	1	1	-	-
	-	1	1	-	-
Other renewals					
ETCS	-	4	4	(1)	2
Digital Railway	2	(2)	(4)	-	-
Civils & Drainage - Insurance Fund	-	2	2	4	2
Buildings - Insurance Fund	-	2	2	-	-
OPEX/CAPEX Adjustment	(13)	(7)	6	-	(18)
Phasing overlay	-	(18)	(18)	-	-
System Operator	2	3	1	-	1
Other renewals	(1)	1	2	2	7
	(10)	(15)	(5)	5	(6)
Total centrally-managed renewals expenditure	50	52	2	5	54
TOTAL RENEWALS EXPENDITURE	482	487	5	(20)	497

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	139	139	-	-
PL Replace Partial	91	77	(14)	-
PL High Output	47	87	40	-
PL Refurbishment	16	8	(8)	-
PL Track Slab Track	18	6	(12)	-
Switches & Crossing - Replace	68	62	(6)	-
Switches & Crossing - Other	19	29	10	-
Off Track	29	29	-	-
Track Other	45	49	4	-
	472	486	14	(28)
Signalling				
Signalling Full	12	58	46	-
Signalling Partial	77	86	9	-
Signalling Refurb	32	61	29	-
Level crossings	17	27	10	-
Minor works	33	47	14	-
Other	-	-	-	-
	171	279	108	(29)
Civils				
Underbridges	104	95	(9)	-
Overbridges	27	36	9	-
Major structures	26	21	(5)	-
Tunnels	8	11	3	-
Minor works	32	35	3	-
Other	30	22	(8)	-
	227	220	(7)	(1)
Earthworks				
Earthworks - Embankments	28	16	(12)	-
Earthworks - Soil Cuttings	57	50	(7)	-
Earthworks - Rock Cuttings	22	16	(6)	-
Earthworks - Other	3	7	4	-
	110	89	(21)	8
Buildings				
Managed stations	4	7	3	-
Franchised stations	53	51	(2)	-
Light maint depots	5	5	-	-
Depot plant	-	-	-	-
Lineside buildings	6	1	(5)	-
MDU buildings	2	-	(2)	-
Other	1	-	(1)	-
	71	64	(7)	(5)
Electrical power and fixed plant				
AC distribution	4	2	(2)	-
Overhead Line	25	7	(18)	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	8	18	10	-
Other	7	4	(3)	-
Fixed plant	9	7	(2)	-
	53	38	(15)	(3)
Drainage				
Drainage (Track)	19	29	10	-
Drainage (Earthworks)	16	6	(10)	-
Drainage (Resilience)	-	3	3	-
	35	38	3	(6)
Property				
Property	4	10	6	-
	4	10	6	-
Total Regionally-managed renewals expenditure				
	1,143	1,224	81	(64)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	2	-	(2)	-
	2	-	(2)	-
Telecoms				
Operational communications	4	9	5	-
Network	3	7	4	-
SISS	5	13	8	-
Projects and other	2	-	(2)	-
Non-route capital expenditure	24	24	-	-
	38	53	15	(1)
Wheeled plant and machinery				
High output	8	8	-	-
Incident response	-	-	-	-
Infrastructure monitoring	-	4	4	-
Intervention	3	7	4	-
Materials delivery	2	11	9	-
On track plant	6	9	3	-
Seasonal	1	5	4	-
Other	5	1	(4)	-
	25	45	20	-
Route Services				
Business Improvement	22	15	(7)	-
IT Renewals	11	16	5	-
Asset Information	2	3	1	-
Other	2	1	(1)	-
	37	35	(2)	-
STE Renewals				
Intelligent infrastructure	18	14	(4)	-
Faster Isolations	7	15	8	-
Centrally Managed Signalling Costs	2	2	-	-
Research and development	13	13	-	-
Integrated Management System (Incl. BCR)	-	4	4	-
Other National SCADA Programmes	8	7	(1)	-
Small plant	1	3	2	-
Other	15	5	(10)	-
	64	63	(1)	-
Property				
Property	3	3	-	-
	3	3	-	-
Other renewals				
ETCS	4	9	5	(1)
Digital Railway	2	(4)	(6)	-
Civils & Drainage - Insurance Fund	2	7	5	5
Buildings - Insurance Fund	-	6	6	-
OPEX/CAPEX Adjustment	(38)	(21)	17	-
Phasing overlay	-	(40)	(40)	-
System Operator	4	6	2	-
Other renewals	4	2	(2)	7
	(22)	(35)	(13)	11
Total centrally-managed renewals expenditure	147	164	17	10
TOTAL RENEWALS EXPENDITURE	1,290	1,388	98	(54)

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is broadly in line with the regulatory baseline, but below last year's expenditure.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were broadly line with the regulatory baseline but slightly lower than last years outturn. Financial underperformance has been reported this year, with a significant portion of this relating to the signalling portfolio. Large value signalling programmes can be multi-year projects and be expensive so selecting appropriate scope and outputs is key to delivering value for money. Signalling plans need to tie into strategic objectives in the Region, including the interaction with Enhancement programmes and the aspirations of funders. Financial underperformance has been recognised this year resulting from higher inflation rates than were anticipated in the budgets as well as Covid-19 costs. In addition to this there has been the loss of economies of scale and increased material costs from suppliers. Control period to date spend is lower than target with financial underperformance being realised. In addition to the aforementioned signalling underperformance, a significant portion of underperformance relates to the continued impact of Covid-19, especially on the Track portfolio. Extra costs borne as a result of Covid-19 include re prioritising work at the beginning of the pandemic, additional welfare and labour costs and PPE purchases. Extra Vehicle costs were also incurred to ensure adherence to social distancing rules. Lost volumes, particularly in High Output where operators were stranded in eastern Europe due to Covid-19 travelling restrictions, also contributed to the financial underperformance in year.
- (2) Track – expenditure was lower than the regulatory baseline this year, primarily due to lost volumes in high output campaigns, which also contributed to the financial underperformance recognised in year. There was also underutilisation of SCO in Track Development initiatives whilst still incurring the fixed costs, which was driven by various events such as changes to workbank, safety standdowns and COP26 causing works to be cancelled. Access issues to Crannoch Wood meant only half of the anticipated volumes could be delivered leading to adverse performance. Financial underperformance has been recognised so far this control period. In addition to the aforementioned, reasons, to adhere to Covid-19 restrictions in FY21, midweek works were removed, which led to deferral costs. A number of high output machine operators were stranded in eastern Europe, as Covid-19 travel restrictions meant non-essential travel was prohibited, leading to lost volumes. The high output TRS machine also had gauging issues later in the year, which led to volume being unable to be delivered. Control period to date investment is lower than the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

- (3) Signalling – expenditure was lower than the regulatory baseline expected this year and for the control period to date. This was mainly due to delays in signalling works for volumes to be realised in future years. Large value signalling programmes can be multi-year projects and be expensive so selecting appropriate scope and outputs is key to delivering value for money. Signalling plans need to tie into strategic objectives in the Region, including the interaction with Enhancement programmes and the aspirations of funders. Financial underperformance has been recognised this year resulting from higher inflation rates than were anticipated in the budgets as well as Covid-19 costs. In addition to this there has been the loss of economies of scale and increased material costs from suppliers. There has also been changes in scope on level crossing conversion schemes and delays in gaining access due to Covid-19 restrictions at the beginning of the year. These aforementioned reasons supplemented with additional commercial claims on large projects, design issues and unforeseen extra landlord compensation to gain access to sites in FY20, have led to financial underperformance for the control period. Expenditure is higher than the previous year.
- (4) Civils – overall costs were slightly higher than the baseline this year. Financial outperformance has been reported this year off-setting previous years in the control period to allow a small underperformance to be reported. This year's performance is a result of improved delivery of projects, for example instead of constructing scaffolding to complete works on the Lugar Viaduct, rope access mechanisms were used allowing cost savings. Additionally, whilst a blockade had occurred, additional works were completed in Argyle without the necessary possession to take place which allowed reduced costs to be reported. The above has offset the financial underperformance experienced prior to this year. At the start of the control period, new framework contracts for CP6 had not been finalised. The final contracts agreed did not have the level of savings that the regulatory expectation and consequently the projects were more expensive than the baseline. The late contract awards also impacted access, especially on those schemes requiring third party consent prolonging projects, which led to the financial under performance experienced in previous years.
- (5) Earthworks – spend this year is over the regulatory baseline as more work has been undertaken than was originally planned. Financial performance is directly in line with the regulatory baseline this year as a balance of efficient workbank planning and inefficient delivery of Soil Cutting projects has occurred. The Stonehaven works carried out to repair the network after the derailment two summers ago are funded via the group insurance renewals fund and therefore the spend is not captured within the regional figures. Control period to date spend is slightly higher than the regulatory baseline, which is driven by acceleration of activity partly offset by financial outperformance savings. Financial outperformance in the control period has largely been generated through earlier contractor engagement to allow joint site visits and scoping of remits 12-18 months before delivery which has provided innovation solutions to be used and workbank stability.
- (6) Buildings – expenditure this year is in line with the regulatory baseline and lower than last year's outturn. Financial underperformance was recognised in year and control period to date. This year's FPM is the result of footbridge projects having issues with access times which resulted in time extensions. In addition to this, structural works were required in Edinburgh projects which were not originally designed; thus, costs were incurred for design work, installation costs and further time extensions. Regarding the control period to date, higher contract tender prices led to some postponement of works whilst alternative delivery options were assessed to optimise overall funding. Delivery was also impacted by Covid-19 and the impact social distancing had on contractor availability and internal ability to complete works. Delays in designs and planning have also led to additional costs on some projects.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

- (7) Electrical power and fixed plant – investment is much higher than the regulatory baseline this year and the control period to date. This is the result of increased investment into electrification, particularly overhead lines. There has been some marginal financial underperformance in year and for the control period to date, which is mainly due to higher tender prices and increased complexity in design.
- (8) Drainage – expenditure this year is lower than the regulatory baseline and last year's actual. Financial performance neutrality is also recognised as inefficiencies from changes in workbank have been offset by projects delivering volumes for less cost. Expenditure is much lower than the previous year as there has been less impact on drainage through increasing earthworks works. Control period to date expenditure is marginally lower than the baseline due to changes in workbank, most of which resulted from the Carmont Tragedy and the emergency renewal activity that occurred resulting from it.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is slightly under the regulatory baseline this year, with higher spend on STE programmes being offset by underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, primarily due to less spend being transferred to OPEX this year. Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in telecoms and wheeled plant and machinery activities.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs
- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. Financial neutrality has been recognised this year.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:
- a. High output – investment was higher than the regulatory baseline and higher than last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year includes renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.
 - c. Intervention – costs were lower than the regulatory baseline and last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred due to sunk costs realised in production of the sleeper factory have been expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower than the regulatory baseline. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.
 - f. Other – The reason for the significant increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.

Statement 3.6: Analysis of renewals expenditure, Scotland– continued

In £m cash prices unless stated

- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation and last year's expenditure. Notable variances at Key Cost Line include:
 - a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - b. Faster isolations – costs are broadly in line with the target and last years outturn.
 - c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but slightly higher than last year's outturn. This reflects the lower overall signalling costs this year compared to expectation.
 - d. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme being was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line in the control period to date.
 - e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - f. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
 - g. Small Plant – investment is broadly in line with the regulatory baseline this year and last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.

Statement 3.6: Analysis of renewals expenditure, Scotland– continued

In £m cash prices unless stated

- h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.
- (7) Property – no expenditure is reported, thus marginal underspend is recognised compared to the baseline. This is a result of centrally-managed property being transferred to regions.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is lower than the regulatory baseline and last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund. The financial outperformance recognised control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored
 - c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.
 - d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being reclassified as OPEX.

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

In £m cash prices unless stated

- e. System Operator – expenditure this year is in line with the regulatory baseline but higher than last year's outturn
- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Scotland's Railway

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	2	(2)	(4)	56	56	(6)
Aberdeen to Inverness	-	-	-	70	72	4
Kintore Station	-	2	-	14	16	(1)
Rolling Programme of Electrification	1	(12)	5	15	16	-
East Kilbride Barrhead	(1)	4	-	22	25	-
New Down Platform Dunbar	-	-	-	7	9	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	1	(7)	-	4	10	-
Cadder HST Depot	12	14	(2)	32	34	(2)
Hairmyres Land Purchase	-	2	-	14	14	-
Feeder St/Power Mod Ele	19	43	-	46	54	-
Edinburgh Waverley Western Approaches	2	-	(1)	6	14	-
Reston Station	13	8	-	16	20	-
North Hanover Street Development	1	1	-	5	13	-
West of Fife Enhancements	1	(3)	-	5	6	-
A9 Interface- Lynebeg Bridge	7	6	1	9	13	1
Far North Line Route Enhanceme	3	4	-	10	14	-
East Linton Station	5	2	-	11	9	-
Busby Jn to Barrhead Ele	15	26	-	15	26	-
Dalcross New Station	12	19	-	12	19	-
Levenmouth	12	14	-	12	14	-
GLAB Currie Feeder St	9	12	-	9	12	-
Cadder Buildings	6	4	(1)	6	4	(1)
Fife Decarbonisation	6	13	-	6	13	-
Millerhill Interventions	1	6	-	1	6	-
Barrhead Kilmarnock Ele	-	8	-	-	8	-
Aberdeen Cent Belt Elec	6	6	-	6	6	-
Portobello Junction	3	13	-	3	13	-
Aberdeen Cen Journey	4	5	-	4	5	-
Other	21	(8)	1	90	89	1
Total	161	180	(1)	512	617	2
Other Capital Expenditure	-	-	-	13	-	-
Other third party funded schemes						
Other third Party	4	-	-	4	-	-
Total	4	-	-	4	-	-
Total enhancements	165	180	(1)	529	617	2
Total enhancements less Other third party funded schemes	161	180	(1)	525	617	2

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the regulatory baseline, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with Scotland's Railway's core funder (TS). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the core Scotland's Railway funder of TS.
- (3) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government. These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Scotland's Railway's core funder (TS).
- (6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements. This is a new class of expenditure this year so there is no regulatory baseline or prior year comparative.

Comments:

- (1) Enhancement expenditure in the year paid for by the core Scotland's Railway funder (Transport Scotland) was £161m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£165m) less the PAYGO schemes funded by other third parties (£4m).
- (2) Enhancements expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio. When assessing financial performance, projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs, and costs with Transport Scotland. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of Transport Scotland.
- (3) Transport Scotland funded schemes - Enhancement expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio and financial underperformance. Some notable variances at programme level this year include

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

- a. Edinburgh to Glasgow Improvement Programme (EGIP) – The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Cumulative expenditure is greater than baseline and financial underperformance is a result of Covid-19 impact and additional platform and staircase works on Glasgow Queen Street station project.
 - b. Aberdeen to Inverness – This project to upgrade the railway structure provided capacity for the construction of two new stations Kintore and Inverness Airport. Infrastructure works consist of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Cumulative Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
 - c. Rolling Programme of Electrification – This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Cumulative financial performance includes final compensation settlements on completed programme.
 - d. Feeder Station/Power Modelling Electrification – Projects part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. In year and cumulative delivery has progressed slower than anticipated due to Covid-19 impact and delay in Transport Scotland funding release, resulting in reprofiling works into the future years on the full traction power modelling for new and enhanced feeder stations.
 - e. Other – this heading captures investment activity on numerous smaller programmes that have incurred small amount of FPM
- (1) Other capital expenditure – This category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent.
- (2) Third party funded schemes – there was minimum activity in this category this year.

Scotland's Railway

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21			
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	29	20	1,450	75	62	1,210
	PL Replace Partial	km	87	265	328	95	288	330
	PL High Output	km	25	23	1,087	23	10	2,300
	PL Refurbishment	km	18	183	98	19	208	91
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	35	51	686	12	25	480
	Switches & Crossing - Other	point ends	23	187	123	33	269	123
	Off Track	km/No.	31	1,246	25	34	1,231	28
	Track Other		-	-	-	-	-	-
Total		248			291			
Signalling	Signalling Full	SEU	7	11	636	2	4	500
	Signalling Partial	SEU	8	7	1,143	-	-	-
	Signalling Refurb	SEU	4	11	364	5	10	500
	Level crossings	No.	9	5	1,800	1	1	1,000
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		28			8		
Civils	Underbridges	m2	88	35,702	2	78	28,162	3
	Overbridges (incl BG3)	m2	15	3,969	4	12	509	24
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	-	49	-	-	-	-
	Culverts	m2	11	1,535	7	7	1,104	6
	Footbridges	m2	-	-	-	2	605	3
	Coastal & Estuarial Defences	m2	3	975	3	-	-	-
	Retaining Walls	m2	1	867	1	11	4,827	2
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		118			110			
Earthworks	Earthworks - Embankments	No.	15	275	55	14	535	26
	Earthworks - Soil Cuttings	No.	49	1,233	40	50	1,354	37
	Earthworks - Rock Cuttings	No.	11	245	45	16	295	54
	Earthworks - Other	No.	-	22	-	1	1	1,000
	Drainage - Earthworks	m	5	35,973	0	13	88,661	0
	Drainage - Other	m	20	39,782	1	22	42,047	1
	TOTAL		100			116		
Buildings	Buildings (MS)	m2	-	-	-	1	31,500	0
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	1,500	-	-	-	-
	Other (MS)	m2	-	1,500	-	-	-	-
	Buildings (FS)	m2	5	5,526	1	-	591	-
	Platforms (FS)	m2	5	16,899	0	14	9,384	1
	Canopies (FS)	m2	-	-	-	-	-	-
	Train sheds (FS)	m2	1	-	-	-	-	-
	Footbridges (FS)	m2	2	891	2	1	430	2
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	-	-	-	-	-	-
	Light Maintenance Depots	m2	2	5,363	0	-	-	-
	Depot Plant	m2	-	1	-	-	-	-
	Lineside Buildings	m2	-	-	-	-	293	-
	MDU Buildings	m2	-	-	-	1	800	1
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		15			17		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	1	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	5	67	75	4	67	60
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	17	-	-	-	-
	Other AC	No.	1	6	167	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	1	-	-	-	-
	UPS (#)	No.	1	23	43	-	2	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	2	21	95	4	62	65
	Signalling Supply Points	point end	-	-	-	1	3	333
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		9			9		
Telecoms	Customer Information Systems	No.	6	608	10	-	-	-
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-
	Other Surveillance	No.	1	103	10	-	-	-
	PABX Concentrator	No.	-	86	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	3	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		1	8	125	-	-	-
	Power		-	1	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		8			-		

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - There has been an increase in the unit cost of PL Replace Full and Switches & Crossings – Replace in the year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. The High Output volumes delivered in the year are slightly higher than the volumes delivered in the prior year. In high output, volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The increased volumes tell the story of why the unit cost has decreased.
- (3) Signalling – There has been an increase in the unit cost of Signalling Full in the year. There was only one project in each year with the Corton project in the current year being less expensive than the Aberdeen to Stonehaven one 2020/21. There has also been an increase in the unit cost of Level Crossings in the year. As above there was a very small sample of projects in each year making it difficult to do any meaningful unit cost analysis. However, there has been a decrease in the unit cost of Signalling Refurb in the year. There was a project at Dundee that had a particularly low unit cost in the current year, this skewed the data and dragged down the overall unit cost.

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway – continued

In £m cash prices unless stated

- (4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (5) Earthworks & Drainage – There has been an increase in the unit cost of Embankments in the year. This is down to the mixture of work that has been done across the years. In the current year there has been a higher proportion of expensive renew work compared to the cheaper refurb and maintain work. There has been a decrease in the unit cost of Rock Cuttings in the year. In the prior year there was a lower proportion of the less expensive maintain work compared to the current year.
- (6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (7) Electrical Power and Fixed Plant – There has been an increase in the unit cost of HV Switchgear Renewal AC in the year however there was only one project spanning both years so the sample size is too small to do any useful analysis. There has also been an increase in the unit cost of Signalling Power Cables in the year. There was one major project spanning both years (650V Feeder Cable). The total forecast volumes that are going to be delivered by this project went down significantly in the year which increases the unit cost.
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Scotland's Railway

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	7,571
Indexation to 2021-22 prices	7,957
RAB additions	
Renewals expenditure	482
Enhancements expenditure	-
Less amortisation	(482)
Property Sales	0
Closing RAB	7,957

Net debt

	£m
Opening net debt	5,400
Income	(1,087)
Expenditure	962
Financing Costs - Government borrowing	89
Financing Costs - index linked debt	180
Financing Costs - Other	12
Corporation tax	0
Working capital	28
Closing net debt	5,584

Statement 4: Regulatory financial position, Scotland's Railway

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the network in Scotland and how it has moved during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £0.5bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs). No disposals of assets in Scotland were made this year.
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Scotland's Railway and how it has moved during the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Scotland's Railway is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.

Statement 4: Regulatory financial position, Scotland's Railway – continued

In £m cash prices unless stated

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

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

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

(13) Working capital – this largely relates to timing differences between when government grants are received from Transport Scotland to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

Eastern

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	1,916	2,126	(210)	-	2,323
Franchised track access charges	558	663	(105)	(49)	554
Other Single Till Income	139	175	(36)	(36)	145
Total Income	2,613	2,964	(351)	(85)	3,022
Operating expenditure					
Network operations	212	200	(12)	(12)	239
Support costs	259	242	(17)	5	271
Traction electricity, industry costs and rates	287	340	53	(1)	273
Maintenance	575	521	(54)	(51)	594
Schedule 4	100	93	(7)	(3)	114
Schedule 8	(37)	36	73	73	(74)
	1,396	1,432	36	11	1,417
Capital expenditure					
Renewals	1,142	1,034	(108)	(91)	1,172
Enhancements	869	394	(475)	(48)	804
	2,011	1,428	(583)	(139)	1,976
Risk expenditure					
Risk (Centrally-held)	-	59	59	-	-
Risk (Route-controlled)	-	17	17	-	-
Risk (Contingent asset management funding)	-	72	72	-	-
	-	148	148	-	-
Other expenditure					
Financing costs	747	597	(150)	-	477
Corporation tax	-	19	19	-	16
	747	616	(131)	-	493
Total expenditure	4,154	3,624	(530)	(128)	3,886
Total Financial Out/(under) performance				(213)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	5,765	5,931	(166)	-
Franchised track access charges	1,730	1,954	(224)	(97)
Other Single Till Income	431	509	(78)	(81)
Total Income	7,926	8,394	(468)	(178)
Operating expenditure				
Network operations	639	608	(31)	(31)
Support costs	698	719	21	46
Traction electricity, industry costs and rates	791	894	103	(1)
Maintenance	1,653	1,536	(117)	(115)
Schedule 4	317	321	4	(11)
Schedule 8	(80)	103	183	184
	4,018	4,181	163	72
Capital expenditure				
Renewals	3,108	2,949	(159)	(217)
Enhancements	2,433	2,351	(82)	(84)
Other	-	-	-	-
	5,541	5,300	(241)	(301)
Risk expenditure				
Risk (Centrally-held)	-	98	98	-
Risk (Route-controlled)	-	30	30	-
Risk (Contingent asset management funding)	-	135	135	-
	-	263	263	-
Other expenditure				
Financing costs	1,762	1,780	18	-
Corporation tax	15	29	14	-
	1,777	1,809	32	-
Total expenditure	11,336	11,553	217	(229)
Total Financial Out/(under) performance				(407)

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's Eastern net expenditure (Total income less Total expenditure) was around £0.8bn higher than the regulatory baseline and £0.25bn higher than the control period to date regulatory baseline. The higher net expenditure experienced this year relates to the reduced grant and franchised track access charges, greater spend in the enhancement's portfolio and higher than anticipated financing costs. The control period to date variance is due to reduced income and higher capital expenditure being experienced.
- (2) This statement also shows that Network Rail Eastern has recognised financial underperformance of £213m this year and £407m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, income and maintenance expenditure being heavily affected by the Covid-19 pandemic, being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This is mostly due to the network grant being lower because of different phasing of activity being undertaken than anticipated in the regulatory baseline. Internal financing grant was also lower than anticipated as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Variances in Grant income is outside of the scope of financial performance. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in the year due to the Covid-19 pandemic. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is broadly in line with last year. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home at various points throughout the year, meaning fewer people have used the retail facilities at managed stations. Other single till income is higher than the previous year, as whilst Covid-19 impacted FY22, the restrictions in place were more severe in FY21. Other single till income is lower than regulatory baseline for the control period to date. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the FY21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure – Network operations costs are higher than the regulatory baseline, but lower than the previous year's actuals. The primary reason for the spend being higher than the regulatory baseline is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide additional resilience than were assumed in the baseline. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Although costs were incurred to mitigate the impact of Covid-19, these costs were lower than in FY21. The Control period to date spend is higher than the regulatory assumption, by virtue of the aforementioned costs. These additional costs have led to financial underperformance this year and for the control period to date. Network Operations costs are discussed in more detail in Statement 3.1
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and but lower than last year's spend. Significant reasons for spend being higher than the regulatory baseline include the continued implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three year's, which is the primary reason for financial underperformance not being recognised this year. As mentioned in prior year statements, the additional spend incurred as a result of the Opex/Capex adjustment, is considered neutral when assessing Network Rail's financial performance. The Control period to date is lower than the regulatory expectation, as the PRP reductions and the first year's savings from PPF re-organisation were only partially offset by the additional spend incurred in the last two years. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

- (9) Operating expenditure - Overall maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs is due to investment to ensure compliance with CEFA and CAFA standards, PPF reorganisations and additional vegetation management. Maintenance costs have decreased this year compared to the prior year. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the additional costs acquired from the response to Covid-19. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Overall Schedule 4 costs are higher than the regulatory baseline this year, mainly due to disruptive storm events Dudley, Eunice and Franklin experienced within the region. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Although the arithmetic variance highlights an overspend, only a small financial underperformance has been reported. This is because the volume of renewals delivered was higher than the baselined assumed. Despite the disturbances caused by adverse weather, such as the storms in February, large disruptive events were lower than anticipated, meaning lower than expected costs in the centrally-managed area. This has partially offset the increased costs experienced in the region. The extra costs incurred as a result of the storms however has led to the control period to date position being higher than what was assumed in the regulatory baseline. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Overall, Renewals expenditure is higher than the regulatory baseline but lower than last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and additional expenditure incurred in STE renewals other, where additional investment in the workforce safety fund category, has led to a large overspend in this category. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancements expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year. Enhancement investment is set out in more detail in Statement 3.7.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

- (14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.
- (15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses
- (16) Other expenditure – Corporation tax costs were not incurred this as we have continued to invest heavily in the railway network this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance

Eastern

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	181	185	(4)	-	200
Variable usage charge	62	98	(36)	(36)	60
Electrification asset usage charge	7	12	(5)	(5)	8
Capacity charge	-	-	-	-	-
Open access income	13	19	(6)	(6)	10
Managed stations long term charge	14	14	-	-	15
Franchised stations long term charge	33	34	(1)	(1)	36
Traction electricity charges	160	213	(53)	-	-
Schedule 4 access charge supplement	63	64	(1)	(1)	69
	533	639	(106)	(49)	398
Other single till income					
Freight income					
Freight variable usage charge	24	25	(1)	(1)	21
Freight other income	1	1	-	-	1
	25	26	(1)	(1)	22
Stations income					
Managed stations qualifying expenditure	14	15	(1)	(1)	14
Franchised stations lease income	13	14	(1)	(1)	14
	27	29	(2)	(2)	28
Facility and financing charges					
Facility charges	14	14	-	-	14
	14	14	-	-	14
Property income					
Property rental	37	60	(23)	(23)	16
Property sales	3	4	(1)	(1)	4
	40	64	(24)	(24)	20
Depots Income	30	25	5	5	26
Other income	-	1	(1)	(1)	1
Freight traction electricity charges	3	3	-	-	-
Total other single till income	139	162	(23)	(23)	111
Total Regionally-managed income	672	801	(129)	(72)	509
Centrally-managed income					
Network grant	1,564	1,683	(119)	-	1,917
Internal financing grant	164	235	(71)	-	180
External financing grant	158	158	-	-	178
BTP grant	30	30	-	-	32
Corporation tax grant	-	20	(20)	-	16
Infrastructure cost charges	8	8	-	-	8
Schedule 4 access charge supplement	17	16	1	-	16
Traction electricity charges	-	-	-	-	132
Freight traction electricity charges	-	-	-	-	3
	1,941	2,150	(209)	-	2,482
Other single till income					
Property income					
Property rental	5	9	(4)	(4)	7
Property sales	(5)	4	(9)	(9)	24
	-	13	(13)	(13)	31
Total other single till income	-	13	(13)	(13)	31
Total centrally-managed income	1,941	2,163	(222)	(13)	2,513
Total income	2,613	2,964	(351)	(85)	3,022

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	602	615	(13)	-
Variable usage charge	200	275	(75)	(75)
Electrification asset usage charge	23	30	(7)	(7)
Capacity charge	-	-	-	-
Open access income	42	55	(13)	(13)
Managed stations long term charge	42	41	1	2
Franchised stations long term charge	99	101	(2)	(2)
Traction electricity charges	160	213	(53)	-
Schedule 4 access charge supplement	231	233	(2)	(2)
	1,399	1,563	(164)	(97)
Other single till income				
Freight income				
Freight variable usage charge	66	68	(2)	(2)
Freight other income	3	2	1	-
	69	70	(1)	(2)
Stations income				
Managed stations qualifying expenditure	40	43	(3)	(3)
Franchised stations lease income	36	41	(5)	(3)
	76	84	(8)	(6)
Facility and financing charges				
Facility charges	41	42	(1)	(2)
	41	42	(1)	(2)
Property income				
Property rental	53	118	(65)	(65)
Property sales	6	8	(2)	(1)
	59	126	(67)	(66)
Depots Income	83	74	9	10
Other income	1	3	(2)	(5)
Freight traction electricity charges	3	3	-	-
Total other single till income	332	402	(70)	(71)
Total Regionally-managed income	1,731	1,965	(234)	(168)
Centrally-managed income				
Network grant	4,628	4,654	(26)	-
Internal financing grant	520	643	(123)	-
External financing grant	513	517	(4)	-
BTP grant	89	87	2	-
Corporation tax grant	15	30	(15)	-
Infrastructure cost charges	24	25	(1)	-
Schedule 4 access charge supplement	54	54	-	-
Traction electricity charges	253	312	(59)	-
Freight traction electricity charges	5	4	1	-
	6,101	6,326	(225)	-
Other single till income				
Property income				
Property rental	75	77	(2)	(2)
Property sales	19	26	(7)	(8)
	94	103	(9)	(10)
Total other single till income	94	103	(9)	(10)
Total centrally-managed income	6,195	6,429	(234)	(10)
Total income	7,926	8,394	(468)	(178)

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the current year regulatory baseline mainly due to lower grant income. Income is lower than last year as a result of lower network grants which is partially offset by higher Traction electricity income. Income for the control period to date is lower than the regulatory baseline, due to lower property income, Traction electricity income, variable usage charge and Internal financing grant. This is subsequently reflected in the financial underperformance for both the year, and the control period to date.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services compared to the regulatory baseline. Regionally-managed income is greater than last year due to increased passenger footfall on the network. This is a result of Covid-19 restrictions reducing over FY22. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was slightly lower than the baseline this year. The charge is lower than the prior year, which was expected in the regulatory baseline. As per the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance,
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to the impacts of Covid-19. Income generated under this mechanism is marginally higher than the previous year as a result of the reduction to Covid-19 restrictions over FY22.
- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

- (5) Open access income – income is lower than the regulatory baseline due to the Open access income received by London Underground moving over from the Eastern region to the Southern region
- (6) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised, reducing the amounts Network Rail can pass on to the train operators. In FY22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to. Income was higher than the previous year, which can be seen in last year's centrally-managed income, due to Covid-19 restrictions reducing throughout the year, leading to an increasing number of train services being ran when compared to FY21. This was largely offset by costs payable by Network Rail for electricity (as shown in Statement 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (7) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements. Income was lower than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the schedule 4 mechanism.
- (8) Freight Income – income is in line with the regulatory baseline this year. Freight income is directly in line with the control period regulatory baseline. Income is greater than the previous year due to the impact of Covid-19 on freight being lower this year.
- (9) Property rental – this year, and in the control period to date, income is lower than the regulatory expectation due to the impact of Covid-19. However, comparing to the previous year this income is much greater. This is a consequence of reduced restrictions and increased footfall in stations as passengers become more willing and able to travel via rail networks.
- (10) Property sales – the current year is in line with the regulatory baseline and sales are broadly in line with the previous year. In the control period to date, property sales are meeting the target as the move of centrally-managed property to the regions offsets the impact of Covid-19 on sales in the inaugural year of the control period.
- (11) Depots income – revenue is higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2020/21.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline and previous year mainly due lower grant income. Control period to date income is also lower than the regulatory baseline as a result of lower internal financing grants and lower Traction electricity charges.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.
- (3) Network grant – income is lower than the regulatory baseline for the year and the control period to date as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (5) External financing grants – grants received in the year and for the control period to date are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source lower than the previous year, where because of the higher grant received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the control period to date regulatory baseline.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. Income is higher than the previous year reflecting the regulatory determination for CP6. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region the reside in and narrative on variances are mentioned in the regionally manged income section.
- (10)Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand and is broadly in line with the previous year. Income for the control period to date is much lower than the regulatory baseline as a result of the aforementioned Covid-19 consequences.
- (11)Property sales – the current year recognises a cost in centrally managed property sales when the baseline expected an income. This is driven by the creation of a fire provision for West Hampstead and the write down of Bishop Stortford Work in Progress.

Eastern

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	204	193	(11)	(11)	231
Maintenance	558	501	(57)	(54)	574
Support costs	79	39	(40)	(40)	80
Traction electricity, industry costs and rates	277	330	53	(1)	2
Schedule 4	104	75	(29)	(25)	108
Schedule 8	(42)	32	74	74	(70)
	1,180	1,170	(10)	(57)	925
Capital expenditure					
Renewals	961	908	(53)	(103)	1,018
Enhancements	853	394	(459)	(48)	724
	1,814	1,302	(512)	(151)	1,742
Total Regionally-managed expenditure	2,994	2,472	(522)	(208)	2,667
Centrally-managed expenditure					
Operating expenditure					
Network operations	8	7	(1)	(1)	8
Maintenance	17	20	3	3	20
Support costs	180	203	23	45	191
Traction electricity, industry costs and rates	10	10	-	-	271
Schedule 4	(4)	18	22	22	6
Schedule 8	5	4	(1)	(1)	(4)
	216	262	46	68	492
Capital expenditure					
Renewals	181	126	(55)	12	154
Enhancements	16	-	(16)	-	80
	197	126	(71)	12	234
Risk Expenditure	-	148	148	-	-
Other					
Financing costs	747	597	(150)	-	477
Taxation	-	19	19	-	16
	747	616	(131)	-	493
Total centrally-managed expenditure	1,160	1,152	(8)	80	1,219
Total expenditure	4,154	3,624	(530)	(128)	3,886

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	617	586	(31)	(31)
Maintenance	1,597	1,473	(124)	(118)
Support costs	202	118	(84)	(84)
Traction electricity, industry costs and rates	280	330	50	(4)
Schedule 4	317	268	(49)	(64)
Schedule 8	(84)	92	176	176
	2,929	2,867	(62)	(125)
Capital expenditure				
Renewals	2,660	2,548	(112)	(242)
Enhancements	2,274	2,351	77	(84)
	4,934	4,899	(35)	(326)
Total Regionally-managed expenditure	7,863	7,766	(97)	(451)
Centrally-managed expenditure				
Operating expenditure				
Network operations	22	22	-	-
Maintenance	56	63	7	3
Support costs	496	601	105	130
Traction electricity, industry costs and rates	511	564	53	3
Schedule 4	-	53	53	53
Schedule 8	4	11	7	8
	1,089	1,314	225	197
Capital expenditure				
Renewals	448	401	(47)	25
Enhancements	159	-	(159)	-
Other	-	-	-	-
	607	401	(206)	25
Risk Expenditure	-	263	263	-
Other				
Financing costs	1,762	1,780	18	-
Taxation	15	29	14	-
	1,777	1,809	32	-
Total centrally-managed expenditure	3,473	3,787	314	222
Total expenditure	11,336	11,553	217	(229)

Statement 3: Analysis of expenditure, Eastern – continued

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is higher than the regulatory baseline this year. This is primarily due to greater than anticipated enhancements delivery and increased financing costs only being partially offset by the underspend in operating and risk expenditure. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and risk underspend. Costs are higher than the previous year mainly due to increased financing costs. The financial underperformance recognised this year and for the Control Period to date primarily relates to underperformance realised in the Capital expenditure category. A significant amount of this underperformance is due to the impact of Covid-19 on project delivery and higher like for like costs within the portfolio.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to greater than anticipated enhancements delivery. Costs are higher than the previous year due to the increased Enhancements delivery, plus the transfer of traction electricity costs from centrally managed technical authority function to the regions. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date primarily relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio. Maintenance and support underperformance as a result of Covid-19 and the PPF restructure, has also contributed to this position.

Centrally-managed expenditure

- (1) Centrally-managed costs are higher than the regulatory baseline. This is due to savings made against the risk fund, schedule 4 and taxation not fully offsetting the impact of greater than expected financing costs. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. Therefore, savings every year against this line, plus operating expenditure savings, lower performance regime costs and industry expenses experienced, have led to centrally-managed costs being considerably lower than the regulatory baseline for the control period. Costs are broadly in line with last years costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Eastern

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	94	92	(2)	(2)	101
Operations Management	28	21	(7)	(7)	27
Controllers	15	10	(5)	(5)	17
Electrical control room operators	5	6	1	1	5
	142	129	(13)	(13)	150
Non signaller expenditure					
Mobile operations managers	18	14	(4)	(4)	18
Managed stations	13	14	1	1	17
Performance	4	7	3	3	6
Other	27	29	2	2	40
Total Regionally-managed Operations expenditure	204	193	(11)	(11)	231
Centrally-managed Operations expenditure					
Network Services	8	7	(1)	(1)	8
Total centrally-managed Operations expenditure	8	7	(1)	(1)	8
Total operations expenditure	212	200	(12)	(12)	239

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	282	279	(3)	(3)
Operations Management	74	63	(11)	(11)
Controllers	41	31	(10)	(10)
Electrical control room operators	14	18	4	4
	411	391	(20)	(20)
Non signaller expenditure				
Mobile operations managers	49	44	(5)	(5)
Managed stations	40	39	(1)	(1)
Performance	15	22	7	7
Other	102	90	(12)	(12)
Total Regionally-managed Operations expenditure	617	586	(31)	(31)
Centrally-managed Operations expenditure				
Network Services	22	22	-	-
Total centrally-managed Operations expenditure	22	22	-	-
Total operations expenditure	639	608	(31)	(31)

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall operations costs are higher than the regulatory baseline, but lower than the previous year's actuals. The primary reason for the spend being higher than the regulatory baseline is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide additional resilience than were assumed in the baseline. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Although costs were incurred to mitigate the impact of Covid-19, these costs were lower than in FY21. The Control period to date spend is higher than the regulatory assumption, by virtue of the aforementioned costs. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (2) Total Regionally-managed costs were higher than the regulatory expectation this year, but lower than the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. These costs were augmented by investment in performance improvement initiatives. Another reason for this underperformance is owed to restructuring for PPF which moved costs unaccounted for in the baseline to this area. Control period to date is higher than the regulatory assumption, primarily driven by the additional aforementioned costs incurred this year. These additional costs have led to financial underperformance this year and for the control period to date.
- (3) Signaller and level crossing keepers - costs are in line with the regulatory expectation for both the current year, and the control period to date. Savings in the first year of the control period have counteracted the overspend last year for this position to be recognised.
- (4) Operations management - costs are higher than the regulatory expectation for both the current year, and the control period to date. Savings made in the first year of the control period owing to reduced recruitment have been offset by increases in staff costs. These increased costs ensured the railway kept moving during the Covid-19 pandemic over the past two years. There was also the creation of new PPF initiatives in York and the completion of a project allowing the more seamless flow of information to TOC owned CIS's.

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

- (5) Controllers – costs are higher than the regulatory baseline and are in line with the previous year. This is due to an increase in the staff premium costs as a result of high sickness levels over the year. The underperformance in the year is caused by our response to Covid-19 in which we have ensured we had enough cover for sick and self-isolating staff. These also account for the variance in the control period to date.
- (6) Managed stations – costs are in line with the regulatory target this year but are lower than last year's actuals. The variance with the prior year is due to the additional costs in prior year in ensuring stations were compliant to Covid-19 standards, the investment in one-way systems, extra PPE and additional Covid-19 related branding that had been required. Extra agency staff had also been recruited to help manage passenger commuting and help station staff enforce social distancing. Despite the effects of the above reasons, the control period to date is largely in line with the regulatory assumption.
- (7) Other – costs are in line with the regulatory baseline but are significantly lower than the previous year. This is primarily due to investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line in FY21.

Centrally-managed operations expenditure

- (8) Network Services – costs are in line with the regulatory baseline and the previous years actual.

Eastern

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	225	218	(7)	(7)	256
Signalling & Telecoms	91	78	(13)	(13)	93
Civils	90	67	(23)	(22)	72
Buildings	26	22	(4)	(2)	24
Electrical power and fixed plant	41	38	(3)	(3)	41
Other network operations	85	78	(7)	(7)	88
	558	501	(57)	(54)	574
Centrally-managed maintenance expenditure					
Telecoms	7	11	4	4	6
Route Services - Asset Information	11	10	(1)	(1)	11
STE Maintenance	-	1	1	1	1
Property	-	-	-	-	-
Route Services - Other	(1)	(2)	(1)	(1)	(1)
Other	-	-	-	-	3
	17	20	3	3	20
Total maintenance expenditure	575	521	(54)	(51)	594

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	683	646	(37)	(37)
Signalling & Telecoms	264	231	(33)	(33)
Civils	218	197	(21)	(21)
Buildings	72	66	(6)	-
Electrical power and fixed plant	116	111	(5)	(5)
Other network operations	244	222	(22)	(22)
	1,597	1,473	(124)	(118)
Centrally-managed maintenance expenditure				
Telecoms	18	27	9	10
Route Services - Asset Information	31	30	(1)	(4)
STE Maintenance	3	4	1	2
Property	1	2	1	1
Route Services - Other	4	-	(4)	(10)
Other	(1)	-	1	4
	56	63	7	3
Total maintenance expenditure	1,653	1,536	(117)	(115)

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs is due to investment to ensure compliance with CEFA and CAFA standards, PPF reorganisations and additional vegetation management. Maintenance costs have decreased this year compared to the prior year. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the additional costs acquired from the response to Covid-19.

Regionally-managed maintenance costs

- (1) Overall maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs are due to investment to ensure compliance with CEFA and CAFA standards, PPF reorganisations and additional vegetation management. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the additional costs occurred from the response to Covid-19. These costs included procurement of PPE, fitting vehicles with shields and additional premium costs. This control period variance is also largely due to the PPF programme and reorganisations.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Costs are higher than the regulatory baseline for the current year due to an increase in track quality works requiring extra contractor spend and additional vegetation works. Control period to date spend is higher than the regulatory baseline, due to the aforementioned reasons and primarily due to the additional costs required to allow continuity of works during Covid-19.
- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline, but are lower than the previous year's expenditure. The changing of organisational and staffing structures have predominantly increased the costs, particularly those in Middlesbrough and Darlington DU's, compared to the regulatory assumption for the year. Control period to date spend is higher than the regulatory baseline, primarily due to the aforementioned reasons and due to adverse weather experienced in the first year of the control period, and costs surrounding our response to Covid-19 in FY21.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

- (4) Civils – costs were higher than the regulatory baseline. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of B&C are required to maintain our operating license. In year three, we reviewed and changed our contracting strategy leading to short term increases in cost but will ensure we deliver on meeting our examination requirements. Costs have also increased due to an increased vegetation workbank. Control period to date spend is higher than the regulatory baseline due to the aforementioned reasons as efficiencies achieved in managing inspections in the first year of the control period cancel out overspend made in the second year.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year and the Control period to date in this category is slightly over what the regulator assumed, due to higher reactive maintenance expenditure. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are broadly in line with the previous year.
- (6) Other network operations – costs are higher than the regulatory baseline, but lower than the previous year's actual. There are numerous contributory factors including PPF structural reorganisations and investment in track work safety. Control period to date spend is higher than the regulatory assumption, primarily due to the additional aforementioned costs and the costs occurred in our response to Covid-19 in ensuring we complied with safety standards such as social distancing.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline and the previous years actual.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are broadly consistent with the previous year.

Eastern

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	3	2	(1)	(1)	2
Finance	7	3	(4)	(4)	7
Accommodation	24	13	(11)	(11)	22
Utilities	18	20	2	2	20
Other	27	1	(26)	(26)	29
	79	39	(40)	(40)	80
Centrally-managed Support costs					
Finance & Legal	14	17	3	3	13
Communications	6	6	-	-	6
Human Resources	9	10	1	1	8
System Operator	15	23	8	8	11
Property	(1)	6	7	7	-
Telecoms	26	25	(1)	(1)	23
Network Services	-	-	-	-	6
Safety Technical and Engineering	14	13	(1)	(1)	13
RS - IT and Business Services	38	36	(2)	(2)	37
RS - Asset Information	4	10	6	6	6
RS - Directorate	13	7	(6)	(6)	12
Other corporate functions	6	1	(5)	(4)	4
Insurance	9	17	8	8	9
OPEX/CAPEX Adjustment	45	24	(21)	-	66
Group costs	(18)	8	26	26	(23)
	180	203	23	45	191
Total support costs	259	242	(17)	5	271

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	9	8	(1)	(2)
Finance	18	8	(10)	(9)
Accommodation	60	40	(20)	(21)
Utilities	55	58	3	3
Other	60	4	(56)	(55)
	202	118	(84)	(84)
Centrally-managed Support costs				
Finance & Legal	36	44	8	8
Communications	15	15	-	-
Human Resources	23	24	1	1
System Operator	36	52	16	16
Property	(5)	7	12	12
Telecoms	65	69	4	1
Network Services	12	21	9	9
Safety Technical and Engineering	37	38	1	1
RS - IT and Business Services	106	107	1	1
RS - Asset Information	14	25	11	11
RS - Directorate	29	20	(9)	(9)
Other corporate functions	17	20	3	(6)
Insurance	24	43	19	19
OPEX/CAPEX Adjustment	134	74	(60)	-
Group costs	(47)	42	89	66
	496	601	105	130
Total support costs	698	719	21	46

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and but lower than last year's spend. Significant reasons for spend being higher than the regulatory baseline include the continued implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three year's, which is the primary reason for financial underperformance not being recognised this year. As mentioned in prior year statements, the additional spend incurred as a result of the Opex/Capex adjustment, is considered neutral when assessing Network Rail's financial performance. The Control period to date is lower than the regulatory expectation, as the PRP reductions and the first year's savings from PPF re-organisation were only partially offset by the additional spend incurred in the last two years.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline, but marginally lower than prior year spend. The extra spend this year is due to the implementation of the PPF re-organisation programme and Covid-19 related expenditure. The Control period to date is higher than the regulatory expectation, predominantly due to the additional expenditure incurred in the past two years. These additional costs have led to financial underperformance being recognised for the year and control period to date.
- (2) Finance – costs in the current year are higher than the baseline expectation but broadly in line with the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in recruiting more local Finance staff, in order to support this initiative. The Control period to date is also higher than the regulatory expectation, primarily due to the aforementioned reasons.
- (3) Accommodation – costs are significantly higher than the baseline expectation and the previous year spend, primarily due to implementation of the PPF programme through the creation of new initiatives, and expenditure to ensure Covid-19 compliance at NR sites. This is reflected in the Control period to date, which is similarly higher than the regulators assumption.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

- (4) Other – costs were significantly higher than the regulatory baseline this year, but marginally lower than the previous year's outturn. This is primarily due to implementation of the PPF programme, which saw an increase in costs in Eastern. This, along with the impact of commercial claims settled for higher than planned in the first year of the control period, has led to a higher Control period to date than the regulator's assumption.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, and last years actuals. Whilst there are several areas of savings, the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is lower than the previous year as, although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes, reduction in staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies have also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are also in line with the previous years expenditure.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are slightly higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year. This is mainly due to increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction which have been partly offset by accountabilities being devolved to the Regional teams.
- (6) Telecoms – costs are broadly in line with target but lower than the regulatory baseline for the control period. This is primarily due to efficiencies arising from headcount control in previous years. Financial overperformance has been recognised for the Control period to date due to efficiencies made in headcount mentioned above.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

- (7) Network Services – this function no longer exists and has been devolved out to other functions within this statement.
- (8) Technical Authority – costs are slightly higher than the regulatory baseline for the year. Costs are slightly lower than the control period to date due to further efficiencies in previous years that were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel & accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (9) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly lower than in the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs are broadly in line with the previous year due to the transfer of responsibilities into the department following the PPF reorganisation.
- (10) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (11) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have marginally increased compared to the previous year due to the aforementioned commercial disputes this year.
- (12) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganisational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.
- (13) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

- (14) Opex/capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (15) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other notable savings include reductions in the FY22 performance-related pay following a decision to reduce expected pay-outs. This decision was taken at the end of the year, the benefit is currently showing in the Group category, but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These saving have been offset with the costs incurred in rolling out rail modernisation. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is lower than the previous year (in other words, net costs are lower) as the benefits from performance-related pay reductions this year are offset by the additional costs in redundancy costs as mentioned above.

Eastern

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	162	215	53	-	-
Business rates	85	85	-	-	-
British transport police costs	30	30	-	(1)	2
	277	330	53	(1)	2
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	132
Business rates	-	-	-	-	100
British transport police costs	-	-	-	-	28
ORR licence fee and railway safety levy	5	5	-	-	6
RDG membership costs	1	1	-	-	1
RSSB costs	4	4	-	-	3
Reporters fees	-	-	-	-	1
Other industry costs	-	-	-	-	-
	10	10	-	-	271
Total traction electricity, industry costs and rates	287	340	53	-	273

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	162	215	53	-	
Business rates	85	85	-	-	
British transport police costs	33	30	(3)	(4)	
	280	330	50	(4)	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	252	315	63	2	
Business rates	176	165	(11)	-	
British transport police costs	54	56	2	1	
ORR licence fee and railway safety levy	15	14	(1)	-	
RDG membership costs	3	3	-	-	
RSSB costs	9	11	2	-	
Reporters fees	2	-	(2)	-	
Other industry costs	-	-	-	-	
	511	564	53	3	
Total traction electricity, industry costs and rates	791	894	103	-	1

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

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

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower than expected traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher network traffic, which can be seen in the centrally-managed section. This has been offset by increased charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to. Costs were in line with the regulatory baseline and lower compared to the prior year. Last year's costs can be seen in the centrally-managed section of the statement. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – Costs were in line with the regulatory baseline and the previous year due to additional services requested to keep the travelling public safe. Majority of the previous year's costs can be seen in the centrally-managed section of the statement.

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

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to.
- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally-managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance

Eastern

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

				Of which financial out / (under) performance	
2021-22	Actual	Regulatory baseline	Variance		2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	104	75	(29)	(25)	108
Access charge supplement Income	(62)	(74)	(12)	-	(70)
Net (income)/cost	42	1	(41)	(25)	38
Schedule 8					
Performance element income	(51)	-	51	51	(78)
Performance element costs	9	32	23	23	8
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(42)	32	74	74	(70)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(4)	18	22	22	6
Access charge supplement Income	(16)	(23)	(7)	-	(16)
Net (income)/cost	(20)	(5)	15	22	(10)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	5	4	(1)	(1)	(4)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	5	4	(1)	(1)	(4)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	100	93	(7)	(3)	114
Access charge supplement Income	(78)	(97)	(19)	-	(86)
Net (income)/cost	22	(4)	(26)	(3)	28
Schedule 8					
Performance element income	(51)	-	51	51	(78)
Performance element costs	14	36	22	22	4
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(37)	36	73	73	(74)
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	317	268	(49)	(64)	-
Access charge supplement Income	(230)	(240)	(10)	-	-
Net (income)/cost	87	28	(59)	(64)	
Schedule 8					
Performance element income	(147)	-	147	147	-
Performance element costs	63	92	29	29	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(84)	92	176	176	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	53	53	53	-
Access charge supplement Income	(53)	(61)	(8)	-	-
Net (income)/cost	(53)	(8)	45	53	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	4	11	7	8	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	4	11	7	8	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	317	321	4	(11)	-
Access charge supplement Income	(283)	(301)	(18)	-	-
Net (income)/cost	34	20	(14)	(11)	
Schedule 8					
Performance element income	(147)	-	147	147	-
Performance element costs	67	103	36	37	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(80)	103	183	184	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are higher than the regulatory baseline this year, mainly due to disruptive storm events Dudley, Eunice and Franklin experienced within the region. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Although the arithmetic variance highlights an overspend, only a small financial underperformance has been reported. This is because the volume of renewals delivered was higher than the baselined assumed. Despite the disturbances caused by adverse weather, such as the storms in February, large disruptive events were lower than anticipated, meaning lower than expected costs in the centrally-managed area. This has partially offset the increased costs experienced in the region. The extra costs incurred as a result of the storms however has led to the control period to date position being higher than what was assumed in the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too.

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) The variance in Schedule 4 compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are higher and financial underperformance has been recognised. This underperformance relates to extra costs incurred because of storms Dudley, Eunice and Franklin. Although underperformance has been recognised, it is not as high as the arithmetic variance. This is due to the region delivering more switches and crossings this year than assumed in the baseline. The control period to date cost is higher than the regulatory baseline due to a combination of extra capital delivery and higher like-for-like costs. The extra capital delivery includes additional units of plain line track and switches & crossings completed in FY20 compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The higher like-for-like costs include the adverse impact from weather events, notably the storms in February FY20 and FY22.

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

In £m cash prices unless stated

- (2) Schedule 8 experienced another exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The region has also invested in performance related schemes in the last few years, which has improved infrastructure performance and reliability, resulting in reduced passenger disruption. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in the previous two financial years has resulted in a highly favourable control period to date position.

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is lower than the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is a net inflow much greater than the regulatory baseline resulting from Schedule 4 costs in FY21/22 returning an income. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.
- (3) Schedule 8 -this year's cost is in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally-managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

Eastern

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	80	77	(3)	-	95
PL Replace Partial	59	74	15	-	66
PL High Output	57	59	2	-	74
PL Refurbishment	19	-	(19)	-	18
PL Track Slab Track	7	-	(7)	-	1
Switches & Crossing - Replace	42	81	39	-	78
Switches & Crossing - Other	50	2	(48)	-	20
Off Track	37	22	(15)	-	48
Track Other	17	(3)	(20)	-	15
	368	312	(56)	(46)	415
Signalling					
Signalling Full	61	46	(15)	0	89
Signalling Partial	50	37	(13)	0	22
Signalling Refurb	27	33	6	0	10
Level crossings	21	50	29	0	37
Minor works	76	75	(1)	0	95
Other	(2)	0	2	0	2
	233	241	8	(34)	255
Civils					
Underbridges	73	109	36	-	67
Overbridges	12	20	8	-	11
Major structures	5	-	(5)	-	11
Tunnels	10	6	(4)	-	4
Minor works	5	(1)	(6)	-	8
Other	16	4	(12)	-	14
	121	138	17	(3)	115
Earthworks					
Earthworks - Embankments	38	23	(15)	-	47
Earthworks - Soil Cuttings	5	7	2	-	3
Earthworks - Rock Cuttings	5	3	(2)	-	10
Earthworks - Other	1	-	(1)	-	2
	49	33	(16)	(1)	62
Buildings					
Managed stations	11	11	-	-	16
Franchised stations	30	36	6	-	20
Light maint depots	3	-	(3)	-	6
Depot plant	2	-	(2)	-	3
Lineside buildings	7	-	(7)	-	4
MDU buildings	10	4	(6)	-	12
Other	2	-	(2)	-	1
	65	51	(14)	(10)	62
Electrical power and fixed plant					
AC distribution	6	8	2	-	4
Overhead Line	66	58	(8)	-	65
DC distribution	-	5	5	-	-
Conductor rail	7	-	(7)	-	1
Signalling Power Supplies	10	22	12	-	12
Other	-	1	1	-	-
Fixed plant	13	8	(5)	-	6
	102	102	-	(10)	88
Drainage					
Drainage (Track)	10	6	(4)	-	12
Drainage (Earthworks)	1	5	4	-	-
Drainage (Resilience)	4	7	3	-	5
	15	18	3	1	17
Property					
Property	8	13	5	-	4
	8	13	5	-	4
Total Regionally-managed renewals expenditure					
	961	908	(53)	(103)	1,018

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	3	5	2	-	5
Network	6	2	(4)	-	2
SISS	1	7	6	-	3
Projects and other	1	2	1	-	2
Non-route capital expenditure	19	22	3	-	26
	30	38	8	(3)	38
Wheeled plant and machinery					
High output	13	4	(9)	-	8
Incident response	-	-	-	-	-
Infrastructure monitoring	1	7	6	-	1
Intervention	5	8	3	-	5
Materials delivery	3	11	8	-	(1)
On track plant	-	6	6	-	1
Seasonal	1	-	(1)	-	-
Other	13	10	(3)	-	18
	36	46	10	-	32
Route Services					
Business Improvement	16	1	(15)	-	22
IT Renewals	6	23	17	-	12
Asset Information	3	4	1	-	3
Other	4	1	(3)	-	2
	29	29	-	-	39
STE Renewals					
Intelligent infrastructure	28	16	(12)	-	24
Faster Isolations	2	5	3	-	1
Centrally Managed Signalling Costs	2	3	1	-	2
Research and development	12	16	4	-	17
Integrated Management System (Incl. BCR)	-	4	4	-	-
Other National SCADA Programmes	6	2	(4)	-	7
Small plant	5	3	(2)	-	3
Other	39	3	(36)	-	26
	94	52	(42)	-	80
Property					
Property	1	(1)	(2)	-	2
	1	(1)	(2)	-	2
Other renewals					
ETCS	28	8	(20)	(1)	7
Digital Railway	4	(6)	(10)	-	1
Civils & Drainage - Insurance Fund	2	9	7	13	6
Buildings - Insurance Fund	-	5	5	-	-
OPEX/CAPEX Adjustment	(45)	(24)	21	-	(62)
Phasing overlay	-	(38)	(38)	-	-
System Operator	7	7	-	-	4
Other renewals	(5)	1	6	3	7
	(9)	(38)	(29)	15	(37)
Total centrally-managed renewals expenditure	181	126	(55)	12	154
TOTAL RENEWALS EXPENDITURE	1,142	1,034	(108)	(91)	1,172

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	239	210	(29)	-
PL Replace Partial	167	181	14	-
PL High Output	181	194	13	-
PL Refurbishment	50	13	(37)	-
PL Track Slab Track	8	1	(7)	-
Switches & Crossing - Replace	194	251	57	-
Switches & Crossing - Other	78	17	(61)	-
Off Track	102	62	(40)	-
Track Other	44	(30)	(74)	-
	1,063	899	(164)	(122)
Signalling				
Signalling Full	224	193	(31)	-
Signalling Partial	86	108	22	-
Signalling Refurb	44	75	31	-
Level crossings	78	132	54	-
Minor works	228	193	(35)	-
Other	-	-	-	-
	660	701	41	(56)
Civils				
Underbridges	178	243	65	-
Overbridges	28	37	9	-
Major structures	24	16	(8)	-
Tunnels	21	18	(3)	-
Minor works	14	(7)	(21)	-
Other	37	28	(9)	-
	302	335	33	(19)
Earthworks				
Earthworks - Embankments	96	63	(33)	-
Earthworks - Soil Cuttings	11	19	8	-
Earthworks - Rock Cuttings	18	12	(6)	-
Earthworks - Other	4	1	(3)	-
	129	95	(34)	(5)
Buildings				
Managed stations	51	51	-	-
Franchised stations	62	87	25	-
Light maint depots	9	4	(5)	-
Depot plant	6	3	(3)	-
Lineside buildings	16	3	(13)	-
MDU buildings	36	27	(9)	-
Other	4	-	(4)	-
	184	175	(9)	(28)
Electrical power and fixed plant				
AC distribution	11	21	10	-
Overhead Line	182	157	(25)	-
DC distribution	-	8	8	-
Conductor rail	12	-	(12)	-
Signalling Power Supplies	31	50	19	-
Other	2	4	2	-
Fixed plant	22	23	1	-
	260	263	3	(11)
Drainage				
Drainage (Track)	34	26	(8)	-
Drainage (Earthworks)	2	12	10	-
Drainage (Resilience)	13	17	4	-
	49	55	6	(1)
Property				
Property	13	25	12	-
	13	25	12	-
Total Regionally-managed renewals expenditure	2,660	2,548	(112)	(242)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	6	-	(6)	-
	6	-	(6)	-
Telecoms				
Operational communications	11	18	7	-
Network	10	13	3	-
SISS	5	13	8	-
Projects and other	4	3	(1)	-
Non-route capital expenditure	72	67	(5)	-
	102	114	12	(5)
Wheeled plant and machinery				
High output	28	19	(9)	-
Incident response	-	-	-	-
Infrastructure monitoring	3	13	10	-
Intervention	12	20	8	-
Materials delivery	7	34	27	-
On track plant	2	9	7	-
Seasonal	1	1	-	-
Other	33	13	(20)	-
	86	109	23	-
Route Services				
Business Improvement	64	40	(24)	-
IT Renewals	29	50	21	-
Asset Information	6	9	3	-
Other	7	3	(4)	-
	106	102	(4)	-
STE Renewals				
Intelligent infrastructure	59	40	(19)	-
Faster Isolations	4	12	8	-
Centrally Managed Signalling Costs	5	9	4	-
Research and development	37	38	1	-
Integrated Management System (Incl. BCR)	-	12	12	-
Other National SCADA Programmes	20	19	(1)	-
Small plant	9	8	(1)	-
Other	70	14	(56)	-
	204	152	(52)	-
Property				
Property	5	17	12	-
	5	17	12	-
Other renewals				
ETCS	40	17	(23)	(1)
Digital Railway	6	(11)	(17)	-
Civils & Drainage - Insurance Fund	7	26	19	17
Buildings - Insurance Fund	-	16	16	-
OPEX/CAPEX Adjustment	(130)	(74)	56	-
Phasing overlay	-	(86)	(86)	-
System Operator	13	15	2	-
Other renewals	3	4	1	14
	(61)	(93)	(32)	30
Total centrally-managed renewals expenditure	448	401	(47)	25
TOTAL RENEWALS EXPENDITURE	3,108	2,949	(159)	(217)

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is higher than the regulatory baseline but lower than last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and additional expenditure incurred in STE renewals other, where additional investment in the workforce safety fund category, has led to a large overspend in this category. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.

Regionally-managed renewals

- (1) Regionally-managed Renewals expenditure is higher than the regulatory baseline, but lower than last year's outturn. Although there are numerous variances, significant causes for this increase include financial underperformance within the Track portfolio and increased expenditure in Earthworks post the Stonehaven derailment. Net financial underperformance has been reported across the portfolio this year and the control period to date. This underperformance is due to multitude of factors including: the impact of Covid-19 on project delivery in FY21 and FY22, especially within the Track and Signalling portfolio; increased expenditure in earthworks post the Stonehaven derailment; delivery challenges and volume deferral due to storm Eunice; and other headwinds such as increases in material rates highlighted nationally. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- (2) Track – costs are significantly higher than the regulatory baseline but lower than last year's outturn. Costs are significantly higher than the baseline due to higher net like for like costs experienced. Plain volumes are lower than the regulatory baseline and although S&C volumes are significantly higher, this is primarily due to increased amount of cheaper refurbishment interventions being delivered. There have also been delivery challenges in the high output campaign due to plant failure and volumes being deferred due to storm Eunice. Last year, costs were severely impacted by Covid-19 and delivery challenges which were the primary cause for the increase in costs. Covid-19 led to additional welfare costs, higher labour costs to ensure social distancing restrictions were adhered to, extra vehicle costs, additional PPE requirements and project prolongation costs. These extra costs were compounded by access issues on the Manea Bridge Wheel timber project, meaning the original 28 day blockade was rejected by FOCs, and only multiple weekend access was granted, leading to increased delivery costs. Scope changes to ensure projects delivered the required asset management output and increases in material costs augmented the financial underperformance. The aforementioned increase in cost and acceleration of schemes to utilise funding resources, have led to the control period spend and financial underperformance being higher than the regulatory baseline.
- (3) Signalling – expenditure was lower than the regulatory baseline and last year's actual. Signalling is lower than the baseline due to deferring level crossing programmes into future years. Financial underperformance has been recognised this year. A large element of this relates to the Cambridge resignalling project, which has experienced a number of challenges. These include, scope creep, contractor estimates and access challenges. Financial underperformance has been recognised in the control period to date, as the above issues are supplemented by underperformance due to Covid-19 challenges. These include contractor prolongation costs and re-prioritisation of works impacting the portfolio. Additional welfare, labour and vehicle costs were also incurred as direct consequence of Covid-19. Spend and financial performance is below target for the control period to date, due to the aforementioned reasons.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely resulting from an underspend in Underbridges. Fewer volumes are planned over the control period than the baseline assumed, and thus less overall cost. Financial underperformance is recognised this year. This mostly relates to difficulties with the CP6 Structures Year 3 Programme in Anglia. Some of these difficulties include increased access requirements, access delays, site complexity above the business plan assumptions and increased scope. Financial underperformance is recognised in the control period to date mostly resulting from the difficulties mentioned above. The further underperformance relates to challenges brought by Covid-19 in the previous year of the control period. Control period to date spend is below the regulatory baseline due to the changes in the volumes of underbridges completed so far, in particular, fewer preventative volumes have been achieved. This reduction in preventative asset volumes has been partially offset by increases in all other underbridge asset volumes.
- (5) Earthworks – investment in the year was notably higher than the regulatory baseline. The Stonehaven derailment in 2020 led to increased focus on Network Rails management of the Earthworks asset. Slight financial underperformance was recognised this year as increased costs incurred from changes to working practices as badgers were found on project sites, has been partially offset by outperformance through the effective use of economies of scale and changes in workbank mix. The aforementioned focus on Earthwork's asset management, has led to the control period spend and financial underperformance being higher than the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- (6) Buildings – investment in the year is larger than the regulatory baseline. This additional investment was primarily caused by increased lineside buildings and MDU activity. Financial underperformance is recognised this year largely caused by extensive additional work required for Liverpool Street Station Roof Design than was initially assumed in the baseline. Further to this, there were problems with access resulting from a collapsed wall adjacent to the delivery site for Cricklewood MDU. The aforementioned increased investment accounts for the increased investment in the control period to date, though this is partially offset by reduced investment last year in franchised stations. Financial underperformance is recognised in the control period to date as a result of the aforementioned reasons, as well as the increased investment required as a result of changing work practices to adhere to Covid-19 rules.
- (7) Electrical power and fixed plant – expenditure is in line with the regulatory baseline this year. Financial underperformance is recognised this year largely due to delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia. Coupled with this were increased access requirements during Christmas for the Stratford campaign and changes in portal requirements in Morpeth which induced increased costs. Financial underperformance is recognised in the control period to date as a result of the aforementioned reasons, but also increased like-for-like costs due to restricted access on the Shenfield-Southend re-wire programme in year one of the control period.
- (8) Drainage – expenditure this year is below the regulatory baseline and last years outturn. Financial outperformance is recognised due to achieved refurb unit rates being below expectations, as well as contractor unit rates being lower than expected. Financial underperformance is recognised in the control period to date as a result of Covid-19 costs, as well as difficulties in maintaining a stale workbank in the first year of the control period.
- (9) Property – expenditure is significantly higher than last year's actual but below the regulatory baseline. This is due to slippage experienced in the programme

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is over the regulatory baseline this year, with higher spend on STE programmes and overspend as a result of the phasing overlay in Group, being slightly offset by underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, primarily due to less spend being transferred to OPEX this year. Centrally managed renewals control period to date spend is higher than the regulatory baseline, mainly due to additional spend on STE programmes.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. There has been financial underperformance experienced this year due to commercial pressures and design challenges. This results from tender prices that were higher than original estimates anticipated, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to fully assess. Significant variances at Key Cost Line include:
 - a. High output – investment was higher than the regulatory baseline and last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year included renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.
 - c. Intervention – costs were lower than the regulatory baseline but in line with last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred due to sunk costs realised in production of the sleeper factory which have been expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower with the regulatory baselines and the previous year outturn. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. The reason for the significant increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.
- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
 - (6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation and last year's expenditure. Notable variances at Key Cost Line include:
 - a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend is due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - b. Faster isolations – costs are lower than the regulator baseline but higher than last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but in line with last year's outturn. This reflects the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised.
 - d. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Costs are broadly in line in the control period to date.
 - e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- f. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
 - g. Small Plant – investment is higher than the regulatory baseline this year and last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.
 - h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.
- (7) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
- a. ETCS – expenditure is significantly higher than the regulatory baseline and last year's outturn. Control period to date spend is higher than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims being offset by this year's forthcoming reasons. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. Slight financial underperformance has been reported in the control period to date due to the aforementioned reasons.
 - b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund. The financial outperformance recognised control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored
 - c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being reclassified as OPEX.
- e. System Operator – expenditure this year is in line with than the regulatory baseline but higher than last year's outturn
- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Eastern

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	-	(15)	-	16	16	-
West Anglia Main Line Capacity	-	(4)	-	5	5	-
Midland Main Line Programme	101	104	2	551	584	-
Trans Pennine Route Upgrade	438	(69)	13	886	884	16
Hope Valley Capacity	16	(6)	-	18	24	-
Cambridge South Station Dvpt 2	8	4	(1)	15	15	-
Critical Stations Improvement Fund	2	5	-	2	5	-
East Coast Main Line Enhancements Programme	104	102	(25)	478	514	(29)
Manchester Improvements	1	-	-	1	-	-
Kings Lynn to Cambridge 8 Car	-	3	(2)	26	25	(3)
St Albans Station Capacity	2	2	-	4	6	-
SFN-Freight Forecasts project	-	(4)	-	5	4	-
Access for All	18	22	-	22	34	-
Thameslink Resilience Programme	1	-	(2)	6	-	-
Midlands Hub - Continued Design and Early Development	-	5	-	-	6	-
Crossrail	19	12	(29)	70	80	(64)
Depots & Stabling Fund	-	(2)	-	-	-	-
Northern Hub	-	-	-	1	-	-
Restoring Your Railway	9	(1)	-	9	9	-
Anglia Traction PSU	3	-	(1)	8	4	(1)
EC Digital	106	86	-	106	86	-
Ely Area Capacity Enh	10	12	-	10	12	-
Darlington Station Improvements	3	9	-	3	9	-
Tactile Paving Installation	3	5	-	3	5	-
New Stations Fund	-	2	-	-	2	-
Other	9	122	(3)	29	22	(3)
Total	853	394	(48)	2,274	2,351	(84)
Other Capital Expenditure	16	-	-	159	-	-
Other third party funded schemes						
HS2	-	-	-	-	-	-
Other third Party	73	-	-	286	-	-
Total	73	-	-	286	-	-
Total enhancements	942	394	(48)	2,719	2,351	(84)
Total enhancements less Other third party funded schemes	869	394	(48)	2,433	2,351	(84)

Statement 3.7: Analysis of enhancement expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £869m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£942m) less the PAYGO schemes funded by third parties (£73m).
- (4) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
 - a. Thameslink – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than the baseline with majority of the works relating to Three Bridges Rail Operating Centre (TBROC) and some minor improvements work still being made at London Bridge station of adding new retail units and improving facilities. Cumulative expenditure is lower than the baseline due to works being re-profiled for Chart Leaon into future control periods.

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

- b. Midland Main Line Programme (MML) – The programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Progress against London to Corby Electrification (L2C) and other key outputs have progressed slower than the baseline expectations due to phase 3 works pending further release of government investment and re-alignment of works into future years for efficient delivery. Cumulative financial performance being in line with the remitted scope of works
- c. Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. In year and cumulative acceleration is due to maturity of the West of Leeds programme. Financial out performance on Leeds Intermediate Interventions is due to contractor efficient delivery of works and risk management.
- d. Hope Valley capacity – This project is to increase passenger and freight capacity on the Hope Valley line between Sheffield and Manchester. Works have progressed slower than anticipated in year due to delay in release of government investment and re-profiled in future years.
- e. East Coast Main Line Enhancements Programme – The programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Slower progress and under financial performance in the year is partially due to Covid-19 and retiming of East Coast Programme, Werrington and Kings Cross to reduce the impact on passengers by allowing the running of more services during partial closures.
- f. Manchester Improvement Programme (MIP) – Programme includes improvements to increase capacity along the Castlefield corridor between Manchester' piccadilly and oxford road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Progress on the North Train Lengthening has progressed slower than the baseline expectations, pending release of government investment and reprofiling activities into the future years
- g. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is slower than baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- h. 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. The programme adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London.
- i. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial underperformance in this category this year reflects Sunderland Station Re-development Horden (Peterlee) Station and others.

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

- (5) Third party funded schemes – a significant proportion of expenditure in this category relates to other notable schemes delivered this year include Brent Cross new station development, Soham Station, New Station Low Moor and Beaulieu New Station and Interchange
- (6) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements.

Eastern

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21			
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	92	44	2,091	74	54	1,370
	PL Replace Partial	km	84	213	394	82	207	396
	PL High Output	km	106	92	1,152	73	62	1,177
	PL Refurbishment	km	23	206	112	22	196	112
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	78	120	650	44	78	564
	Switches & Crossing - Other	point ends	62	505	123	27	410	66
	Off Track	km/No.	66	657	100	60	515	117
	Track Other		-	-	-	-	-	-
Total		511			382			
Signalling	Signalling Full	SEU	111	282	394	75	155	484
	Signalling Partial	SEU	27	192	141	27	191	141
	Signalling Refurb	SEU	8	12	667	47	95	495
	Level crossings	No.	41	110	373	78	165	473
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		187			227			
Civils	Underbridges	m2	83	24,296	3	86	22,566	4
	Overbridges (incl BG3)	m2	11	4,982	2	13	1,828	7
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	16	98,055	0	2	20,177	0
	Culverts	m2	6	2,220	3	6	2,618	2
	Footbridges	m2	5	2,715	2	5	550	9
	Coastal & Estuarial Defences	m2	-	-	-	-	-	-
	Retaining Walls	m2	2	584	3	3	2,090	1
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		123			115			
Earthworks	Earthworks - Embankments	No.	44	897	49	39	725	54
	Earthworks - Soil Cuttings	No.	6	445	13	9	580	16
	Earthworks - Rock Cuttings	No.	6	271	22	9	73	123
	Earthworks - Other	No.	6	13	462	-	-	-
	Drainage - Earthworks	m	1	20,086	0	-	9,114	-
	Drainage - Other	m	19	45,693	0	20	44,520	0
TOTAL		82			77			
Buildings	Buildings (MS)	m2	1	33,560	0	2	31,561	0
	Platforms (MS)	m2	25	810	31	25	410	61
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	300	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	3	4,090	1	1	2,600	0
	Buildings (FS)	m2	3	446	7	2	678	3
	Platforms (FS)	m2	1	2,691	0	3	1,765	2
	Canopies (FS)	m2	2	1,265	2	-	200	-
	Train sheds (FS)	m2	-	-	-	-	-	-
	Footbridges (FS)	m2	5	1,136	4	6	1,005	6
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	2	16,548	0	1	20,697	0
	Light Maintenance Depots	m2	8	98,270	0	5	75,878	0
	Depot Plant	m2	1	5	200	3	1,773	2
	Lineside Buildings	m2	12	54,504	0	6	39,178	0
	MDU Buildings	m2	15	51,298	0	28	86,230	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		78			82		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	19	40	475	12	37	324
	mid-life refurbishment	Wire runs	109	162	673	-	-	-
	structure renewals	No.	40	492	81	41	616	67
	other OLE		-	-	-	1	2	500
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	2	3	667	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	3	116	26	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	2	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	1	15	67	-	-	-
	Signalling Power Cables	km	16	193	83	1	12	83
	Signalling Supply Points	point end	-	-	-	8	8	1,000
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		190			63		
Telecoms	Customer Information Systems	No.	-	26	-	2	146	14
	Public Address	No.	-	69	-	-	12	-
	CCTV	No.	-	16	-	2	417	5
	Other Surveillance	No.	-	6	-	-	10	-
	PABX Concentrator	No.	8	5,591	1	8	5,302	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	44	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		6	397	15	6	465	13
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		14			18		

Statement 3.8: Analysis of renewals unit costs, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - There has been an increase in the unit cost of PL Replace Full and Switches and Crossings in the year in both the Replace and Other categories. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. However there has been a decrease in the unit cost of Off Track in the year. The mix issue also affects Off Track as the work can be fencing or longitudinal timbers.

Statement 3.8: Analysis of renewals unit costs, Eastern – continued

In £m cash prices unless stated

- (3) Signalling – There has been a decrease in the unit cost of Signalling Full in the year. This was primarily down to a major project at Kings Cross in the current year. This project delivered over half of the overall volumes in region and had a relatively low unit cost. There has also been a decrease in the unit cost of Level Crossings in the year. This was because in 2020/21 there were some complex projects at Durham and Bighton & Woodhouse which had high unit costs and therefore dragged the overall cost upwards. However there has been an increase in the unit cost of Signalling Refurb in the year. There was only one project in 2020/21 meaning that the sample size is too small to do any useful analysis.
- (4) Civils – There has been a decrease in the unit cost of Footbridges in the year. The reason for this was that there were major projects in the current year at Suggits Lane, Ferryboat Lane and Werrington which delivered a substantial number of volumes. This has reduced the unit cost compared to the smaller projects in 2020/21.
- (5) Earthworks & Drainage – There has been a decrease in the unit costs of Embankments in the year. This is due to the fact that in the current year there has been a higher proportion of the cheaper maintain work compared to renew and refurb which are more expensive. There has been a large decrease in the unit cost of Rock Cuttings in the year for the same reason as above.
- (6) Buildings – There has been a decrease in the unit cost of Managed Stations Platforms in the year. There aren't many projects in this category but there is a major one in Kings Cross which is now planning to deliver a much greater number of volumes in the control period. There has also been a large increase in the unit cost of Depot Plant in the year. In 2020/21 there was a major project at Bedford that has a much lower unit cost than all the others and so the rate was lower in that year.
- (7) Electrical Power and Fixed Plant – There has been an increase in the unit cost of Wiring in the year. This is because the proportion of re-wiring compared to the less expensive refurb work has increased in 2021/22. There has also been an increase in the unit cost of Structure Renewals in the year. This is down to the fact that there has been more full renewal work than refurb in the year. Major projects in this category took place at Hertford Loop, Stratford and Morpeth.
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Eastern**Statement 4: Regulatory financial position**

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	20,385
Indexation to 2021-22 prices	21,424
RAB additions	
Renewals expenditure	1,142
Enhancements expenditure	-
Less amortisation	(1,142)
Property Sales	2
Closing RAB	21,426

Net debt

	£m
Opening net debt	14,275
Income	(2,613)
Expenditure	2,538
Financing Costs - Government borrowing	238
Financing Costs - index linked debt	479
Financing Costs - Other	30
Corporation tax	0
Working capital	97
Closing net debt	15,044

Statement 4: Regulatory financial position, Eastern – continued

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Eastern part of the network and how it has moved during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £1.1bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually results in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the Eastern Region and how it has moved during the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Eastern is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.

Statement 4: Regulatory financial position, Eastern – continued

In £m cash prices unless stated

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

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

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

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

North West & Central

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	1,440	1,600	(160)	-	1,602
Franchised track access charges	538	591	(53)	(20)	520
Other Single Till Income	129	139	(10)	(13)	113
Total Income	2,107	2,330	(223)	(33)	2,235
Operating expenditure					
Network operations	161	147	(14)	(14)	157
Support costs	250	229	(21)	(8)	271
Traction electricity, industry costs and rates	172	200	28	-	182
Maintenance	459	429	(30)	(14)	449
Schedule 4	57	117	60	46	41
Schedule 8	(57)	3	60	60	(82)
	1,042	1,125	83	70	1,018
Capital expenditure					
Renewals	838	838	-	(52)	835
Enhancements	331	293	(38)	3	291
	1,169	1,131	(38)	(49)	1,126
Risk expenditure					
Risk (Centrally-held)	-	46	46	-	-
Risk (Route-controlled)	-	40	40	-	-
Risk (Contingent asset management funding)	-	44	44	-	-
	-	130	130	-	-
Other expenditure					
Financing costs	591	474	(117)	-	379
Corporation tax	-	14	14	-	12
	591	488	(103)	-	391
Total expenditure	2,802	2,874	72	21	2,535
Total Financial Out/(under) performance				(12)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	4,047	4,140	(93)	-
Franchised track access charges	1,592	1,704	(112)	(36)
Other Single Till Income	362	469	(107)	(109)
Total Income	6,001	6,313	(312)	(145)
Operating expenditure				
Network operations	450	428	(22)	(24)
Support costs	659	658	(1)	6
Traction electricity, industry costs and rates	509	567	58	(1)
Maintenance	1,311	1,263	(48)	(11)
Schedule 4	158	275	117	109
Schedule 8	(61)	36	97	97
	3,026	3,227	201	176
Capital expenditure				
Renewals	2,189	2,136	(53)	(93)
Enhancements	831	853	22	19
	3,020	2,989	(31)	(74)
Risk expenditure				
Risk (Centrally-held)	-	75	75	-
Risk (Route-controlled)	-	67	67	-
Risk (Contingent asset management funding)	-	90	90	-
	-	232	232	-
Other expenditure				
Financing costs	1,399	1,414	15	-
Corporation tax	11	21	10	-
	1,410	1,435	25	-
Total expenditure	7,456	7,883	427	102
Total Financial Out/(under) performance				(43)

Statement 1: Summary of regulatory financial performance, North West & Central

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of North West & Central's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.15bn higher than the regulatory baseline and £0.1bn lower than the control period to date regulatory baseline. The higher net expenditure experienced this year relates to the reduced grant and franchised track access charges, greater spend in the enhancement's portfolio and higher than anticipated financing costs. The control period to date positive variance is due to Schedule 8 inflow and schedule 4 costs being lower than anticipated.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £12m this year and £43m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, franchised track access charges and other single till income being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This is mostly due to the network grant being lower because of different phasing of activity being undertaken than anticipated in the regulatory baseline. Internal financing grant was also lower than anticipated as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Variances in Grant income is outside of the scope of financial performance. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in the year due to the Covid-19 pandemic. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is broadly in line with last year. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic which also led to financial underperformance. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home at various points throughout the year, meaning fewer people have used the retail facilities at managed stations. Other single till income is higher than the previous year, as whilst Covid-19 impacted FY22, the restrictions in place were more severe in FY21. Other single till income is lower than regulatory baseline for the control period to date. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the FY21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is discussed in more detail in Statement 2
- (6) Operating expenditure - Overall, network operations costs are higher than the regulatory baseline and marginally higher than last year's actuals. The primary reason for this is related to extra investment in the 21st century Operations programme which was not included in the baseline. The secondary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. For the Control Period to date, expenditure is over the regulatory assumption, with most additional costs being incurred in relation to the reasons listed above. These additional costs have led to financial underperformance this year and for the control period to date. Network Operations costs are discussed in more detail in Statement 3.1
- (7) Operating expenditure - Support costs are higher than the regulatory baseline but lower than last year's spend. Significant reasons for spend being higher than the regulatory baseline include the continued implementation of the PPF re-organisation programme, Covid-19 related expenditure, project Alpha investment and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. Financial underperformance is recognised as the savings mentioned have not fully offset the extra costs highlighted above. As mentioned in prior year statements, the additional spend incurred as a result of the Opex/Capex adjustment, is considered neutral when assessing Network Rail's financial performance. The Control Period to date is lower than the regulatory expectation, as the PRP reductions and the first year's savings from PPF re-organisation were partially offset by the additional spend incurred in the last two years. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

- (9) Operating expenditure - Overall maintenance costs are higher than the regulatory baseline this year and higher than last year's outturn, which has led to financial underperformance in the region. The primary causes for the increase in costs are the inheritance of functions via PPF reform, DEAM (directorate of engineering and asset management) compliance works, works in preparation for the Commonwealth games, and extra reactive maintenance investment within civils which required more than double the spend than budgeted. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the previous year, which was mainly due to extra projects outside the usual network operations, such as commonwealth preparations and DEAM compliance. Reactive maintenance is considered neutral in the scope of financial performance. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Efficient usage of access, allowed for renewals delivery to require reduced possessions hence less cost incurred leading to financial outperformance this year. Despite few disturbances caused by adverse weather, such as storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. Schedule 8 costs are discussed in more detail in Statement 3.5.
- (12) Overall, Renewals expenditure is broadly in line with the regulatory baseline and last year's outturn. Control period to date expenditure is higher than the regulatory baseline, primarily due to the increase in spend experienced last year due to the acceleration of jobs from future years, financial underperformance within the Track portfolio, additional expenditure on OLE assets to address tunnel fixings in the West Midlands, project Alpha works to fix tension equipment in stations and catchup from last year's slippage in STE managed project. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery and changes in scope to signalling programmes to minimise risk of asset failure. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancements expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include: Enhancement investment is set out in more detail in Statement 3.7.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

- (14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.
- (15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses
- (16) Other expenditure – Corporation tax costs were not incurred this as we have continued to invest heavily in the railway network this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance

North West & Central

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	214	218	(4)	-	241
Variable usage charge	55	70	(15)	(15)	55
Electrification asset usage charge	5	6	(1)	(1)	4
Capacity charge	-	-	-	-	-
Open access income	-	1	(1)	(1)	-
Managed stations long term charge	23	22	1	1	24
Franchised stations long term charge	45	46	(1)	(1)	46
Traction electricity charges	85	113	(28)	-	-
Schedule 4 access charge supplement	82	85	(3)	(3)	48
	509	561	(52)	(20)	418
Other single till income					
Freight income					
Freight variable usage charge	18	17	1	1	16
Freight other income	-	-	-	-	-
	18	17	1	1	16
Stations income					
Managed stations qualifying expenditure	28	30	(2)	(2)	29
Franchised stations lease income	7	7	-	-	7
	35	37	(2)	(2)	36
Facility and financing charges					
Facility charges	12	14	(2)	(2)	14
	12	14	(2)	(2)	14
Property income					
Property rental	32	47	(15)	(15)	14
Property sales	7	6	1	-	5
	39	53	(14)	(15)	19
Depots Income	16	17	(1)	(1)	17
Other income	2	1	1	1	1
Freight traction electricity charges	2	-	2	-	-
Total other single till income	124	139	(15)	(18)	103
Total Regionally-managed income	633	700	(67)	(38)	521
Centrally-managed income					
Network grant	1,164	1,252	(88)	-	1,284
Internal financing grant	130	187	(57)	-	143
External financing grant	125	126	(1)	-	142
BTP grant	21	21	-	-	21
Corporation tax grant	-	14	(14)	-	12
Infrastructure cost charges	8	8	-	-	9
Schedule 4 access charge supplement	21	22	(1)	-	12
Traction electricity charges	-	-	-	-	81
Freight traction electricity charges	-	-	-	-	1
	1,469	1,630	(161)	-	1,705
Other single till income					
Property income					
Property rental	2	-	2	2	2
Property sales	3	-	3	3	7
	5	-	5	5	9
Total other single till income	5	-	5	5	9
Total centrally-managed income	1,474	1,630	(156)	5	1,714
Total income	2,107	2,330	(223)	(33)	2,235

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	707	712	(5)	-
Variable usage charge	170	197	(27)	(27)
Electrification asset usage charge	14	16	(2)	(2)
Capacity charge	-	-	-	-
Open access income	-	2	(2)	(2)
Managed stations long term charge	66	65	1	1
Franchised stations long term charge	132	135	(3)	(3)
Traction electricity charges	85	113	(28)	-
Schedule 4 access charge supplement	187	190	(3)	(3)
	1,361	1,430	(69)	(36)
Other single till income				
Freight income				
Freight variable usage charge	49	47	2	2
Freight other income	-	1	(1)	-
	49	48	1	2
Stations income				
Managed stations qualifying expenditure	83	87	(4)	(4)
Franchised stations lease income	21	20	1	-
	104	107	(3)	(4)
Facility and financing charges				
Facility charges	38	40	(2)	(2)
	38	40	(2)	(2)
Property income				
Property rental	45	91	(46)	(46)
Property sales	12	23	(11)	(13)
	57	114	(57)	(59)
Depots Income				
	47	50	(3)	(3)
Other income				
	5	3	2	2
Freight traction electricity charges				
	2	-	2	-
Total other single till income	302	362	(60)	(64)
Total Regionally-managed income	1,663	1,792	(129)	(100)
Centrally-managed income				
Network grant	3,154	3,136	18	-
Internal financing grant	413	511	(98)	-
External financing grant	408	412	(4)	-
BTP grant	61	61	-	-
Corporation tax grant	11	20	(9)	-
Infrastructure cost charges	29	28	1	-
Schedule 4 access charge supplement	44	46	(2)	-
Traction electricity charges	158	200	(42)	-
Freight traction electricity charges	2	3	(1)	-
	4,280	4,417	(137)	-
Other single till income				
Property income				
Property rental	51	51	-	1
Property sales	7	53	(46)	(46)
	58	104	(46)	(45)
Total other single till income	58	104	(46)	(45)
Total centrally-managed income	4,338	4,521	(183)	(45)
Total income	6,001	6,313	(312)	(145)

Statement 2: Analysis of income, North West & Central

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the current year regulatory baseline mainly due to lower Network Grant and internal financing grants and traction electricity income. Income is lower than last year as a result of lower network grant. Income for the control period to date is lower than the regulatory baseline, due to lower internal financing grants. Property income and a lower variable usage charges as a direct consequence of Covid-19 are also a contributory factor to the lower income received. This is subsequently reflected in the financial underperformance for both the year, and the control period to date.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services compared to the regulatory baseline. Regionally-managed income is greater than last year mainly due to traction electricity charges being devolved from centrally-managed to the geographic regions which obtain the income. There has also been an increase in property rental income compared to last year's actuals. This is due to Covid-19 restrictions reducing over FY22 when compared to FY21, and thus increased passenger demand. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was lower than the baseline this year. The shortfall is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income for the control period to date is lower than the regulatory baseline, as inflation has been lower than the baseline assumed in the past three years, leading to reduced income. Income is lower than the previous year which was anticipated in the regulatory baselines.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to aforementioned reasons. Income generated under this mechanism is in line with the previous year.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised, reducing 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 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In FY22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to. Income was higher than the previous year, which can be seen in last year's centrally-managed income, due to Covid-19 restrictions reducing throughout the year, leading to an increasing number of train services being ran when compared to FY21. This was largely offset by costs payable by Network Rail for electricity (as shown in Statement 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (6) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial baselines. Income was higher than the previous year but was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the schedule 4 mechanism.
- (7) Property rental – this year income is lower than the regulatory expectation due to the impact of Covid-19. However, comparing to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions and increased footfall in stations as passengers become more willing and able to travel via the rail network.
- (8) Property sales – the current year is in line with the regulatory baseline and in line with the previous year.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline and previous year mainly due lower grant income. Control period to date centrally-managed income is also lower than the regulatory baseline as a result of lower internal financing grants.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.
- (3) Network grant – income is lower than the regulatory baseline for the year and prior year as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (5) External financing grants – grants received in the year and for the control period to date are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source lower than the previous year, where because of the higher grant received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the control period to date regulatory baseline.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. Income is lower than the previous year reflecting the regulatory determination for CP6. The Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region the reside in and narrative on variances are mentioned in the regionally managed income section.
- (10) Property rental – income was marginally larger than the regulatory baseline this year. Income is in line with the previous year's inflow. Income for the control period to date is much lower than the regulatory baseline as a result of Covid-19.
- (11) Property sales – the current year income is marginally larger than the regulatory baseline, but lower than the previous year.

North West & Central

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	154	141	(13)	(13)	151
Maintenance	447	414	(33)	(17)	433
Support costs	104	71	(33)	(33)	129
Traction electricity, industry costs and rates	166	194	28	-	1
Schedule 4	59	102	43	29	39
Schedule 8	(60)	-	60	60	(55)
	870	922	52	26	698
Capital expenditure					
Renewals	703	713	10	(64)	712
Enhancements	329	316	(13)	4	288
	1,032	1,029	(3)	(60)	1,000
Total Regionally-managed expenditure	1,902	1,951	49	(34)	1,698
Centrally-managed expenditure					
Operating expenditure					
Network operations	7	6	(1)	(1)	6
Maintenance	12	15	3	3	16
Support costs	146	158	12	25	142
Traction electricity, industry costs and rates	6	6	-	-	181
Schedule 4	(2)	15	17	17	2
Schedule 8	3	3	-	-	(27)
	172	203	31	44	320
Capital expenditure					
Renewals	135	125	(10)	12	123
Enhancements	2	(23)	(25)	(1)	3
	137	102	(35)	11	126
Risk Expenditure	-	130	130	-	-
Other					
Financing costs	591	474	(117)	-	379
Taxation	-	14	14	-	12
	591	488	(103)	-	391
Total centrally-managed expenditure	900	923	23	55	837
Total expenditure	2,802	2,874	72	21	2,535

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	432	409	(23)	(23)
Maintenance	1,263	1,216	(47)	(4)
Support costs	270	188	(82)	(83)
Traction electricity, industry costs and rates	168	194	26	(2)
Schedule 4	159	231	72	65
Schedule 8	(41)	27	68	68
	2,251	2,265	14	21
Capital expenditure				
Renewals	1,835	1,777	(58)	(116)
Enhancements	804	847	43	(2)
	2,639	2,624	(15)	(118)
Total Regionally-managed expenditure	4,890	4,889	(1)	(97)
Centrally-managed expenditure				
Operating expenditure				
Network operations	18	19	1	(1)
Maintenance	48	47	(1)	(7)
Support costs	389	470	81	89
Traction electricity, industry costs and rates	341	373	32	1
Schedule 4	(1)	44	45	44
Schedule 8	(20)	9	29	29
	775	962	187	155
Capital expenditure				
Renewals	354	359	5	23
Enhancements	27	6	(21)	21
Other	-	-	-	-
	381	365	(16)	44
Risk Expenditure	-	232	232	-
Other				
Financing costs	1,399	1,414	15	-
Taxation	11	21	10	-
	1,410	1,435	25	-
Total centrally-managed expenditure	2,566	2,994	428	199
Total expenditure	7,456	7,883	427	102

Statement 3: Analysis of expenditure, North West & Central

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to lower operating expenditure and risk underspend, offsetting increases in financing costs. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus underspend on risk. Costs are higher than the previous year mainly due to increased financing costs plus the transfer of traction electricity costs from centrally managed technical authority function to the regions. Financial overperformance has been recognised for the year and control period to date, This was largely due to the savings realised in operating expenditure

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to lower operating expenditure due to savings realised in schedule 4 and 8 as a result of improved train performance and smarter delivery reducing possession requirements . Costs are higher than last year due to the transfer of traction electricity costs from centrally managed technical authority function to the regions. Regionally-managed expenditure is included in the remainder of Statement 3. Some financial underperformance was recognised, as a result of higher like for like costs in the Renewals category and support costs being offset by Schedule 4 and 8 savings.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline. This is due to savings made against the risk fund, schedule 4 and taxation, offsetting the impact of greater than expected financing costs. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

North West & Central

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	59	59	-	-	60
Operations Management	38	32	(6)	(6)	37
Controllers	6	7	1	1	6
Electrical control room operators	4	3	(1)	(1)	4
	107	101	(6)	(6)	107
Non signaller expenditure					
Mobile operations managers	9	9	-	-	9
Managed stations	20	19	(1)	(1)	21
Performance	(9)	(7)	2	2	(8)
Other	27	19	(8)	(8)	22
Total Regionally-managed Operations expenditure	154	141	(13)	(13)	151
Centrally-managed Operations expenditure					
Network Services	7	6	(1)	(1)	6
Total centrally-managed Operations expenditure	7	6	(1)	(1)	6
Total operations expenditure	161	147	(14)	(14)	157

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	173	173	-	-
Operations Management	102	94	(8)	(8)
Controllers	19	21	2	2
Electrical control room operators	9	8	(1)	(1)
	303	296	(7)	(7)
Non signaller expenditure				
Mobile operations managers	27	26	(1)	(1)
Managed stations	58	55	(3)	(3)
Performance	(23)	(20)	3	3
Other	67	52	(15)	(15)
Total Regionally-managed Operations expenditure	432	409	(23)	(23)
Centrally-managed Operations expenditure				
Network Services	18	19	1	(1)
Total centrally-managed Operations expenditure	18	19	1	(1)
Total operations expenditure	450	428	(22)	(24)

Statement 3.1: Analysis of operations expenditure, North West & Central

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and marginally higher than last year's actuals. The primary reason for this is related to extra investment in the 21st century Operations programme which was not included in the baseline. The secondary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. For the Control Period to date, expenditure is over the regulatory assumption, with most additional costs being incurred in relation to the reasons listed above. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (1) Total Regionally-Managed - Overall, operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this is related to extra investment in the 21st century Operations programme which was not included in the baseline. The secondary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. For the Control Period to date, expenditure is over the regulatory assumption, with most additional costs being incurred in relation to the reasons listed above. These additional costs have led to financial underperformance this year and for the control period to date.
- (2) Operations management - costs are higher than the regulatory expectation for both the control period to date and the current year. There has been an increase in staff costs to provide extra resilience and ensure the railway kept moving during the Covid-19 pandemic.
- (3) Other – costs are higher than the regulatory baseline, previous year, and the control period to date. This is primarily caused by the investment in the 21st century operations programme in FY22.

Centrally-managed operations expenditure

- 1) Network Services – costs are broadly in line with the regulatory baseline and the previous year.

North West & Central

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	182	183	1	1	187
Signalling & Telecoms	75	74	(1)	(1)	78
Civils	52	48	(4)	9	45
Buildings	26	24	(2)	1	24
Electrical power and fixed plant	40	39	(1)	(1)	40
Other network operations	72	46	(26)	(26)	59
	447	414	(33)	(17)	433
Centrally-managed maintenance expenditure					
Telecoms	5	7	2	2	6
Route Services - Asset Information	8	9	1	1	8
STE Maintenance	1	1	-	-	1
Property	-	-	-	-	-
Route Services - Other	(2)	(2)	-	-	(1)
Other	-	-	-	-	2
	12	15	3	3	16
Total maintenance expenditure	459	429	(30)	(14)	449

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	534	535	1	1
Signalling & Telecoms	221	215	(6)	(6)
Civils	136	136	-	42
Buildings	73	72	(1)	1
Electrical power and fixed plant	113	112	(1)	(1)
Other network operations	186	146	(40)	(41)
	1,263	1,216	(47)	(4)
Centrally-managed maintenance expenditure				
Telecoms	15	20	5	4
Route Services - Asset Information	24	24	-	(1)
STE Maintenance	4	4	-	-
Property	4	-	(4)	(4)
Route Services - Other	2	(1)	(3)	(7)
Other	(1)	-	1	1
	48	47	(1)	(7)
Total maintenance expenditure	1,311	1,263	(48)	(11)

Statement 3.2: Analysis of maintenance expenditure, North West & Central

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and higher than last year's outturn. The primary causes for the increase in costs are the inheritance of functions via PPF reform, DEAM (directorate of engineering and asset management) compliance works, works in preparation for the Commonwealth games, and extra reactive maintenance investment within civils which required more than double the spend than budgeted. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the previous year, which was mainly due to extra projects outside the usual network operations, such as commonwealth preparations and DEAM compliance. Reactive maintenance is considered neutral in the scope of financial performance.

Regionally-managed maintenance costs

- (2) Total Regionally-managed maintenance costs are higher than the regulatory baseline for both the current year, and the Control Period to date. The primary causes for the increase in costs are the inheritance of functions via PPF reform, DEAM compliance works, works in preparation for the Commonwealth games, and extra reactive maintenance investment on civils which required more than double the spend than budgeted. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the previous year, which was mainly due to extra projects outside the usual network operations, such as commonwealth preparations and DEAM compliance. Reactive maintenance is considered neutral in the scope of financial performance.
- (3) Track – track maintenance costs are the largest component of North West & Central's maintenance costs. This year, costs are in line with the regulatory baseline and are lower than the previous year. This is primarily due to a reduction in On Track Machine spend that was accelerated to FY21 when there was less traffic on the network as a result of Covid-19. Control Period to date is in line with the regulatory assumption.

Statement 3.2: Analysis of maintenance expenditure, North West & Central - continued

In £m cash prices unless stated

- (4) Civils – costs were slightly higher than the regulatory baseline due to reactive maintenance expenses being higher than the regulatory expectation. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Costs are higher than the previous year as a result of increased CEFA costs in FY22. The Control Period to date is in line with the regulatory assumption, due to savings in inspection costs including successful settlement of legacy commercial claims and greater than expected efficiencies on contract negotiations.
- (5) Other network operations – costs are higher than the regulatory baseline. There are numerous contributory factors such as the inheritance of property through PPF. Further increases in costs were realised from DEAM compliance works, preparation for the Commonwealth games and vegetation works. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year as well as the costs occurred in our response to Covid-19.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs were lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are broadly consistent with the previous year.

North West & Central

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	4	3	(1)	(1)	4
Finance	4	2	(2)	(2)	3
Accommodation	20	20	-	-	22
Utilities	21	19	(2)	(2)	20
Other	55	27	(28)	(28)	80
	104	71	(33)	(33)	129
Centrally-managed Support costs					
Finance & Legal	12	14	2	2	11
Communications	5	6	1	1	6
Human Resources	8	9	1	1	7
System Operator	11	13	2	2	7
Property	2	5	3	2	2
Telecoms	18	17	(1)	(1)	17
Network Services	-	-	-	-	6
Safety Technical and Engineering	10	10	-	-	9
RS - IT and Business Services	33	32	(1)	(1)	34
RS - Asset Information	4	8	4	4	3
RS - Directorate	9	6	(3)	(3)	9
Other corporate functions	5	1	(4)	(4)	3
Insurance	8	13	5	5	7
OPEX/CAPEX Adjustment	31	17	(14)	-	39
Group costs	(10)	7	17	17	(18)
	146	158	12	25	142
Total support costs	250	229	(21)	(8)	271

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	10	8	(2)	(3)
Finance	8	6	(2)	(2)
Accommodation	56	56	-	-
Utilities	60	57	(3)	(2)
Other	136	61	(75)	(76)
	270	188	(82)	(83)
Centrally-managed Support costs				
Finance & Legal	30	36	6	6
Communications	13	15	2	2
Human Resources	20	21	1	1
System Operator	27	34	7	7
Property	4	6	2	1
Telecoms	47	48	1	1
Network Services	10	13	3	3
Safety Technical and Engineering	26	28	2	2
RS - IT and Business Services	92	95	3	3
RS - Asset Information	10	20	10	10
RS - Directorate	22	17	(5)	(5)
Other corporate functions	15	18	3	(6)
Insurance	21	33	12	12
OPEX/CAPEX Adjustment	85	48	(37)	-
Group costs	(33)	38	71	52
	389	470	81	89
Total support costs	659	658	(1)	6

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline but lower than last year's spend. Significant reasons for spend being higher than the regulatory baseline include the continued implementation of the PPF re-organisation programme, Covid-19 related expenditure, project Alpha investment and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. Financial underperformance is recognised as the savings mentioned have not fully offset the extra costs highlighted above. As mentioned in prior year statements, the additional spend incurred as a result of the Opex/Capex adjustment, is considered neutral when assessing Network Rail's financial performance. The Control Period to date is lower than the regulatory expectation, as the PRP reductions and the first year's savings from PPF re-organisation were partially offset by the additional spend incurred in the last two years.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline, but lower than the previous years spend. This year's variance is primarily due to the investment in Project Alpha – a performance improvement initiative determined to ask colleagues on the track what needs to be done to improve the railway. This simple outlook has the vision of creating long lasting benefits for passengers and freight users alike. Additional spend beyond the above was in relation to the implementation of the PPF re-organisation programme and Covid-19 related expenditure. The Control Period to date is also higher than the regulatory baseline, as the additional expenditure the past two years has offset savings made by tighter headcount and pay control. These additional costs are reflected in the financial underperformance recognised both for the current year and the control period to date.
- (2) Human resources – costs in the current year are higher than the baseline expectation and in line with the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. Control Period to date is also marginally higher than the regulatory expectation.
- (3) Finance – costs in the current year are higher than the baseline expectation and the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in additional local Finance staff in order to support this initiative. Control Period to date is marginally higher than the regulatory expectation as a result of the aforementioned.

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

- (4) Other – costs were significantly higher than the regulatory baseline this year however lower than previous year's outturn. This is primarily due to implementation of the PPF programme, Project Alpha performance programme delivery - an on-going programme developed in response to train performances falling below target, and Covid-19 related expenditure, such as PPE purchases and additional vehicle hire. The additional expenditure in the past two years has offset savings made in the first year of the control period, leading to the higher Control Period to date spend than regulatory expectation.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: headcount control as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is lower than the previous year as, although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are lower than the regulatory baseline. Costs are slightly lower than the previous year despite the expectation of them to increase in the regulatory baseline; this arises from expected changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are slightly higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are lower than the regulatory baseline, continuing the trend of the opening year of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Telecoms – costs are slightly higher than the target but lower than the regulatory baseline for the control period. This is primarily due to efficiencies arising from headcount control in previous years.
- (7) Network Services – this function no longer exists and has been devolved out to other functions within this statement.

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

- (8) Technical Authority – costs are in line with the regulatory baseline. Costs are slightly lower than the control period to date due to further efficiencies that were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (9) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly lower than regulatory baseline in the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs are lower than the previous year, which was expected in the lower regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (10) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (11) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (12) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.
- (13) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

- (14) Opex/capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (15) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other notable savings include reductions in the FY22 performance-related pay following a decision to reduce expected pay-outs. This decision was taken at the end of the year, the benefit is currently showing in the Group category, but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These saving have been offset with the costs incurred in rolling out rail modernisation. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is lower than the previous year (in other words, net costs are lower) as the benefits from performance-related pay reductions this year are offset by the additional costs in redundancy costs as mentioned above.

North West & Central

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	86	116	30	-	-
Business rates	59	57	(2)	-	-
British transport police costs	21	21	-	-	1
	166	194	28	-	1
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	83
Business rates	-	-	-	-	70
British transport police costs	-	-	-	-	20
ORR licence fee and railway safety levy	2	2	-	-	2
RDG membership costs	1	1	-	-	-
RSSB costs	3	3	-	-	5
Reporters fees	-	-	-	-	1
Other industry costs	-	-	-	-	-
	6	6	-	-	181
Total traction electricity, industry costs and rates	172	200	28	-	182

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	86	116	30	-	
Business rates	59	57	(2)	-	
British transport police costs	23	21	(2)	(2)	
	168	194	26	(2)	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	161	203	42	-	
Business rates	122	111	(11)	-	
British transport police costs	39	40	1	1	
ORR licence fee and railway safety levy	6	7	1	-	
RDG membership costs	2	2	-	-	
RSSB costs	10	10	-	-	
Reporters fees	1	-	(1)	-	
Other industry costs	-	-	-	-	
	341	373	32	1	
Total traction electricity, industry costs and rates	509	567	58	-	1

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

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

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are lower than the previous year, which can be found in the centrally-managed section of the statement, due to lower network traffic. This has been offset by reduced charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to. Costs this year were higher than expected which has led to higher expenses in the control period to date; costs were lower compared to the prior year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – Costs were inline with the regulatory baseline and the previous year spend which can be seen in the centrally-managed section of the statement..

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally-managed to the geographic regions those costs relate to.

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

In £m cash prices unless stated

- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally-managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally-managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

North West & Central

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	59	102	43	29	39
Access charge supplement Income	(83)	(71)	12	-	(48)
Net (income)/cost	(24)	31	55	29	(9)
Schedule 8					
Performance element income	(61)	-	61	61	(58)
Performance element costs	1	-	(1)	(1)	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(60)	-	60	60	(55)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(2)	15	17	17	2
Access charge supplement Income	(21)	(18)	3	-	(12)
Net (income)/cost	(23)	(3)	20	17	(10)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	3	3	-	-	(27)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	3	3	-	-	(27)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	57	117	60	46	41
Access charge supplement Income	(104)	(89)	15	-	(60)
Net (income)/cost	(47)	28	75	46	(19)
Schedule 8					
Performance element income	(61)	-	61	61	(58)
Performance element costs	4	3	(1)	(1)	(24)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(57)	3	60	60	(82)
Cumulative					
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	159	231	72	65	-
Access charge supplement Income	(188)	(165)	23	-	-
Net (income)/cost	(29)	66	95	65	
Schedule 8					
Performance element income	(131)	-	131	131	-
Performance element costs	90	27	(63)	(63)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(41)	27	68	68	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(1)	44	45	44	-
Access charge supplement Income	(44)	(49)	(5)	-	-
Net (income)/cost	(45)	(5)	40	44	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(20)	9	29	29	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(20)	9	29	29	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	158	275	117	109	-
Access charge supplement Income	(232)	(214)	18	-	-
Net (income)/cost	(74)	61	135	109	
Schedule 8					
Performance element income	(131)	-	131	131	-
Performance element costs	70	36	(34)	(34)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(61)	36	97	97	

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Efficient usage of access, allowed for renewals delivery to require reduced possessions hence less cost incurred leading to financial outperformance this year. Despite few disturbances caused by adverse weather, such as storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are lower than the regulatory baseline. Efficient usage of access, allowed for renewals delivery to require reduced possessions hence less cost incurred. For the control period to date, the aforementioned reasons contribute to the cost being lower than the regulatory baseline and outperformance being realised. Savings were also made from efficient packaging of works, especially around the festive period, which also helped reduce disruption for passengers over a longer period. There were also benefits from successful resolution of commercial claims.
- (2) Schedule 8 performance was exceptional this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The regulatory baseline expected a net nil movement, but instead there was a huge inflow from operators. Under the terms of the train operator contracts in place, most of this cost was borne by DfT. The exceptional achievement this year, has led to favourable control period to date position. The control period to date outperformance is partially offset by Schedule 8 costs incurred FY20, which were noticeably higher than the baseline due to train performance being worse than expected. This included a higher concentration of one-off incidents (such as rising numbers of trespass and suicide) in this Region, repeated damage to overhead lines in key locations and the adverse impact of weather. These incidents were underpinned by a congested network meaning that the ability to recover from delays was reduced, a situation that was exacerbated following the introduction of a new timetable in the year.

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is slightly higher than the regulatory baseline for the year but lower for the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.
- (3) Schedule 8 – this year's cost is directly in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally-managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

North West & Central

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	53	45	(8)	-	63
PL Replace Partial	51	19	(32)	-	43
PL High Output	23	24	1	-	18
PL Refurbishment	9	25	16	-	7
PL Track Slab Track	-	-	-	-	-
Switches & Crossing - Replace	21	9	(12)	-	27
Switches & Crossing - Other	5	13	8	-	2
Off Track	18	11	(7)	-	18
Track Other	4	-	(4)	-	1
	184	146	(38)	(21)	179
Signalling					
Signalling Full	90	150	60	0	101
Signalling Partial	(1)	4	5	0	6
Signalling Refurb	16	30	14	0	23
Level crossings	11	14	3	0	9
Minor works	66	81	15	0	37
Other	0	0	0	0	-
	182	279	97	(7)	176
Civils					
Underbridges	36	46	10	-	35
Overbridges	8	11	3	-	11
Major structures	2	-	(2)	-	1
Tunnels	7	7	-	-	11
Minor works	27	22	(5)	-	41
Other	15	14	(1)	-	13
	95	100	5	(8)	112
Earthworks					
Earthworks - Embankments	22	11	(11)	-	26
Earthworks - Soil Cuttings	20	18	(2)	-	25
Earthworks - Rock Cuttings	5	2	(3)	-	6
Earthworks - Other	9	6	(3)	-	8
	56	37	(19)	3	65
Buildings					
Managed stations	6	11	5	-	7
Franchised stations	44	52	8	-	50
Light maint depots	5	18	13	-	8
Depot plant	-	-	-	-	-
Lineside buildings	5	2	(3)	-	5
MDU buildings	4	4	-	-	4
Other	-	-	-	-	-
	64	87	23	(4)	74
Electrical power and fixed plant					
AC distribution	1	6	5	-	2
Overhead Line	53	12	(41)	-	37
DC distribution	8	6	(2)	-	8
Conductor rail	-	-	-	-	1
Signalling Power Supplies	16	12	(4)	-	15
Other	-	-	-	-	-
Fixed plant	2	2	-	-	9
	80	38	(42)	(16)	72
Drainage					
Drainage (Track)	18	22	4	-	27
Drainage (Earthworks)	5	1	(4)	-	6
Drainage (Resilience)	-	-	-	-	-
	23	23	-	(11)	33
Property					
Property	19	3	(16)	-	1
	19	3	(16)	-	1
Total Regionally-managed renewals expenditure					
	703	713	10	(64)	712

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	2	5	3	-	-
Network	3	3	-	-	3
SISS	3	6	3	-	3
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	14	16	2	-	18
	23	30	7	(1)	25
Wheeled plant and machinery					
High output	5	2	(3)	-	5
Incident response	-	-	-	-	-
Infrastructure monitoring	1	4	3	-	1
Intervention	3	5	2	-	3
Materials delivery	2	8	6	-	(1)
On track plant	-	1	1	-	-
Seasonal	1	3	2	-	1
Other	7	2	(5)	-	3
	19	25	6	-	12
Route Services					
Business Improvement	14	2	(12)	-	20
IT Renewals	9	21	12	-	13
Asset Information	2	2	-	-	2
Other	3	1	(2)	-	2
	28	26	(2)	-	37
STE Renewals					
Intelligent infrastructure	17	12	(5)	-	15
Faster Isolations	26	23	(3)	-	24
Centrally Managed Signalling Costs	1	2	1	-	1
Research and development	9	12	3	-	13
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	4	1	(3)	-	5
Small plant	2	2	-	-	1
Other	16	2	(14)	-	14
	75	57	(18)	-	73
Property					
Property	1	13	12	-	1
	1	13	12	-	1
Other renewals					
ETCS	1	7	6	-	4
Digital Railway	4	(5)	(9)	-	1
Civils & Drainage - Insurance Fund	-	6	6	9	3
Buildings - Insurance Fund	-	4	4	-	-
OPEX/CAPEX Adjustment	(31)	(17)	14	-	(39)
Phasing overlay	-	(28)	(28)	-	-
System Operator	5	5	-	-	3
Other renewals	10	2	(8)	4	3
	(11)	(26)	(15)	13	(25)
Total centrally-managed renewals expenditure	135	125	(10)	12	123
TOTAL RENEWALS EXPENDITURE	838	838	-	(52)	835

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	149	132	(17)	-
PL Replace Partial	123	60	(63)	-
PL High Output	69	67	(2)	-
PL Refurbishment	19	70	51	-
PL Track Slab Track	-	-	-	-
Switches & Crossing - Replace	79	48	(31)	-
Switches & Crossing - Other	13	37	24	-
Off Track	42	35	(7)	-
Track Other	11	2	(9)	-
	505	451	(54)	(40)
Signalling				
Signalling Full	217	297	80	-
Signalling Partial	8	10	2	-
Signalling Refurb	44	53	9	-
Level crossings	23	37	14	-
Minor works	126	142	16	-
Other	-	-	-	-
	418	539	121	(21)
Civils				
Underbridges	94	104	10	-
Overbridges	23	30	7	-
Major structures	3	-	(3)	-
Tunnels	25	34	9	-
Minor works	91	68	(23)	-
Other	39	42	3	-
	275	278	3	(5)
Earthworks				
Earthworks - Embankments	61	47	(14)	-
Earthworks - Soil Cuttings	62	61	(1)	-
Earthworks - Rock Cuttings	15	5	(10)	-
Earthworks - Other	19	10	(9)	-
	157	123	(34)	(2)
Buildings				
Managed stations	20	25	5	-
Franchised stations	131	123	(8)	-
Light maint depots	15	24	9	-
Depot plant	1	-	(1)	-
Lineside buildings	15	7	(8)	-
MDU buildings	10	7	(3)	-
Other	-	-	-	-
	192	186	(6)	(11)
Electrical power and fixed plant				
AC distribution	4	9	5	-
Overhead Line	103	38	(65)	-
DC distribution	23	17	(6)	-
Conductor rail	1	1	-	-
Signalling Power Supplies	46	41	(5)	-
Other	-	-	-	-
Fixed plant	12	5	(7)	-
	189	111	(78)	(21)
Drainage				
Drainage (Track)	60	74	14	-
Drainage (Earthworks)	19	7	(12)	-
Drainage (Resilience)	-	-	-	-
	79	81	2	(16)
Property				
Property	20	8	(12)	-
	20	8	(12)	-
Total Regionally-managed renewals expenditure	1,835	1,777	(58)	(116)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	5	-	(5)	-
	5	-	(5)	-
Telecoms				
Operational communications	3	11	8	-
Network	8	8	-	-
SISS	7	11	4	-
Projects and other	2	1	(1)	-
Non-route capital expenditure	53	49	(4)	-
	73	80	7	(2)
Wheeled plant and machinery				
High output	13	10	(3)	-
Incident response	-	-	-	-
Infrastructure monitoring	3	8	5	-
Intervention	7	13	6	-
Materials delivery	3	21	18	-
On track plant	1	2	1	-
Seasonal	2	8	6	-
Other	11	2	(9)	-
	40	64	24	-
Route Services				
Business Improvement	58	31	(27)	-
IT Renewals	32	46	14	-
Asset Information	4	6	2	-
Other	6	2	(4)	-
	100	85	(15)	-
STE Renewals				
Intelligent infrastructure	38	29	(9)	-
Faster Isolations	55	59	4	-
Centrally Managed Signalling Costs	3	7	4	-
Research and development	28	28	-	-
Integrated Management System (Incl. BCR)	-	8	8	-
Other National SCADA Programmes	15	13	(2)	-
Small plant	3	6	3	-
Other	34	11	(23)	-
	176	161	(15)	-
Property				
Property	5	29	24	-
	5	29	24	-
Other renewals				
ETCS	8	16	8	-
Digital Railway	5	(9)	(14)	-
Civils & Drainage - Insurance Fund	3	18	15	12
Buildings - Insurance Fund	-	11	11	-
OPEX/CAPEX Adjustment	(85)	(48)	37	-
Phasing overlay	-	(63)	(63)	-
System Operator	9	11	2	-
Other renewals	15	4	(11)	13
	(45)	(60)	(15)	25
Total centrally-managed renewals expenditure	354	359	5	23
TOTAL RENEWALS EXPENDITURE	2,189	2,136	(53)	(93)

Statement 3.6: Analysis of renewals expenditure, North West & Central

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is broadly in line with the regulatory baseline and last year's outturn. Control period to date expenditure is higher than the regulatory baseline, primarily due to the increase in spend experienced last year due to the acceleration of jobs from future years, financial underperformance within the Track portfolio, additional expenditure on OLE assets to address tunnel fixings in the West Midlands, project Alpha works to fix tension equipment in stations and catchup from last year's slippage in STE managed project. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery and changes in scope to signalling programmes to minimise risk of asset failure.

Regionally-managed renewals

- (1) Regional renewals expenditure is slightly lower than the regulatory baseline and last year's outturn. The significant variances causing this underspend is Overhead lines in the E&FP portfolio, and underspend in the Track portfolio. Financial underperformance is recognised this year with issues in the track portfolio prevalent. Challenges in the LNW Plain Line initiatives and SCO underutilisation are contributors to the financial underperformance. Net financial underperformance has been reported across the portfolio in the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery and changes in scope to signalling programmes to minimise risk of asset failure.
- (2) Track — investment this year is higher than the regulatory baseline and last year's outturn, which is primarily due to higher net like for like costs. Financial underperformance has been recognised this year which is due to several projects underperforming. The largest variances belong to LNW Plain Line initiatives where underperformance is recognised due to sunk costs incurred before volume delivery being delayed, invasive species impacting the work sites and SCO underutilisation. Financial underperformance is recognised in the control period to date as a result of the above, as well as Covid-19 difficulties from the previous year. These difficulties included, but were not limited to, changes in workbank mix, loss of high output volumes, additional staff costs and increased vehicle costs. Investment is also higher than the control period to date baseline as a result of the above.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

- (3) Signalling – expenditure was lower than the regulatory baseline this year, mainly due to slippage on both the integrated Crewe hub re signalling programme and Birmingham new street renewal and some delays on minor work programmes. Spend is also lower in the control period to date as a result of these delays. Financial underperformance has been recognised this year, primarily due to higher input prices than were expected in the baseline. These input prices can be summarised as contractor costs which were much higher than estimated and Covid-19 causing difficulty in the delivery of projects. Further to these, underperformance is also recognised resulting from increased contractor claims in Macclesfield works, resulting from reduced access capability. Economies of scale were also underutilised in Wigan Level Crossing Renewals, resulting in higher than necessary unit rates. Underperformance is recognised in the control period to date resulting from the increased input price as mentioned above, but also due to delays in volume outputs, particularly relating to Birmingham New Street. Covid-19 also had a large impact on financial performance in FY21 and FY22 as there were many increased costs required to allow works to continue to be carried out safely.
- (4) Civils – expenditure was lower than the regulatory baseline this year and the previous year's outturn. This is a result of the deferral of Underbridge initiatives this year, which are planned to deliver volumes in the last year of the control period. Financial underperformance has been recognised this year resulting from difficulties in delivery of projects. Some key contributors to this are changes in work methodology resulting in increased costs and access difficulties. Control period to date position shows marginal underspend and slight underperformance as this year's performance is offset by the first year of the control period.
- (5) Earthworks – expenditure in the year was higher than the regulatory baseline. Though overall slightly less volumes were achieved than anticipated, we see that costs were higher in the category of Embankment spend. Financial outperformance has been recognised in the current year as a result of efficiencies in Hillmorton from reduced contractor spend without affecting renewals volume output. Favourable market conditions were taken advantage of for the purchase of property for the Hulme Hall Embankment project, which also had lower legal fees than anticipated. A reduction in headcount across NW&C OTL projects whilst delivering the same output also allowed an efficiency to be recognised this year. Financial underperformance is recognised in the control period to date as a result of severe flooding that happened in FY20 which cause many projects to slip to FY21. This slippage caused more cost to be incurred than budgeted hence negatively impacting financial performance.
- (6) Buildings – lower investment was made this year when compared to the regulatory baseline. This is primarily due to less spend on Light Maintenance Depots than the baseline assumed. Financial underperformance is recognised this year due to difficulties in the Carlisle Station re-surfacing of platforms 1-3 as trial hole investigations found no significant risks, but as the project progressed, serious faults were discovered, thus requiring much more time for delivery than was budgeted. Furthermore, Watford High Street had a main steel truss much more eroded than was anticipated, thus scope of the project was increased to allow this to be replaced. Financial underperformance can be seen in the control period to date as a result of the aforementioned reasons, plus underperformance realised in prior years due to inaccurate designs for Greenfield and Moston sites and discovery of asbestos in Tamsworth station which subsequently led to the incurred remediation costs.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

- (7) Electrical power and fixed plant – expenditure was significantly higher than the regulatory baseline this year and for the control period to date. This included extra costs incurred to deliver Project Alpha, a scheme not included in the original delivery plan, but one that has been initiated by the Executive management team to improve performance and customer service. This scheme has led to additional spend in OLE investment to improve resilience. Delivery of this work suffered however from curtailed possessions, subsequently allowing less output to be achieved which has led to underperformance being realised. Additional troughing was also required in North West which was missed in project estimation leading to extra costs. Underperformance this year and control period to date, is primarily driven by change in scope and design works, to ensure renewals delivered meet compliance requirements, as well as the investment in Project Alpha.
- (8) Drainage – investment was in line with the regulatory expectation this year. Financial underperformance has been reported this year and for the control period to date. This is due to costs incurred which relate to site investigation works for drainage across different routes, as well as inefficient access due to site complexities, for example Bremuda Park which has had bad ground conditions. Contributing to underperformance are the more complex interventions being required this year. The control period to date underperformance is due to the aforementioned reasons plus the impact of reduced outputs at New Lane, where the lower volumes adversely effected unit rates compared to the target rates. Additional intrusive investigations at Codsall and Townend Road also added to project costs.
- (9) Property – expenditure is higher than last year's actuals and the regulatory baseline. This is due to centrally-managed property renewals, being flexed over to the regional teams as part of the PPF programme.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is slightly over the regulatory baseline this year, with higher spend on STE programmes and overspend as a result of the phasing overlay in Group, being slightly offset by underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, primarily due to less spend being transferred to OPEX this year. Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in telecoms and wheeled plant and machinery activities.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. Financial performance is in line with target
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:
 - a. High output – investment was higher than the regulatory baseline and higher than last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year includes renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.
 - c. Intervention – costs were lower than the regulatory baseline and last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred due to sunk costs realised in production of the sleeper factory have been expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower than the regulatory baseline. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. The reason for the significant increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation and last year's expenditure. Notable variances at Key Cost Line include:
 - a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - b. Faster isolations – costs are broadly in line with the target and last years outturn.
 - c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but slightly higher than last year's outturn. This reflects the lower overall signalling costs this year compared to expectation.
 - d. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme being was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line in the control period to date.
 - e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - f. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
 - g. Small Plant – investment is broadly in line with the regulatory baseline this year and last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.

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

In £m cash prices unless stated

- h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.
- (7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is lower than the regulatory baseline and last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund. The financial outperformance recognised control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored
 - c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.

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

In £m cash prices unless stated

- d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being reclassified as OPEX.
- e. System Operator – expenditure this year is in line with the regulatory baseline but higher than last year's outturn
- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

North West & Central

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
East West Rail Phase 2	261	290	(1)	560	600	-
Manchester Improvements	9	28	1	28	60	1
London Euston (in support of High Speed Rail Group scheme)	15	7	(1)	32	23	(1)
SFN-Freight Forecasts project	3	(3)	-	5	-	-
Access for All	5	2	-	12	21	-
Midlands Hub - Continued Design and Early Development	3	-	-	4	-	-
Integrated Crewe Hub - HS2	-	(2)	2	6	6	2
Portfolio Contingency (including T-12)	-	(23)	(1)	5	6	21
Depots & Stabling Fund	1	3	-	6	5	-
Northern Hub	-	12	7	48	54	5
West Coast PSU	(5)	3	2	7	19	2
High Speed 2	-	-	-	7	-	-
Birmingham New Street Gateway	8	9	(6)	22	19	(14)
University Station	12	5	-	12	11	-
Energy Coast Rail Upgrade Project	1	(2)	2	6	5	3
NWEP Phase 7 Lostock - Wigan	5	(4)	-	6	5	-
Tactile Paving Installation	1	2	-	1	2	-
New Stations Fund	-	4	-	-	4	-
River Irwell FI Resil	3	6	-	3	6	-
Other	7	(44)	(2)	39	7	-
Total	329	293	3	809	853	19
Other Capital Expenditure	2	-	-	22	-	-
Other third party funded schemes						
HS2	166	-	-	517	-	-
Other third Party	60	-	-	185	-	-
Total	226	-	-	702	-	-
Total enhancements	557	293	3	1,533	853	19
Total enhancements less Other third party funded schemes	331	293	3	831	853	19

Statement 3.7: Analysis of enhancement expenditure, North West & Central

In £m cash prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.
- (2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £331m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£557m) less the PAYGO schemes funded by third parties (£226m).

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m cash prices unless stated

- (4) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. East West Rail Phase 2 – The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This structure, whilst delivering benefits, has led to slower decision-making processes which has been exacerbated by HM Treasury's understandable interest in authorising tranches of work on the programme. Progress in year has been slower than baseline due to risk management and pending further release of government investment.
 - b. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is slower than baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - c. Portfolio Contingency (including T-12) – Cumulative performance in this category are for the additional schedule 4 payments to TOC's, which resulted from Covid-19 related delays to publishing timetables.
 - d. Northern Hub Programme will improve rail travel in the North of England, easing the rail bottleneck around Manchester Piccadilly Station by providing additional services, increased capacity and platform improvements. Cumulative financial outperformance has been recognised as the programme anticipated final cost is less than baselined.
 - e. Birmingham New Street Gateway – This project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Increased spend in year and adverse financial performance relate to ongoing remediation in the steelworks of the Birmingham New Street atrium roof and on-going compensation and associated costs relating to the multi-storey car park.
 - f. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial underperformance in this category this year reflects University Station, Coventry Station and others.
- (5) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year include: Merseyrail power supply and Headbolt Lane works.
- (6) Other capital expenditure – There was minimum activity in this category this year.

North West & Central

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21			
Unit		AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	70	38	1,842	58	33	1,758
	PL Replace Partial	km	62	168	369	66	162	407
	PL High Output	km	26	20	1,300	15	15	1,000
	PL Refurbishment	km	8	92	87	11	92	120
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	16	43	372	18	63	286
	Switches & Crossing - Other	point ends	5	42	119	5	48	104
	Off Track	km/No.	16	144	111	9	64	141
	Track Other		-	-	-	-	-	-
Total		203			182			
Signalling	Signalling Full	SEU	35	58	603	-	-	-
	Signalling Partial	SEU	-	-	-	10	12	833
	Signalling Refurb	SEU	63	136	463	19	42	452
	Level crossings	No.	6	2	3,000	4	28	143
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		104			33			
Civils	Underbridges	m2	35	8,713	4	33	10,358	3
	Overbridges (incl BG3)	m2	9	724	12	12	2,230	5
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	16	24,923	1	5	15,005	0
	Culverts	m2	4	844	5	1	166	6
	Footbridges	m2	6	642	9	1	95	11
	Coastal & Estuarial Defences	m2	4	837	5	6	1,615	4
	Retaining Walls	m2	2	611	3	3	3,959	1
	Structures Other	m2	-	-	-	-	-	-
Other		-	-	-	-	-	-	
Total		76			61			
Earthworks	Earthworks - Embankments	No.	39	305	128	36	345	104
	Earthworks - Soil Cuttings	No.	28	405	69	33	393	84
	Earthworks - Rock Cuttings	No.	4	31	129	3	60	50
	Earthworks - Other	No.	4	10	400	4	204	20
	Drainage - Earthworks	m	9	45,136	0	5	21,092	0
	Drainage - Other	m	22	13,397	2	22	13,642	2
TOTAL		106			103			
Buildings	Buildings (MS)	m2	-	1,600	-	-	15	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	7	16,656	0	4	51	78
	Buildings (FS)	m2	2	1,695	1	3	7,693	0
	Platforms (FS)	m2	29	10,899	3	23	6,807	3
	Canopies (FS)	m2	10	2,646	4	4	4,692	1
	Train sheds (FS)	m2	-	-	-	-	-	-
	Footbridges (FS)	m2	8	498	16	11	1,676	7
	Lifts & Escalators (FS)	m2	-	1	-	3	15	200
	Other (FS)	m2	4	20,987	0	2	16,673	0
	Light Maintenance Depots	m2	4	18,814	0	3	6,790	0
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	4	2,688	1	8	4,000	2
	MDU Buildings	m2	-	-	-	5	2,471	2
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
Total		68			66			

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	15	94	160	29	53	547
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	2	292	7	3	292	10
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	2	5	400	3	8	375
	HV Switchgear Renewal AC	No.	-	-	-	2	5	400
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	6	14	429
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	1	1	1,000	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	1	22	45	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	7	45	156	9	61	148
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	2	29	69	1	20	50
	Signalling Power Cables	km	-	7	-	50	139	360
	Signalling Supply Points	point end	3	3	1,000	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		33			103		
Telecoms	Customer Information Systems	No.	1	170	6	-	-	-
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	5	509	10	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	4	2,302	2	3	618	5
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	9	111	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	1	28	36	-	7	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		5	69	72	2	30	67
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		17			5		

Statement 3.8: Analysis of renewals unit costs, North West & Central

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - The unit cost for High Output has increased in the year due to a number of complex jobs. There has been an increase in the unit costs for Switches and Crossings in the year in both the Replace and Other categories. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. However there has been a decrease in the unit cost of PL Refurbishment in the year due to the location and complexity issue mentioned above. There has also been a decrease in the unit cost of Off Track in the year. The mix issue also affects Off Track as the work can be fencing or longitudinal timbers
- (3) Signalling – There has been a large increase in the unit cost of Level Crossings in the year. Only two volumes were delivered across two projects in the current year so the sample size is too small to do any meaningful analysis.

Statement 3.8: Analysis of renewals unit costs, North West & Central – continued

In £m cash prices unless stated

- (4) Civils – There has been a large increase in the unit cost of Overbridges in the year. This is due to the fact that in the current year a higher proportion of the work was replacement which is more expensive than the repair work which was primarily done in the previous year.
- (5) Earthworks & Drainage – There has been an increase in the unit cost of Embankments in the year. This is due to the type of work that is being done. There was a higher proportion of the more expensive renew work in the year compared to less expensive maintain work. There has also been an increase in the unit cost of Rock Cuttings for similar reasons. However there has been a decrease in the unit cost of Soil Cuttings in the year. In the current year there was a large project in response to the Stonehaven incident. There has been a large increase in the unit cost in the Earthworks Other category. However in 2020/21 there was only one project in this category so the sample size is too small to do any meaningful analysis..
- (6) Buildings – There has been an increase in the unit cost of Franchised Stations – Footbridges in the year. This is due to the fact that this year the two biggest projects at Nuneaton and Worcester Shrub Hill have a much higher unit cost than the major project last year at Manchester Victoria.
- (7) Electrical Power and Fixed Plant – There has been a decrease in the unit cost of Wiring in the year. This is due to the fact there has been a lower proportion of full re-wiring in the year compared to the less expensive refurb when compared to the prior year. There has been an increase in the unit costs of Points Heaters in the year. However, there was only one project spanning both years so the sample size is too small to do any meaningful analysis.
- (8) Telecoms – There has been an increase in the unit cost of Network in the year. There were only two projects this year compared to one last year. The new project in the year at Sandhill IECC has driven up the unit cost in such a small sample size.

North West & Central

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	15,623
Indexation to 2021-22 prices	16,420
RAB additions	
Renewals expenditure	838
Enhancements expenditure	-
Less amortisation	(838)
Property Sales	(10)
Closing RAB	16,410

Net debt

	£m
Opening net debt	11,383
Income	(2,107)
Expenditure	1,880
Financing Costs - Government borrowing	188
Financing Costs - index linked debt	379
Financing Costs - Other	24
Corporation tax	0
Working capital	64
Closing net debt	11,811

Statement 4: Regulatory financial position, North West & Central

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the North West & Central part of the network and how it has moved during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £0.8bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to North West & Central and how it has moved during the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.

Statement 4: Regulatory financial position, North West & Central – continued

In £m cash prices unless stated

- (9) Network Rail's debt attributable to North West & Central is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.
- (10) Income is set out in more detail in Statement 2
- (11) Expenditure is set out in more detail in Statement 3.
- (12) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (except for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.
- (13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

Southern

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	1,587	1,762	(175)	-	1,440
Franchised track access charges	652	719	(67)	(10)	650
Other Single Till Income	266	236	30	-	156
Total Income	2,505	2,717	(212)	(10)	2,246
Operating expenditure					
Network operations	180	186	6	6	195
Support costs	207	196	(11)	1	208
Traction electricity, industry costs and rates	244	288	44	-	271
Maintenance	453	377	(76)	(89)	468
Schedule 4	104	82	(22)	(30)	91
Schedule 8	(104)	4	108	108	(157)
	1,084	1,133	49	(4)	1,076
Capital expenditure					
Renewals	923	931	8	(62)	1,022
Enhancements	168	112	(56)	10	203
	1,091	1,043	(48)	(52)	1,225
Risk expenditure					
Risk (Centrally-held)	-	45	45	-	-
Risk (Route-controlled)	-	42	42	-	-
Risk (Contingent asset management funding)	-	57	57	-	-
	-	144	144	-	-
Other expenditure					
Financing costs	632	512	(120)	-	405
Corporation tax	-	17	17	-	15
	632	529	(103)	-	420
Total expenditure	2,807	2,849	42	(56)	2,721
Total Financial Out/(under) performance				(66)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	4,238	4,833	(595)	-
Franchised track access charges	1,885	2,036	(151)	(17)
Other Single Till Income	683	695	(12)	(44)
Total Income	6,806	7,564	(758)	(61)
Operating expenditure				
Network operations	543	548	5	4
Support costs	546	573	27	24
Traction electricity, industry costs and rates	736	826	90	2
Maintenance	1,278	1,125	(153)	(178)
Schedule 4	265	238	(27)	(14)
Schedule 8	(280)	16	296	297
	3,088	3,326	238	135
Capital expenditure				
Renewals	2,601	2,385	(216)	(158)
Enhancements	571	592	21	12
Other	-	-	-	-
	3,172	2,977	(195)	(146)
Risk expenditure				
Risk (Centrally-held)	-	73	73	-
Risk (Route-controlled)	-	77	77	-
Risk (Contingent asset management funding)	-	103	103	-
	-	253	253	-
Other expenditure				
Financing costs	1,495	1,529	34	-
Corporation tax	14	25	11	-
	1,509	1,554	45	-
Total expenditure	7,769	8,110	341	(11)
Total Financial Out/(under) performance				(72)

Statement 1: Summary of regulatory financial performance, Southern

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Southern's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's Southern net expenditure (Total income less Total expenditure) was around £0.2bn higher than the regulatory baseline and £0.4bn higher than the control period to date regulatory baseline. The higher net expenditure experienced this year relates to the reduced grant and franchised track access charges, greater spend in the enhancement's portfolio and higher than anticipated financing costs. The control period variance is mostly due to a reduction in Grant Income and increase in renewals expenditure which is partially offset by Schedule 8 inflow due to outstanding train performance.
- (2) This statement also shows that Network Rail Southern has recognised financial underperformance of £67m this year and £73m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs and extra investment in maintenance, being partially offset by improvements in the train performance regime.
- (3) Income - Grant income in the year was lower than the regulatory baseline. This is mostly due to the network grant being lower because of different phasing of activity being undertaken than anticipated in the regulatory baseline. Internal financing grant was also lower than anticipated as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Variances in Grant income is outside of the scope of financial performance. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in the year due to the Covid-19 pandemic. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is broadly in line with last year. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

- (5) Income – Other single till income in the year is higher than the baseline mostly due to the divestment of cannon street London offsetting the reduced rental income experienced, as a result of the Covid-19 pandemic. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Overall, operations costs are lower than the regulatory baseline and lower than last year's actuals. The control period to date spend is slightly lower than the regulatory baselines as the efficiencies achieved in the control period to date have offset the extra costs occurred resulting from the impact of Covid-19. There has also been the slippage of costs for operations projects SCADA and ETCS. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and broadly in line with last year's spend. Continued implementation of the PPF programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, have been offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. The Control Period to date spend is lower than the regulatory expectation, primarily as a result of deferral of investment of CSAC income both this year and the previous year, and reductions in performance-related pay for staff, headcount control and other efficiencies realised in the control period. OPEX to CAPEX movements are considered neutral in the measure of financial performance. Financial outperformance was not recognised this year, as higher costs highlighted above, excluding OPEX to CAPEX movements, were offset by the savings in PRP payments and CSAC savings. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure Overall maintenance costs are higher than the regulatory baseline this year, but lower than the previous year's expenditure. The primary causes for the increase in costs is the additional investment in Performance Schemes to improve the Wessex route as well as Inner and Outer DU, the introduction of Trespass and Welfare teams at stations across the route, and ongoing Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year, as well as the response we had to Covid-19. This additional expenditure is reflected in the financial underperformance recognised both for the current year, and the control period to date. Maintenance costs are discussed in more detail in Statement 3.2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

- (10) Operating expenditure - Overall Schedule 4 costs are higher than the regulatory baseline this year, due higher like for like costs as a result of the storms experienced in February. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial underperformance recognised is higher than the arithmetic variance. Fewer large disruptive events and reduced passenger numbers this year resulted in the lower compensation payable for major events, partially offsetting the extra costs incurred.
- (11) Schedule 4 costs are set out in more detail in Statement 3.5.
- (12) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too, and subsequently high financial overperformance, both this year and the control period to date. Schedule 8 costs are set out in more detail in Statement 3.5.
- (13) Capital expenditure – Overall, Renewals expenditure is broadly in line with the regulatory baseline, but lower than last year's outturn, as a large amount of work was accelerated from future years into last years workbank. Financial underperformance has been recognised in the year due to increased unit rates across many projects and significant delivery challenges within the region. Multiple locations across Kent and Sussex were deemed to have the risk of animals straying onto infrastructure; fencing works were undertaken in which substantial amounts of vegetation and walkway installation had to occur, causing an increase in costs per volume. Furthermore, earthworks was a large underperformance contributor as due to the reactive nature of the works, many assets were found in worse conditions than anticipated. This was coupled by difficult sites for works due to some tail-end impact of Covid-19. Net financial underperformance is recognised in the control period to date. This underperformance is due to a multitude of factors including Covid-19 on project delivery, especially within the Track and Signalling portfolios, headwinds resulting from higher material prices and extra off track works taking place to deliver desired volumes, such as extra vegetation when delivering fencing. The increase in spend over the control period is due to the reasons highlighted above. Renewals investment is discussed in more detail in Statement 3.6.
- (14) Capital expenditure - Enhancements expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years.. Enhancement investment is set out in more detail in Statement 3.7.
- (15) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

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

Southern

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	270	275	(5)	-	257
Variable usage charge	47	58	(11)	(11)	48
Electrification asset usage charge	4	4	-	-	4
Capacity charge	-	-	-	-	-
Open access income	5	-	5	5	5
Managed stations long term charge	22	23	(1)	(1)	23
Franchised stations long term charge	54	55	(1)	(1)	57
Traction electricity charges	153	204	(51)	-	-
Schedule 4 access charge supplement	68	70	(2)	(2)	73
	623	689	(66)	(10)	467
Other single till income					
Freight income					
Freight variable usage charge	4	4	-	-	5
Freight other income	-	-	-	-	-
	4	4	-	-	5
Stations income					
Managed stations qualifying expenditure	34	37	(3)	(3)	35
Franchised stations lease income	30	26	4	4	29
	64	63	1	1	64
Facility and financing charges					
Facility charges	18	18	-	-	18
	18	18	-	-	18
Property income					
Property rental	66	98	(32)	(32)	27
Property sales	52	5	47	16	4
	118	103	15	(16)	31
Depots Income	38	34	4	4	39
Other income	2	2	-	-	2
Freight traction electricity charges	2	3	(1)	-	-
Total other single till income	246	227	19	(11)	159
Total Regionally-managed income	869	916	(47)	(21)	626
Centrally-managed income					
Network grant	1,281	1,378	(97)	-	1,089
Internal financing grant	141	202	(61)	-	154
External financing grant	135	136	(1)	-	154
BTP grant	30	29	1	-	28
Corporation tax grant	-	17	(17)	-	15
Infrastructure cost charges	12	12	-	-	12
Schedule 4 access charge supplement	17	18	(1)	-	18
Traction electricity charges	-	-	-	-	153
Freight traction electricity charges	-	-	-	-	2
	1,616	1,792	(176)	-	1,625
Other single till income					
Property income					
Property rental	1	5	(4)	(4)	1
Property sales	19	4	15	15	(6)
	20	9	11	11	(5)
Total other single till income	20	9	11	11	(5)
Total centrally-managed income	1,636	1,801	(165)	11	1,620
Total income	2,505	2,717	(212)	(10)	2,246

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	744	749	(5)	-
Variable usage charge	145	166	(21)	(21)
Electrification asset usage charge	12	13	(1)	(1)
Capacity charge	-	-	-	-
Open access income	10	-	10	10
Managed stations long term charge	66	67	(1)	(1)
Franchised stations long term charge	161	162	(1)	(1)
Traction electricity charges	153	204	(51)	-
Schedule 4 access charge supplement	212	215	(3)	(3)
	1,503	1,576	(73)	(17)
Other single till income				
Freight income				
Freight variable usage charge	11	12	(1)	-
Freight other income	-	-	-	-
	11	12	(1)	-
Stations income				
Managed stations qualifying expenditure	99	108	(9)	(9)
Franchised stations lease income	86	76	10	10
	185	184	1	1
Facility and financing charges				
Facility charges	52	52	-	-
	52	52	-	-
Property income				
Property rental	92	195	(103)	(103)
Property sales	56	8	48	17
	148	203	(55)	(86)
Depots Income	108	98	10	9
Other income	6	5	1	2
Freight traction electricity charges	2	3	(1)	-
Total other single till income	512	557	(45)	(74)
Total Regionally-managed income	2,015	2,133	(118)	(91)
Centrally-managed income				
Network grant	3,252	3,725	(473)	-
Internal financing grant	447	553	(106)	-
External financing grant	441	445	(4)	-
BTP grant	84	84	-	-
Corporation tax grant	14	26	(12)	-
Infrastructure cost charges	34	34	-	-
Schedule 4 access charge supplement	50	50	-	-
Traction electricity charges	298	376	(78)	-
Freight traction electricity charges	4	5	(1)	-
	4,624	5,298	(674)	-
Other single till income				
Property income				
Property rental	101	104	(3)	(3)
Property sales	66	29	37	33
	167	133	34	30
Total other single till income	167	133	34	30
Total centrally-managed income	4,791	5,431	(640)	30
Total income	6,806	7,564	(758)	(61)

Statement 2: Analysis of income, Southern

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower grants, property rental income and Traction electricity income received. Income is higher than the previous year mostly due to higher property income. Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received, lower property related income plus lower than anticipated traction electricity income. The lower property income received due to Covid-19, has resulted in the financial underperformance recognised both in this year and the control period to date.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to a reduction in traction electricity income and lower property rental income due to Covid-19. Since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. Regionally managed income is greater than last year primarily due to traction electricity charges being devolved from centrally-managed to the geographic regions which obtain the income. There has also been an increase in property rental income compared to last year's actuals. This is due to Covid-19 restrictions reducing over FY22 when compared to FY21, and thus increased passenger demand. Regionally managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was lower than the baseline this year. This shortfall is due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to Covid-19. Income generated under this mechanism is marginally lower than the previous year.
- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

- (5) Open access income – income is lower than the regulatory baseline due to the income received by London Underground moving over from Eastern region to the Southern region.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised, reducing 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 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In FY22, Network Rail has allocated out traction electricity costs and income from centrally managed to the geographic regions those costs relate to. Income was in line with the previous year, which can be seen in last year's centrally managed income. This was largely offset by costs payable by Network Rail for electricity (as shown in Statement 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (7) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19. However, in comparison to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions in FY22 compared to FY21 and increased footfall in stations as passengers become more willing and able to travel via the rail network. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19 impact is decreasing year on year, the macroscopic effects are still suppressing.
- (8) Property sales - revenue is much higher than the regulator's assumptions this year and the control period to date due to the sale of the investment property Cannon Place for £22m. This divestment decision was a result of favourable market conditions which allowed the disposal to be at a price which exceeded expectations.
- (9) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline, mainly due to lower grant income. Income is higher than previous years actual, mainly due to higher property income. Control period to date centrally managed income is also lower than the regulatory baseline as a result of lower grant income.
- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

- (3) Network grant – income is lower than the regulatory baseline for the year and the control period to date as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (5) External financing grants – grants received in the year and for the control period to date are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source lower than the previous year, where because of the higher grant received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the control period to date regulatory baseline.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.
- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region the reside in and narrative on variances are mentioned in the regionally managed income section.
- (10) Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand and is broadly in line with the previous year. Income for the control period to date is much lower than the regulatory baseline as a result of the aforementioned Covid-19 consequences.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

- (11)Property sales – sales are higher than the regulatory baseline this year and for the control period to date. This is due to major sales in the year at Blackfriars Station, Blackheath Station and James Forbes House.

Southern

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	176	182	6	6	192
Maintenance	443	364	(79)	(90)	454
Support costs	72	56	(16)	(16)	84
Traction electricity, industry costs and rates	236	279	43	-	2
Schedule 4	105	70	(35)	(43)	87
Schedule 8	(106)	2	108	108	(148)
	926	953	27	(35)	671
Capital expenditure					
Renewals	816	760	(56)	(69)	896
Enhancements	168	124	(44)	9	201
	984	884	(100)	(60)	1,097
Total Regionally-managed expenditure	1,910	1,837	(73)	(95)	1,768
Centrally-managed expenditure					
Operating expenditure					
Network operations	4	4	-	-	3
Maintenance	10	13	3	1	14
Support costs	135	140	5	17	124
Traction electricity, industry costs and rates	8	9	1	-	269
Schedule 4	(1)	12	13	13	4
Schedule 8	2	2	-	-	(9)
	158	180	22	31	405
Capital expenditure					
Renewals	107	171	64	7	126
Enhancements	-	(12)	(12)	1	2
	107	159	52	8	128
Risk Expenditure	-	144	144	-	-
Other					
Financing costs	632	512	(120)	-	405
Taxation	-	17	17	-	15
	632	529	(103)	-	420
Total centrally-managed expenditure	897	1,012	115	39	953
Total expenditure	2,807	2,849	42	(56)	2,721

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	533	535	2	2
Maintenance	1,241	1,080	(161)	(181)
Support costs	198	172	(26)	(25)
Traction electricity, industry costs and rates	239	282	43	-
Schedule 4	274	203	(71)	(57)
Schedule 8	(276)	10	286	287
	2,209	2,282	73	26
Capital expenditure				
Renewals	2,263	1,932	(331)	(166)
Enhancements	532	586	54	(2)
	2,795	2,518	(277)	(168)
Total Regionally-managed expenditure	5,004	4,800	(204)	(142)
Centrally-managed expenditure				
Operating expenditure				
Network operations	10	13	3	2
Maintenance	37	45	8	3
Support costs	348	401	53	49
Traction electricity, industry costs and rates	497	544	47	2
Schedule 4	(9)	35	44	43
Schedule 8	(4)	6	10	10
	879	1,044	165	109
Capital expenditure				
Renewals	338	453	115	8
Enhancements	39	6	(33)	14
Other	-	-	-	-
	377	459	82	22
Risk Expenditure	-	253	253	-
Other				
Financing costs	1,495	1,529	34	-
Taxation	14	25	11	-
	1,509	1,554	45	-
Total centrally-managed expenditure	2,765	3,310	545	131
Total expenditure	7,769	8,110	341	(11)

Statement 3: Analysis of expenditure, Southern

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of central Renewals activity to later in the control period and risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes and lack of risk expenditure, being partially offset by increased renewal activity. Costs are higher than the previous year mainly due to increased financing costs. Financial underperformance has been recognised this year, as higher like for like costs in the Renewals category and maintenance costs have only partly been offset by savings in Schedule 8 compensatory payments.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to acceleration and higher like for like costs in Renewals, Putting passenger first programme costs and the impact of Covid-19 across all expenditure line items however this has been partially offset by savings in Schedule 8 costs. Costs are higher than the previous year due to Traction Electricity being moved to Regionally Managed. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. Financial underperformance has been recognised this year, as higher like for like costs in the Renewals category have only partly been offset by savings in Schedule 8 compensatory payments.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline mainly due to risk. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.
This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to Traction Electricity being moved to Regionally Managed. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Southern

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	60	57	(3)	(3)	63
Operations Management	13	12	(1)	(1)	9
Controllers	36	32	(4)	(4)	32
Electrical control room operators	9	8	(1)	(1)	9
	118	109	(9)	(9)	113
Non signaller expenditure					
Mobile operations managers	10	8	(2)	(2)	13
Managed stations	29	31	2	2	41
Performance	6	9	3	3	6
Other	13	25	12	12	19
Total Regionally-managed Operations expenditure	176	182	6	6	192
Centrally-managed Operations expenditure					
Network Services	4	4	-	-	3
Total centrally-managed Operations expenditure	4	4	-	-	3
Total operations expenditure	180	186	6	6	195

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	177	173	(4)	(4)
Operations Management	32	35	3	3
Controllers	97	96	(1)	(1)
Electrical control room operators	25	23	(2)	(2)
	331	327	(4)	(4)
Non signaller expenditure				
Mobile operations managers	33	25	(8)	(8)
Managed stations	100	93	(7)	(7)
Performance	20	26	6	6
Other	49	64	15	15
Total Regionally-managed Operations expenditure	533	535	2	2
Centrally-managed Operations expenditure				
Network Services	10	13	3	2
Total centrally-managed Operations expenditure	10	13	3	2
Total operations expenditure	543	548	5	4

Statement 3.1: Analysis of operations expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are lower than the regulatory baseline and lower than last year's actuals. The control period to date spend is slightly lower than the regulatory baselines as the efficiencies achieved in the control period to date have offset the extra costs occurred resulting from the impact of Covid-19. There has also been the slippage of costs for operations projects SCADA and ETCS.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were lower than the regulatory expectation this year and last year's actuals. The control period to date spend is slightly lower than the regulatory baselines as the efficiencies achieved in the control period to date have offset the extra costs occurred resulting from the impact of Covid-19. There has also been the slippage of costs for operations projects SCADA and ETCS.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation for both the Control Period to date and the current year. Compared to last year, costs are lower. Savings made in the first year of the control period due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic.
- (3) Managed Stations – costs are lower than the regulatory baseline this year and much lower than the previous year's actuals. The primary reason for the year-on-year variance is due to the high usage of agency staff during the Covid-19 pandemic. This was significantly reduced this year due to adaptive working practices. There is underperformance in the control period to date as a result of the prior years usage of agency staff.
- (4) Other – costs are much lower than the regulatory target for this year, and the Control Period to date. This is partly due to restructuring as a result of the PPF Programme. Costs that were assumed to sit here moved this financial year now sit with Controllers. Costs are also lower than last year as a result of the above.

Centrally-managed operations expenditure

- (5) Network Services – costs are broadly in line with the regulatory baseline and the previous year.

Southern

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	175	161	(14)	(14)	179
Signalling & Telecoms	71	68	(3)	(3)	71
Civils	38	45	7	(5)	42
Buildings	30	30	-	1	34
Electrical power and fixed plant	28	29	1	1	26
Other network operations	101	31	(70)	(70)	102
	443	364	(79)	(90)	454
Centrally-managed maintenance expenditure					
Telecoms	5	7	2	2	5
Route Services - Asset Information	6	6	-	-	6
STE Maintenance	1	1	-	-	1
Property	1	-	(1)	(1)	-
Route Services - Other	(2)	(1)	1	1	(1)
Other	(1)	-	1	(1)	3
	10	13	3	1	14
Total maintenance expenditure	453	377	(76)	(89)	468

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	502	468	(34)	(34)
Signalling & Telecoms	204	198	(6)	(6)
Civils	114	129	15	(11)
Buildings	94	89	(5)	1
Electrical power and fixed plant	78	85	7	7
Other network operations	249	111	(138)	(138)
	1,241	1,080	(161)	(181)
Centrally-managed maintenance expenditure				
Telecoms	14	19	5	5
Route Services - Asset Information	17	17	-	(1)
STE Maintenance	4	3	(1)	(1)
Property	4	6	2	2
Route Services - Other	-	-	-	(4)
Other	(2)	-	2	2
	37	45	8	3
Total maintenance expenditure	1,278	1,125	(153)	(178)

Statement 3.2: Analysis of maintenance expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall maintenance costs are higher than the regulatory baseline this year, but lower than the previous year's expenditure. The primary causes for the increase in costs is the additional investment in Performance Schemes to improve the Wessex route as well as Inner and Outer DU, the introduction of Trespass and Welfare teams at stations across the route, and ongoing Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year, as well as the response we had to Covid-19. This additional expenditure is reflected in the financial underperformance recognised both for the current year, and the control period to date.

Regionally-managed maintenance costs

- (2) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, but lower than the previous year's expenditure. The primary causes for the increase in costs is the additional investment in Performance Schemes to improve the Wessex route as well as Inner and Outer DU, the introduction of Trespass and Welfare teams at stations across the route, and ongoing Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year, as well as the response we had to Covid-19. This additional expenditure is reflected in the financial underperformance recognised both for the current year, and the control period to date.
- (3) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the regulatory baseline, but lower than the previous year's expenditure. Investment in performance schemes has resulted in this increase in costs, particularly in the Inner and Outer DU's. Further expenditure was also required due to increased track defects around London Bridge. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year and the additional expenditure required in our response to Covid-19 in FY21.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

- (4) Civils – costs were lower than the regulatory baseline mainly due to a delay in tenanted arches inspections and reactive maintenance expenses being lower than the regulatory expectation. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Costs are lower than the previous year. Control Period to date spend is lower than the regulatory baseline, predominantly because of lower reactive maintenance expenditure and the delays in tenanted arch inspections.
- (5) Electrical power and fixed plant – costs for the current year are lower than the regulatory expectation and broadly in line with spend for the previous year. This decrease is largely attributable to a delay in planned OLE works. Control Period to date spend is lower than the regulatory baseline, despite the additional costs incurred this year in relation to Covid-19.
- (6) Other network operations – costs are significantly higher than the regulatory baseline and in line with last year's actual. There are numerous contributory factors, including Covid-19 resilience and compliance investment contributing to this extra spend. This has included additional staff costs, procurement of Covid-19 secure services and increases in the premium hour costs. Additionally, there are various one-off expenses and other asset resilience initiatives to protect train performance, including a Performance scheme implemented in Wessex and the introduction of Trespass and Welfare teams across the route's stations. Control Period to date spend is higher than the regulatory baseline, as a result of the aforementioned costs incurred this year.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline and the previous year's actuals.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period. Costs are marginally lower than the previous year.

Southern

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	10	9	(1)	(1)	12
Finance	4	6	2	2	3
Accommodation	21	17	(4)	(4)	22
Utilities	17	17	-	-	15
Other	20	7	(13)	(13)	32
	72	56	(16)	(16)	84
Centrally-managed Support costs					
Finance & Legal	9	13	4	4	8
Communications	3	5	2	2	4
Human Resources	6	7	1	1	6
System Operator	9	16	7	7	7
Property	8	-	(8)	(7)	6
Telecoms	17	16	(1)	(1)	18
Network Services	-	-	-	-	4
Safety Technical and Engineering	8	8	-	-	8
RS - IT and Business Services	24	25	1	1	25
RS - Asset Information	3	5	2	2	2
RS - Directorate	9	5	(4)	(4)	9
Other corporate functions	4	1	(3)	(3)	2
Insurance	7	11	4	4	6
OPEX/CAPEX Adjustment	25	14	(11)	-	28
Group costs	3	14	11	11	(9)
	135	140	5	17	124
Total support costs	207	196	(11)	1	208

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	28	26	(2)	(1)
Finance	11	18	7	6
Accommodation	61	54	(7)	(6)
Utilities	48	51	3	3
Other	50	23	(27)	(27)
	198	172	(26)	(25)
Centrally-managed Support costs				
Finance & Legal	24	32	8	8
Communications	9	12	3	3
Human Resources	15	16	1	1
System Operator	24	37	13	13
Property	22	3	(19)	(18)
Telecoms	46	47	1	(1)
Network Services	8	16	8	8
Safety Technical and Engineering	22	23	1	1
RS - IT and Business Services	69	72	3	3
RS - Asset Information	7	13	6	6
RS - Directorate	21	14	(7)	(7)
Other corporate functions	11	14	3	(5)
Insurance	19	27	8	8
OPEX/CAPEX Adjustment	62	34	(28)	-
Group costs	(11)	41	52	29
	348	401	53	49
Total support costs	546	573	27	24

Statement 3.3: Analysis of support costs, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- 1) Support costs are higher than the regulatory baseline and broadly in line with last years spend. Continued implementation of the PPF programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, have been offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following decisions by Network Rail to reduce pay-outs and expected pay-outs for the last three years. The Control Period to date spend is lower than the regulatory expectation, primarily as a result of deferral of investment of CSAC income both this year and the previous year, and reductions in performance-related pay for staff, headcount control and other efficiencies realised in the control period. Opex to Capex movements are considered neutral in the measure of financial performance. financial outperformance was not recognised this year.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline. This year's variance is due to the implementation of the PPF re-organisation programme. The Control Period to date is also higher than the regulatory baseline, despite the realisation of efficiencies in the first year of the control period, which were offset by the additional spend the past two years. Spend is lower than the previous year, primarily due to a reduction in headcount in regional functions compared to FY21.
- (2) Human resources – costs in the current year and control period to date are slightly higher than the baseline expectation reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff, to support this initiative. Costs are marginally lower than the previous year.
- (3) Accommodation – costs are slightly higher than the baseline expectation and similar to the previous year as a result of expenditure on required Covid-19 compliance measures. The Control Period to date spend is similarly higher than the regulators assumption, due to this extra cost.
- (4) Other – costs were significantly higher than the regulatory baseline this year and for the Control Period to date. This is primarily due to implementation of the PPF programme which saw the transfer of many teams, such as Property, NRT, from national functions to regional ones. Costs are lower than the previous year as more staff costs were incurred last year. As less annual leave being taken during the year, there was the result that an increase in salary costs was needing to be recognised.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: headcount restraint and reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. Costs are higher than last year's actual mainly due to an increase in the Group costs. Opex/capex adjustment is lower than the previous year as, although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism.
- (3) Communications – costs this year and for the control period to date are less than the regulatory baseline. Costs are slightly lower than the previous year despite the expectation of them to increase in the regulatory baseline; this arises from expected changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs have stayed consistent with the prior financial year.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year. This is mainly due to increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction, partly offset by accountabilities being devolved to the Regional teams.
- (6) Property - costs are higher than the regulatory baseline this year and for the control period to date. This is mostly due to the devolution of accountabilities to the Regionally managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are slightly higher than the target for the year but lower than the regulatory baseline for the control period. This is primarily due to efficiencies arising from headcount control in previous years.
- (8) Network Services – this function no longer exists and has been devolved out to other functions within this statement.

Statement 3.3: Analysis of support costs, Southern – continued

In £m cash prices unless stated

- (9) Technical Authority – costs are in line with the regulatory baseline and last year. Costs are slightly lower than the control period to date due to further efficiencies that were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic.
- (10) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly lower than in the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home.
- (11) Route Services – Asset Information – costs are lower than the regulatory baseline this year, but in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year.
- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.
- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.

Statement 3.3: Analysis of support costs, Southern – continued

In £m cash prices unless stated

- (15) Opex/capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other notable savings include reductions in the FY22 performance-related pay following a decision to reduce pay-outs. This decision was taken at the end of the year, the benefit is currently showing in the Group category, but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by redundancy as a result of rail modernisation. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is lower than the previous year (in other words, net costs are lower) as the benefits from performance-related pay reductions this year are offset by the additional costs in redundancy costs as mentioned above.

Southern

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	155	206	51	-	-
Business rates	51	44	(7)	-	-
British transport police costs	30	29	(1)	-	2
	236	279	43	-	2
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	156
Business rates	-	-	-	-	79
British transport police costs	-	-	-	-	26
ORR licence fee and railway safety levy	5	5	-	-	5
RDG membership costs	1	1	-	-	1
RSSB costs	2	2	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	1	1	-	-
	8	9	1	-	269
Total traction electricity, industry costs and rates	244	288	44	-	271

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	155	206	51	-	
Business rates	51	44	(7)	-	
British transport police costs	33	32	(1)	-	
	239	282	43	-	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	305	381	76	-	
Business rates	117	85	(32)	-	
British transport police costs	51	53	2	2	
ORR licence fee and railway safety levy	15	14	(1)	-	
RDG membership costs	3	3	-	-	
RSSB costs	6	6	-	-	
Reporters fees	-	-	-	-	
Other industry costs	-	2	2	-	
	497	544	47	2	
Total traction electricity, industry costs and rates	736	826	90	2	

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

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

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are in line with the previous year's actuals, which can be seen in the centrally managed section. The reduced cost has been offset by reduced charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally managed to the geographic regions those costs relate to. Costs this year were higher than expected which has led to higher expenses in the control period to date; costs were lower compared to the prior year, which can be seen in the centrally managed section of this statement. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – Costs were higher than the regulatory baseline and the previous year due to additional services requested to keep the travelling public safe. Most of last years numbers can be seen in the centrally managed section of the statement. The additional costs in the current year account for the control period to date variance.

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

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally managed to the geographic regions those costs relate to.
- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Southern

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

				Of which financial out / (under) performance	
2021-22	Actual	Regulatory baseline	Variance		2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	105	70	(35)	(43)	87
Access charge supplement Income	(68)	(79)	(11)	-	(73)
Net (income)/cost	37	(9)	(46)	(43)	14
Schedule 8					
Performance element income	(106)	-	106	106	(148)
Performance element costs	-	2	2	2	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(106)	2	108	108	(148)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(1)	12	13	13	4
Access charge supplement Income	(18)	(15)	3	-	(18)
Net (income)/cost	(19)	(3)	16	13	(14)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	2	2	-	-	(9)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	2	2	-	-	(9)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	104	82	(22)	(30)	91
Access charge supplement Income	(86)	(94)	(8)	-	(91)
Net (income)/cost	18	(12)	(30)	(30)	-
Schedule 8					
Performance element income	(106)	-	106	106	(148)
Performance element costs	2	4	2	2	(9)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(104)	4	108	108	(157)
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	274	203	(71)	(57)	-
Access charge supplement Income	(212)	(250)	(38)	-	-
Net (income)/cost	62	(47)	(109)	(57)	
Schedule 8					
Performance element income	(295)	-	295	295	-
Performance element costs	19	10	(9)	(8)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(276)	10	286	287	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(9)	35	44	43	-
Access charge supplement Income	(51)	(40)	11	-	-
Net (income)/cost	(60)	(5)	55	43	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(4)	6	10	10	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(4)	6	10	10	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	265	238	(27)	(14)	-
Access charge supplement Income	(263)	(290)	(27)	-	-
Net (income)/cost	2	(52)	(54)	(14)	
Schedule 8					
Performance element income	(295)	-	295	295	-
Performance element costs	15	16	1	2	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(280)	16	296	297	

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Southern

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are higher than the regulatory baseline this year, due higher like for like costs as a result of the storms experienced in February. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial underperformance recognised is higher than the arithmetic variance. Fewer large disruptive events and reduced passenger numbers this year resulted in the lower compensation payable for major events, partially offsetting the extra costs incurred.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too, and subsequently high financial overperformance, both this year and the control period to date.

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target unless inflation is different to that assumed in the regulatory baseline. This year, the performance element costs are greater than the regulatory baseline due to additional costs incurred as a result of the storms experienced. The control period to date cost is also higher than the regulatory baseline due the storms experienced this year, higher like for like costs and the adverse impact from weather events in FY20. This included the wettest February on record and several individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Southern was impacted by a number of landslips including those at Godstone, near Guildford and East Grinstead. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level.

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

In £m cash prices unless stated

- (2) Schedule 8 experienced an exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance this control period. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in the control period has resulted in a highly favourable control period to date position. The control period to date, is also extremely favourable against the regulatory baseline. These aforementioned reasons, along with investment in OPEX in FY20 to improve train performance, have helped generate these savings.

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is higher than the regulatory baseline for this year and higher for the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is a net inflow much greater than the regulatory baseline resulting from Schedule 4 costs in FY21/22 returning an income. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.
- (3) Schedule 8 – this year's cost is directly in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

Southern

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	68	64	(4)	-	66
PL Replace Partial	27	22	(5)	-	26
PL High Output	-	-	-	-	-
PL Refurbishment	24	25	1	-	33
PL Track Slab Track	1	1	-	-	-
Switches & Crossing - Replace	62	57	(5)	-	48
Switches & Crossing - Other	16	15	(1)	-	24
Off Track	22	8	(14)	-	26
Track Other	6	8	2	-	20
	226	200	(26)	(10)	243
Signalling					
Signalling Full	113	127	14	0	124
Signalling Partial	26	3	(23)	0	(11)
Signalling Refurb	31	28	(3)	0	12
Level crossings	17	18	1	0	12
Minor works	30	16	(14)	0	42
Other	1	6	5	0	1
	218	198	(20)	(19)	180
Civils					
Underbridges	37	57	20	-	46
Overbridges	8	16	8	-	5
Major structures	2	4	2	-	4
Tunnels	1	7	6	-	2
Minor works	15	18	3	-	20
Other	5	10	5	-	7
	68	112	44	(2)	84
Earthworks					
Earthworks - Embankments	26	20	(6)	-	65
Earthworks - Soil Cuttings	51	17	(34)	-	49
Earthworks - Rock Cuttings	24	8	(16)	-	21
Earthworks - Other	3	-	(3)	-	1
	104	45	(59)	(23)	136
Buildings					
Managed stations	6	16	10	-	4
Franchised stations	52	29	(23)	-	98
Light maint depots	8	-	(8)	-	4
Depot plant	1	5	4	-	7
Lineside buildings	4	2	(2)	-	9
MDU buildings	10	6	(4)	-	14
Other	-	-	-	-	-
	81	58	(23)	(11)	136
Electrical power and fixed plant					
AC distribution	1	7	6	-	2
Overhead Line	-	-	-	-	-
DC distribution	48	36	(12)	-	40
Conductor rail	20	17	(3)	-	17
Signalling Power Supplies	2	12	10	-	4
Other	4	36	32	-	11
Fixed plant	4	7	3	-	3
	79	115	36	1	77
Drainage					
Drainage (Track)	12	15	3	-	19
Drainage (Earthworks)	(1)	2	3	-	4
Drainage (Resilience)	1	-	(1)	-	-
	12	17	5	(5)	23
Property					
Property	28	15	(13)	-	17
	28	15	(13)	-	17
Total Regionally-managed renewals expenditure					
	816	760	(56)	(69)	896

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	3	6	3	-	3
Network	1	6	5	-	1
SISS	7	45	38	-	6
Projects and other	1	1	-	-	-
Non-route capital expenditure	14	15	1	-	19
	26	73	47	(2)	29
Wheeled plant and machinery					
High output	-	4	4	-	-
Incident response	-	-	-	-	-
Infrastructure monitoring	1	4	3	-	1
Intervention	3	6	3	-	4
Materials delivery	2	7	5	-	(1)
On track plant	1	6	5	-	-
Seasonal	1	6	5	-	3
Other	7	2	(5)	-	4
	15	35	20	-	11
Route Services					
Business Improvement	10	2	(8)	-	15
IT Renewals	5	16	11	-	7
Asset Information	2	2	-	-	2
Other	3	1	(2)	-	1
	20	21	1	-	25
STE Renewals					
Intelligent infrastructure	19	11	(8)	-	17
Faster Isolations	10	36	26	-	27
Centrally Managed Signalling Costs	1	2	1	-	2
Research and development	9	11	2	-	14
Integrated Management System (Incl. BCR)	-	2	2	-	-
Other National SCADA Programmes	4	2	(2)	-	5
Small plant	1	2	1	-	1
Other	16	2	(14)	-	20
	60	68	8	-	86
Property					
Property	1	4	3	-	1
	1	4	3	-	1
Other renewals					
ETCS	1	6	5	-	6
Digital Railway	4	(4)	(8)	-	1
Civils & Drainage - Insurance Fund	-	6	6	9	2
Buildings - Insurance Fund	-	3	3	-	-
OPEX/CAPEX Adjustment	(24)	(14)	10	-	(26)
Phasing overlay	-	(33)	(33)	-	-
System Operator	5	5	-	-	3
Other renewals	(1)	1	2	-	(12)
	(15)	(30)	(15)	9	(26)
Total centrally-managed renewals expenditure	107	171	64	7	126
TOTAL RENEWALS EXPENDITURE	923	931	8	(62)	1,022

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	187	159	(28)	-
PL Replace Partial	76	59	(17)	-
PL High Output	19	21	2	-
PL Refurbishment	83	66	(17)	-
PL Track Slab Track	1	2	1	-
Switches & Crossing - Replace	145	151	6	-
Switches & Crossing - Other	55	42	(13)	-
Off Track	68	29	(39)	-
Track Other	34	27	(7)	-
	668	556	(112)	(31)
Signalling				
Signalling Full	320	292	(28)	-
Signalling Partial	32	8	(24)	-
Signalling Refurb	46	73	27	-
Level crossings	35	42	7	-
Minor works	95	68	(27)	-
Other	3	15	12	-
	531	498	(33)	(38)
Civils				
Underbridges	97	144	47	-
Overbridges	17	30	13	-
Major structures	7	7	-	-
Tunnels	5	11	6	-
Minor works	50	52	2	-
Other	15	24	9	-
	191	268	77	(3)
Earthworks				
Earthworks - Embankments	130	44	(86)	-
Earthworks - Soil Cuttings	125	53	(72)	-
Earthworks - Rock Cuttings	45	14	(31)	-
Earthworks - Other	5	1	(4)	-
	305	112	(193)	(74)
Buildings				
Managed stations	15	32	17	-
Franchised stations	194	114	(80)	-
Light maint depots	20	(2)	(22)	-
Depot plant	8	15	7	-
Lineside buildings	20	5	(15)	-
MDU buildings	28	15	(13)	-
Other	-	-	-	-
	285	179	(106)	(13)
Electrical power and fixed plant				
AC distribution	7	20	13	-
Overhead Line	-	1	1	-
DC distribution	99	74	(25)	-
Conductor rail	46	37	(9)	-
Signalling Power Supplies	11	29	18	-
Other	22	69	47	-
Fixed plant	11	13	2	-
	196	243	47	1
Drainage				
Drainage (Track)	35	42	7	-
Drainage (Earthworks)	7	9	2	-
Drainage (Resilience)	1	-	(1)	-
	43	51	8	(8)
Property				
Property	44	25	(19)	-
	44	25	(19)	-
Total Regionally-managed renewals expenditure	2,263	1,932	(331)	(166)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	5	-	(5)	-
	5	-	(5)	-
Telecoms				
Operational communications	9	17	8	-
Network	2	9	7	-
SISS	17	74	57	-
Projects and other	2	3	1	-
Non-route capital expenditure	51	47	(4)	-
	81	150	69	(5)
Wheeled plant and machinery				
High output	-	16	16	-
Incident response	-	-	-	-
Infrastructure monitoring	3	8	5	-
Intervention	9	15	6	-
Materials delivery	3	16	13	-
On track plant	1	9	8	-
Seasonal	5	17	12	-
Other	12	4	(8)	-
	33	85	52	-
Route Services				
Business Improvement	43	31	(12)	-
IT Renewals	19	35	16	-
Asset Information	4	5	1	-
Other	5	2	(3)	-
	71	73	2	-
STE Renewals				
Intelligent infrastructure	42	28	(14)	-
Faster Isolations	58	90	32	-
Centrally Managed Signalling Costs	4	6	2	-
Research and development	29	26	(3)	-
Integrated Management System (Incl. BCR)	-	7	7	-
Other National SCADA Programmes	15	14	(1)	-
Small plant	3	6	3	-
Other	38	11	(27)	-
	189	188	(1)	-
Property				
Property	11	20	9	-
	11	20	9	-
Other renewals				
ETCS	9	13	4	-
Digital Railway	5	(8)	(13)	-
Civils & Drainage - Insurance Fund	2	17	15	11
Buildings - Insurance Fund	-	8	8	-
OPEX/CAPEX Adjustment	(59)	(34)	25	-
Phasing overlay	-	(73)	(73)	-
System Operator	10	11	1	-
Other renewals	(19)	3	22	2
	(52)	(63)	(11)	13
Total centrally-managed renewals expenditure	338	453	115	8
TOTAL RENEWALS EXPENDITURE	2,601	2,385	(216)	(158)

Statement 3.6: Analysis of renewals expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is broadly in line with the regulatory baseline, but lower than last year's outturn, as a large amount of work was accelerated from future years into last years workbank. Financial underperformance has been recognised in the year due to increased unit rates across many projects and significant delivery challenges within the region. Multiple locations across Kent and Sussex were deemed to have the risk of animals straying onto infrastructure; fencing works were undertaken in which substantial amounts of vegetation and walkway installation had to occur, causing an increase in costs per volume. Furthermore, earthworks was a large underperformance contributor as due to the reactive nature of the works, many assets were found in worse conditions than anticipated. This was coupled by difficult sites for works due to some tail-end impact of Covid-19. Net financial underperformance is recognised in the control period to date. This underperformance is due to a multitude of factors including Covid-19 on project delivery, especially within the Track and Signalling portfolios, headwinds resulting from higher material prices and extra off track works taking place to deliver desired volumes, such as extra vegetation when delivering fencing. The increase in spend over the control period is due to the reasons highlighted above.

Regionally-managed renewals

- (1) Total Regionally-managed Renewals expenditure is significantly higher than the regulatory baseline, but lower than last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track and Signalling portfolios, increased expenditure in Earthworks post the Stonehaven derailment and increased expenditure on Franchised Stations. Net financial underperformance has been reported across the portfolio this year and the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increasing number of earthworks reactive schemes and other headwinds such as increases in material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

- (2) Track –expenditure is higher than the regulatory baseline, but lower than last year's outturn due to work being accelerated in the previous years of the control period. The increase in spend this year relates to further acceleration this year and higher like for like costs, which has led to financial underperformance in year. Within the region, increased unit rates across many projects partially caused this underperformance, with the majority of the rest relating to delivery challenges. Multiple locations across Kent and Sussex were deemed to have the risk of farm animals straying onto infrastructure; fencing works were undertaken in which substantial amounts of vegetation and walkway installations had to occur meaning increase in scope leading to an increase in costs per volume. Furthermore, CAT2 Re-Rail projects had additional costs due to inherited scrap clearance which was not anticipated in the budget. Net financial underperformance is recognised in the control period to date. This underperformance is due to a multitude of factors including Covid-19 on project delivery, especially within the Track and Signalling portfolios, headwinds resulting from higher material prices and extra off track works taking place to deliver desired volumes, such as extra vegetation when delivering fencing. The increase in spend over the control period is due to the reasons highlighted above.
- (2) Signalling – expenditure is higher than the regulatory baseline and last year's outturn. Financial underperformance has been recognised this year as a result of the life extension programme in Southampton having increased scope as well as higher unit rates than assumed. Furthermore, Relay Re-Servicing programmes have had increased complexity and consequentially increased use of access and contractors than were previously budgeted. Financial underperformance has been recognised for the control period to date. The additional costs projects have had to bear due to Covid-19 has been the primary cause of this underperformance. Hither green signalling commissioning was due for completion in easter 2020 but had to be deferred, as works could not be completed in the original timeframe in accordance with social distancing restrictions. Whilst in the first year of the control period, higher tender and contractor prices compared to expectations, delays obtaining access from third parties and unfavourable settlement of commercial claims lead to financial underperformance.
- (3) Civils – expenditure this year is largely lower than the regulatory baseline, last year's actuals and the control period to date, which is mostly due to reprofiling of Underbridge schemes until later in the control period. This was primarily due to difficulty obtaining suitable possessions to deliver the work effectively and late development of schemes resulting in deferral. Small financial underperformance has been realised due to delivery and access issues. Oxted viaduct had a 52 week completion delay from weather conditions affecting the productivity of the programme. Financial underperformance has been recognised in the control period to date from increased complexity and scope requirements, such as additional brickwork repair costs and vegetation removal have increased AFCs across the portfolio. Covid-19 led to a number of schemes having to be deferred, which has caused projects to incur prolongation costs.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

- (4) Earthworks – investment was noticeably higher than the regulatory baseline. As a result of inclement weather, namely storms Dudley, Eunice and Franklin, a large number of emergency and reactive works have been required in FY22. This has seen a significant increase in volume which has led to this increase in spend but also large increase in financial underperformance. This is largely relating to access difficulties, for example Sussex route had difficulties due to the interface between assets and 3rd party property being more involved than budgeted thus requiring bespoke methods. Furthermore, access roads flooded and landowners prevented access in Bearhurst. Balcombe embankment has increased costs resulting from contractors proposing a change in their methodology. The control period to date shows substantially higher spend than the regulatory baseline as a result of increased earthworks following the Stonehaven derailment. Large financial underperformance is also reported in the control period to date. In addition to the reasons above, Kent route suffered over 15 landslips across various locations which put the safe running of the railway at risk. Higher like-for-like costs also included construction of ballast bag walls to catch falling material, challenging crest access, delays in material delivery to site prolongating projects and higher contractor costs on some schemes. Additionally, there were extra embankment works at Edenbridge, Epsom, Headcorn and Crouch Lane as well as soil works at Barnehurst, Hever, Wadhurst and Red Lane in FY20.
- (5) Buildings – investment exceeded the regulatory baseline this year, but was lower than last year's actual. The increased spend against baseline this year is mainly due to increased spend on franchised stations as volumes are near double that of the baseline. Control period to date spend is significantly higher than the regulatory baseline due to works accelerated in FY21 to help utilise funding and deliver extra schemes in stations, whilst reduced footfall was experienced as a result of Covid-19. There have also been projects directly delivered by Southeastern and Govia Thameslink Railway operators at franchised stations, full paint job and replacement decks, canopy repairs, enhanced tactiles to improve passenger journeys and roof remediation at Victoria station. Financial underperformance is reported this year. The Brockley footbridge remedial works found that there had been greater deterioration than was expected and budgeted for and the accommodation upgrade in Sussex delivered fewer volumes than anticipated.
- (6) Electrical power and fixed plant – investment in the year was lower than the regulatory expectation but higher than last year's outturn. The lower investment this year is due to project slippage and changes in the region's priorities. Financial performance is in line with the baseline this year and in the control period to date.
- (7) Drainage – expenditure was lower than the regulatory baseline this year. Financial underperformance is recognised this year due to higher like for like unit costs, and extra costs which were incurred which did not deliver any extra volumes in Kent and Sussex. Asset information was also poorer than expected, which required teams to carry out intrusive surveys to get more information. In the control period to date, financial underperformance is also recognised. Further to that mentioned above, the region incurred delays in securing access, agreeing contractor framework for CP6 and shortage of drainage plant in FY20 which has helped lead to the underperformance.
- (8) Property – expenditure is significantly higher than last year's actual and the regulatory baseline. This is due to some of the centrally managed property renewals, being flexed over to the regional teams as part of the PPF programme, and the regional team deciding to conduct more property renewal activity.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is below the regulatory baseline this year, with reduced spend on STE programmes and underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year, primarily due to less spend on STE Renewals, particularly Faster Isolations, this year. Centrally managed renewals control period to date spend is lower than the regulatory baseline, mainly due to the aforementioned.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs
- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. There has been financial underperformance experienced this year due to commercial pressures and design challenges. This results from tender prices that were higher than original estimates anticipated, and original design and implementation plans for project Railnet IP did not provide a sustainable solution and thus a new contractor was appointed.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to fully assess. Significant variances at Key Cost Line include:
 - a. High output – investment was higher than the regulatory baseline last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year included renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

- c. Intervention – costs were lower than the regulatory baseline but in line with last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred due to sunk costs realised in production of the sleeper factory which have been expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower with the regulatory baselines and the previous year outturn. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. The reason for the significant increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.
- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes included a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and lower than last year's expenditure. Notable variances at Key Cost Line include:
- a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - a. Faster isolations – costs are lower than the regulator baseline but higher than last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

- b. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme being was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.
 - c. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - d. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
 - e. Small Plant – investment is higher than the regulatory baseline this year and last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.
 - f. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.
- (7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
- a. ETCS – expenditure lower than the regulatory baseline and last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. No financial outperformance has been recognised this year.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

- b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund. The financial outperformance recognised control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored
- c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.
- d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being recassified as OPEX.
- e. System Operator – expenditure this year is in line with than the regulatory baseline but higher than last year's outturn
- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Southern

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	21	26	-	139	151	-
Brighton Mainline Upgrade Programme	24	18	-	69	69	-
Wessex Enhancements (Waterloo and South London HV Grid)	2	(27)	2	13	12	-
Critical Stations Improvement Fund	11	24	-	13	29	-
Gatwick Station	45	72	9	107	112	(1)
SFN-Freight Forecasts project	3	(4)	4	20	23	4
Access for All	23	19	-	40	66	-
Thameslink Resilience Programme	4	(2)	1	17	23	1
Reading, Ascot to Waterloo Train Lengthening	-	(6)	(1)	15	15	-
Portfolio Contingency (including T-12)	-	(12)	1	4	6	14
Depots & Stabling Fund	8	(1)	-	24	25	-
Feltham	2	(3)	-	9	9	-
Ashford to Ramsgate	2	8	-	2	8	-
Clapham Junction Short-term	2	5	-	2	5	-
Denmark Hill Congestion Relief	3	8	-	3	8	-
Tactile Paving Installation	2	3	-	2	3	-
New Stations Fund	2	5	-	2	5	-
Other	9	(26)	(6)	50	18	(6)
Total	168	112	10	536	592	12
Other Capital Expenditure	-	-	-	35	-	-
Other third party funded schemes						
HS2	-	-	-	-	-	-
Other third Party	40	-	-	67	-	-
Total	40	-	-	67	-	-
Total enhancements	208	112	10	638	592	12
Total enhancements less Other third party funded schemes	168	112	10	571	592	12

Statement 3.7: Analysis of enhancement expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.
- (2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £168m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£208m) less the PAYGO schemes funded by third parties (£40m).
- (4) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m cash prices unless stated

- a. Thameslink – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than the baseline with majority of the works relating to Three Bridges Rail Operating Centre (TBROC) and some minor improvements work still being made at London Bridge station of adding new retail units and improving facilities. Cumulative expenditure is lower than the baseline due to works being re-profiled for Chart Leacon into future control periods.
- b. Brighton Main Line Upgrade Programme – The Croydon Area Remodelling Scheme (CARS) is part of the longer-term Brighton Main Line upgrade proposals. Infrastructure Investment will provide major improvements at East Croydon and Norwood Junction stations and facilitate better timetables, a reduction in reactionary delay and permit additional peak trains in response to high levels of standing passengers on the London to South Coast rail network. In year performance is achievement of design works and improved business case to re-baseline the scheme to incorporate outcomes from the Spending Review (SR21).
- c. Wessex enhancements (Waterloo and South London HV Grid) – This project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes. Cumulative performance is inline with baseline and incorporates funding descope from the Spending Review (SR21) outcome.
- d. Critical station improvements fund– The programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Station improvements at Surbiton, Peckham Rye, London Liverpool Street and Stratford and other projects. Works have progressed slower than anticipated in year due to delay in scope finalisation and release of government investment.
- e. Gatwick Airport Station – The project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. In year and cumulative adverse financial performance is a result of additional scope required to meet regulatory standards relating to improved physical security at the station.
- f. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is slower than baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- g. Thameslink Resilience Programme – Strategic enabling programme to increase asset resilience on critical sections of Thameslink related routes. Greater progress has been made this year, interfacing with other projects on the network to minimise disruption to passengers. Cumulative outperformance is due to reduction in anticipated total programme costs following effective work bank planning and cost savings negotiated on possession management.

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m cash prices unless stated

- h. Portfolio Contingency (including T-12) – Cumulative performance in this category are for the additional schedule 4 payments to TOC's, which resulted from Covid-19 related delays to publishing timetables.
 - i. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial underperformance is mainly relating to Coastway Level Crossing Closure due to delayed delivery and associated prolongation costs.
- (5) Third party funded schemes – notable schemes delivered this year include Thanet Parkway and Gatwick Station development.
- (6) Other capital expenditure – There was minimum activity in this category this year.

Southern

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21			
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	55	45	1,222	49	36	1,361
	PL Replace Partial	km	62	184	337	60	197	305
	PL High Output	km	-	-	-	-	-	-
	PL Refurbishment	km	64	271	236	71	308	231
	PL Track Slab Track	km	1	1	1,000	-	-	-
	Switches & Crossing - Replace	point ends	44	79	557	34	51	667
	Switches & Crossing - Other	point ends	43	439	98	42	439	96
	Off Track	km/No.	54	1,676	32	62	2,146	29
	Track Other		-	-	-	-	-	-
Total		323			318			
Signalling	Signalling Full	SEU	43	135	319	76	198	384
	Signalling Partial	SEU	6	19	316	6	16	375
	Signalling Refurb	SEU	29	62	468	6	31	194
	Level crossings	No.	5	23	217	2	11	182
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		83			90			
Civils	Underbridges	m2	49	11,965	4	39	6,098	6
	Overbridges (incl BG3)	m2	12	4,492	3	11	4,485	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	1	363	3	1	746	1
	Culverts	m2	1	442	2	2	937	2
	Footbridges	m2	4	429	9	4	911	4
	Coastal & Estuarial Defences	m2	-	10	-	-	-	-
	Retaining Walls	m2	-	78	-	-	-	-
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		67			57			
Earthworks	Earthworks - Embankments	No.	43	346	124	76	304	250
	Earthworks - Soil Cuttings	No.	74	801	92	46	5,441	8
	Earthworks - Rock Cuttings	No.	27	146	185	14	143	98
	Earthworks - Other	No.	-	-	-	-	-	-
	Drainage - Earthworks	m	4	19,032	0	7	37,312	0
	Drainage - Other	m	36	72,674	0	40	86,057	0
TOTAL		184			183			
Buildings	Buildings (MS)	m2	1	470	2	1	2,500	0
	Platforms (MS)	m2	-	100	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	1	11,110	0	1	11,915	0
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	-	1	-	2	1,412	1
	Buildings (FS)	m2	9	49,758	0	9	12,940	1
	Platforms (FS)	m2	19	49,554	0	25	70,671	0
	Canopies (FS)	m2	11	8,244	1	35	35,804	1
	Train sheds (FS)	m2	-	550	-	-	-	-
	Footbridges (FS)	m2	16	3,952	4	26	3,833	7
	Lifts & Escalators (FS)	m2	2	2	1,000	-	-	-
	Other (FS)	m2	8	86,086	0	12	145,320	0
	Light Maintenance Depots	m2	1	1,690	1	9	114,774	0
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	13	42,887	0	19	39,128	0
	MDU Buildings	m2	20	33,866	1	33	74,620	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		101			172		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	30	98	306	32	99	323
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	18	25	720	20	21	952
	HV cables DC	km	35	48	729	11	19	579
	LV cables DC	km	4	23	174	4	28	143
	Transformer Rectifiers DC	No.	2	1	2,000	-	1	-
	LV switchgear renewal DC	No.	2	18	111	-	-	-
	Protection Relays DC	No.	-	-	-	-	10	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	-	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	6	56	107	5	28	179
	Signalling Supply Points	point end	-	-	-	-	-	-
	NSCD / Track Feeder Switch (#)		11	84	131	11	476	23
	Total		108			83		
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	1	16	63
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		-			1		

Statement 3.8: Analysis of renewals unit costs, Southern

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - There has been an decrease in the unit cost of PL Replace Full and Switch and Crossings Replace in the year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. However there has been a increase in the unit cost for PL Replace Partial due to the mix and location issue mentioned above.
- (3) Signalling – There has been a decrease in the unit cost of Signalling Full in the year. There was only one project in the current year at Feltham. This had a lower rate than the one major project last year at Hither Green. There has also been a decrease in the unit cost for Signalling Partial in the year. As above the only project in the current year was Feltham. However there has been an increase in the unit cost for Level Crossings. This is due to the Feltham Level Crossing being a more complex job than the ones that were delivered in 2020/21. There has been an increase in the unit cost in the Signalling Refurb category this year. This is due to particularly complex and expensive projects at Herne Hill and Brockenhurst.

Statement 3.8: Analysis of renewals unit costs, Southern – continued

In £m cash prices unless stated

- (4) Civils – There has been an increase in the unit cost of Footbridges in the year. This is because there has been a much higher proportion of the more expensive replacement renewals in the year compared to less expensive repair and preventative renewals in the prior year.
- (5) Earthworks & Drainage – There has been an increase in the unit cost of Soil Cuttings in the year. This is due to the type of work that is being done. In the current year there has been a higher proportion of the more expensive renew work compared to maintain work which is much cheaper. There has also been an increase in the unit cost for Rock Cuttings in the year as in the prior year there was a higher proportion of maintain work. However there has been a decrease in the unit cost for Embankments in the year this is because there was a much smaller proportion of renew work in 2021/22 compared to the prior year..
- (6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (7) Electrical Power and Fixed Plant – There has been an increase in the unit cost of HV Cables DC in the year. In the prior year there was only one project so the sample size is too small to do any meaningful analysis. There has also been an increase in the unit cost for LV Cables DC in the year but there was only one project which was on the Wessex route which spanned both years. The anticipated number of volumes delivered on this project decreased in the unit pulling the unit cost up. However there has been a decrease in the unit cost for HV Switchgear Renewal DC. There was only one project in the current year compared to three in the prior year including ones at East Croydon and Godlinton. There has also been a decrease in the unit cost of Signalling Power Cables but there was only one project that spanned both years. Finally, there has been an increase in the unit cost of NSCD / Track Feeder Switches but as above there was only one project that spanned both years.
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Southern

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	15,953
Indexation to 2021-22 prices	16,767
RAB additions	
Renewals expenditure	923
Enhancements expenditure	-
Less amortisation	(923)
Property Sales	(71)
Closing RAB	16,696

Net debt

	£m
Opening net debt	12,295
Income	(2,505)
Expenditure	2,007
Financing Costs - Government borrowing	201
Financing Costs - index linked debt	405
Financing Costs - Other	26
Corporation tax	0
Working capital	57
Closing net debt	12,486

Statement 4: Regulatory financial position, Southern

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Southern part of the network and how it has moved during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £0.9bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Southern and how it has moved during the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Southern is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.

Statement 4: Regulatory financial position, Southern – continued

In £m cash prices unless stated

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

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

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

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

Wales & Western

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Income					
Grant Income	916	1,029	(113)	-	961
Franchised track access charges	458	500	(42)	(7)	472
Other Single Till Income	85	86	(1)	(2)	74
Total Income	1,459	1,615	(156)	(9)	1,507
Operating expenditure					
Network operations	98	86	(12)	(12)	96
Support costs	145	140	(5)	4	157
Traction electricity, industry costs and rates	84	98	14	-	91
Maintenance	267	258	(9)	(19)	289
Schedule 4	34	36	2	(2)	32
Schedule 8	(3)	12	15	15	(48)
	625	630	5	(14)	617
Capital expenditure					
Renewals	563	637	74	(23)	583
Enhancements	258	25	(233)	(14)	236
	821	662	(159)	(37)	819
Risk expenditure					
Risk (Centrally-held)	-	34	34	-	-
Risk (Route-controlled)	-	29	29	-	-
Risk (Contingent asset management funding)	-	30	30	-	-
	-	93	93	-	-
Other expenditure					
Financing costs	532	447	(85)	-	341
Corporation tax	-	8	8	-	6
	532	455	(77)	-	347
Total expenditure	1,978	1,840	(138)	(51)	1,783
Total Financial Out/(under) performance				(60)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	2,616	2,834	(218)	-
Franchised track access charges	1,299	1,372	(73)	(8)
Other Single Till Income	711	251	460	(14)
Total Income	4,626	4,457	169	(22)
Operating expenditure				
Network operations	278	252	(26)	(27)
Support costs	401	439	38	45
Traction electricity, industry costs and rates	256	287	31	2
Maintenance	798	763	(35)	(50)
Schedule 4	101	103	2	(9)
Schedule 8	(77)	20	97	96
	1,757	1,864	107	57
Capital expenditure				
Renewals	1,578	1,629	51	(67)
Enhancements	871	806	(65)	(108)
Other	-	-	-	-
	2,449	2,435	(14)	(175)
Risk expenditure				
Risk (Centrally-held)	-	56	56	-
Risk (Route-controlled)	-	50	50	-
Risk (Contingent asset management funding)	-	54	54	-
	-	160	160	-
Other expenditure				
Financing costs	1,266	1,332	66	-
Corporation tax	6	12	6	-
	1,272	1,344	72	-
Total expenditure	5,478	5,803	325	(118)
Total Financial Out/(under) performance				(140)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.3bn higher than the regulatory baseline and £0.5bn lower than the control period to date regulatory baseline. The higher net expenditure experienced this year relates to the reduced grant and franchised track access charges, greater spend in the enhancement's portfolio and higher than anticipated financing costs. The control period variance primarily relates to the proceeds received as a result of the Cardiff Valley Lines divestment
- (2) This statement also shows that Network Rail Western has recognised financial underperformance of £60m this year and £140m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs and maintenance costs being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This is mostly due to the network grant being lower because of different phasing of activity being undertaken than anticipated in the regulatory baseline. Internal financing grant was also lower than anticipated as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Variances in Grant income is outside of the scope of financial performance. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in the year due to the Covid-19 pandemic. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is broadly in line with last year. Franchised track access income is discussed in more detail in Statement 2.
- (5) Income – Other single till income in the year is broadly in line with the baseline. Although rental income has been affected by Covid-19, sales and other income has mostly offset the negative impact Covid-19 has had on rental income. Other single till income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Wales & Western - continued

In £m cash prices unless stated

- (6) Operating expenditure - operations costs are higher than the regulatory baseline, but in line with last year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. This has been augmented by increased costs at managed stations to ensure Covid-19 standards have been adhered to. As to be expected, this has led to financial underperformance both for the current year and the control period to date. The Control Period to date spend is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline but lower than the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay. The Control Period to date spend is lower than the regulatory expectation, as a result of savings in the form of slower implementation of the PPF re-organisation, PRP savings and the settlement of historic property disputes in the previous year. FPM outperformance this year is due the savings made by reductions in performance related pay, and augmented in the control period to date, by the favourable commercial property dispute outcome last year. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year mainly due to lower business rates expenses. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - Overall maintenance costs are slightly higher than the regulatory baseline this year, but lower than the previous year's outturn. The primary cause for the increase in costs is Network Rails response to the Covid-19 pandemic, reorganisation associated with PPF and increased vegetation works. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional costs incurred throughout the pandemic, where we saw increased premium costs for staff, investment in PPE and investment in vehicle shields. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Maintenance costs are discussed in more detail in Statement 3.2.

Statement 1: Summary of regulatory financial performance, Wales & Western - continued

In £m cash prices unless stated

- (10) Operating expenditure – Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial underperformance has been recognised. Despite few disturbances caused by adverse weather, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality this control period. This has resulted in the highly favourable Control Period to date position too. Schedule 8 flows are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Overall, Renewals expenditure is lower than the regulatory baseline and last year's outturn. Although there are numerous variances significant causes for this decrease include underspending within the signalling and buildings portfolio. This underspend has resulted from the rephasing of works within these programmes for volumes to be achieved in later years of the control period. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors, but primarily relates to delivery within the Track and Signalling portfolio. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes.. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.

Statement 1: Summary of regulatory financial performance, Wales & Western - continued

In £m cash prices unless stated

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

Wales & Western

Statement 2: Analysis of income

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	298	319	(21)	-	311
Variable usage charge	32	35	(3)	(3)	29
Electrification asset usage charge	2	3	(1)	(1)	2
Capacity charge	-	-	-	-	-
Open access income	11	10	1	1	11
Managed stations long term charge	8	8	-	-	8
Franchised stations long term charge	23	27	(4)	(4)	25
Traction electricity charges	40	53	(13)	-	-
Schedule 4 access charge supplement	27	27	-	-	26
	441	482	(41)	(7)	412
Other single till income					
Freight income					
Freight variable usage charge	11	11	-	-	9
Freight other income	-	-	-	-	-
	11	11	-	-	9
Stations income					
Managed stations qualifying expenditure	11	11	-	-	12
Franchised stations lease income	5	5	-	-	5
	16	16	-	-	17
Facility and financing charges					
Facility charges	16	15	1	1	17
	16	15	1	1	17
Property income					
Property rental	21	28	(7)	(7)	11
Property sales	3	2	1	1	3
	24	30	(6)	(6)	14
Depots Income	11	11	-	-	12
Other income	2	1	1	1	3
Freight traction electricity charges	2	1	1	-	-
Total other single till income	82	85	(3)	(4)	72
Total Regionally-managed income	523	567	(44)	(11)	484
Centrally-managed income					
Network grant	665	715	(50)	-	675
Internal financing grant	122	176	(54)	-	136
External financing grant	118	119	(1)	-	133
BTP grant	11	11	-	-	11
Corporation tax grant	-	8	(8)	-	6
Infrastructure cost charges	10	11	(1)	-	11
Schedule 4 access charge supplement	7	7	-	-	6
Traction electricity charges	-	-	-	-	43
Freight traction electricity charges	-	-	-	-	1
	933	1,047	(114)	-	1,022
Other single till income					
Property income					
Property rental	2	-	2	2	1
Property sales	1	1	-	-	-
	3	1	2	2	1
Total other single till income	3	1	2	2	1
Total centrally-managed income	936	1,048	(112)	2	1,023
Total income	1,459	1,615	(156)	(9)	1,507

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	815	851	(36)	-
Variable usage charge	96	99	(3)	(3)
Electrification asset usage charge	6	8	(2)	(2)
Capacity charge	2	-	2	2
Open access income	31	30	1	1
Managed stations long term charge	24	24	-	-
Franchised stations long term charge	73	79	(6)	(6)
Traction electricity charges	40	53	(13)	-
Schedule 4 access charge supplement	77	77	-	-
	1,164	1,221	(57)	(8)
Other single till income				
Freight income				
Freight variable usage charge	30	30	-	(1)
Freight other income	-	-	-	-
	30	30	-	(1)
Stations income				
Managed stations qualifying expenditure	33	32	1	1
Franchised stations lease income	15	15	-	-
	48	47	1	1
Facility and financing charges				
Facility charges	48	48	-	-
	48	48	-	-
Property income				
Property rental	31	53	(22)	(22)
Property sales	6	6	-	-
	37	59	(22)	(22)
Depots Income	32	32	-	-
Other income	6	2	4	5
Freight traction electricity charges	2	1	1	-
Total other single till income	203	219	(16)	(17)
Total Regionally-managed income	1,367	1,440	(73)	(25)
Centrally-managed income				
Network grant	1,805	1,920	(115)	-
Internal financing grant	390	482	(92)	-
External financing grant	384	388	(4)	-
BTP grant	31	32	(1)	-
Corporation tax grant	6	12	(6)	-
Infrastructure cost charges	31	32	(1)	-
Schedule 4 access charge supplement	18	18	-	-
Traction electricity charges	86	101	(15)	-
Freight traction electricity charges	2	1	1	-
	2,753	2,986	(233)	-
Other single till income				
Property income				
Property rental	31	26	5	6
Property sales	475	5	470	(3)
	506	31	475	3
Total other single till income	506	31	475	3
Total centrally-managed income	3,259	3,017	242	3
Total income	4,626	4,457	169	(22)

Statement 2: Analysis of income, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (17) Overall, income is lower than the CP6 baseline mainly due to lower grant income, infrastructure cost charges and Traction electricity income. The reduction in property income, is the primary driver for the financial underperformance recognised both for the current year and the control period to date. Income for the control period to date is higher than the regulatory baseline as a result of the proceeds for the divestment of the Cardiff Valley lines to Transport for Wales received in FY20.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services compared to the regulatory baseline. Regionally managed income is greater than last year primarily due to traction electricity charges being devolved from centrally-managed to the geographic regions which obtain the income. There has also been an increase in property rental income compared to last year's actuals. This is a result of Covid-19 restrictions reducing over FY22 when compared to FY21. Regionally managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 as highlighted above. This subsequently led to financial underperformance for the year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was lower than the baseline this year. The shortfall is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income for the control period to date is lower than the regulatory baseline, as inflation has been lower than the baseline assumed in the past three years, leading to reduced income. Income is lower than the previous year which was anticipated in the regulatory baselines.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow passengers to travel, whilst reducing some services considered superfluous by the industry. The control period to date variance is largely due to Covid-19. Income generated under this mechanism is marginally higher than the previous year as a result of the reduction to Covid-19 restrictions during FY221.

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

In £m cash prices unless stated

- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges which explains the sharp decrease compared to the previous year.
- (5) Traction electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised, reducing 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 3.4). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance. In FY22, Network Rail has allocated out traction electricity costs and income from centrally managed to the geographic regions those costs relate to. Income was lower than the previous year, which can be seen in last year's centrally managed income.
- (6) Property rental – this year income is lower than the regulatory expectation due to the impact of Covid-19. However, comparing to the previous year this income is much greater. This is a consequence of reduced Covid-19 restrictions and increased footfall in stations as passengers become more willing and able to travel via the rail network. Control period to date rental income is significantly lower than the regulatory baseline as a result of the impacts of Covid-19.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline and previous year mainly due to lower grant income. Control period to date centrally managed income is higher than the regulatory baseline due to increased property sales
- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.
- (3) Network grant – income is lower than the regulatory baseline for the year and the control period to date as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline.

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

In £m cash prices unless stated

- (4) Internal financing grant – grants received this year are lower than the regulatory baseline.
Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2020/21. This is partly due to historically low interest rates light of the Covid-19 pandemic and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (5) External financing grants – grants received in the year and for the control period to date are broadly similar to the regulatory baseline. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year as debt instruments have been repaid to external parties using additional borrowings from DfT. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position.
- (6) Corporation tax grant – Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source lower than the previous year, where because of the higher grant received, profit was generated, and corporation tax was paid. As FY21 was the only year corporation tax was paid so far, the corporation tax grant is lower than the control period to date regulatory baseline.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) Schedule 4 access charge supplement – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates assumed in the CP6 baselines. Therefore, the similarity in the current year and control period to date is expected. Income is higher than the previous year reflecting the regulatory determination for CP6. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (9) Traction Electricity charges – these charges have been re allocated to the geographic region the reside in and narrative on variances are mentioned in the regionally managed income section.
- (10) Property rental – income was lower than the regulatory baseline for the control period to date due to the impact of Covid-19 on customer demand but was higher than in the prior year due to the easing up of the Covid-19 restrictions.

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

In £m cash prices unless stated

- (11) Property sales – The current and prior year income was minimal matching regulatory expectation. The control period to date number is much higher than the baseline due to the recognition of proceeds from the divestment of the Core Valley lines to Transport for Wales.

Wales & Western

Statement 3: Analysis of expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	94	82	(12)	(12)	93
Maintenance	259	248	(11)	(21)	280
Support costs	44	36	(8)	(8)	58
Traction electricity, industry costs and rates	77	91	14	-	1
Schedule 4	36	30	(6)	(10)	29
Schedule 8	(4)	11	15	15	(45)
	506	498	(8)	(36)	416
Capital expenditure					
Renewals	483	572	89	(31)	500
Enhancements	260	27	(233)	(14)	154
	743	599	(144)	(45)	654
Total Regionally-managed expenditure	1,249	1,097	(152)	(81)	1,070
Centrally-managed expenditure					
Operating expenditure					
Network operations	4	4	-	-	3
Maintenance	8	10	2	2	9
Support costs	101	104	3	12	99
Traction electricity, industry costs and rates	7	7	-	-	90
Schedule 4	(2)	6	8	8	3
Schedule 8	1	1	-	-	(3)
	119	132	13	22	201
Capital expenditure					
Renewals	80	65	(15)	8	83
Enhancements	(2)	(2)	-	-	82
	78	63	(15)	8	165
Risk Expenditure	-	93	93	-	-
Other	-	-	-	-	-
Financing costs	532	447	(85)	-	341
Taxation	-	8	8	-	6
	532	455	(77)	-	347
Total centrally-managed expenditure	729	743	14	30	713
Total expenditure	1,978	1,840	(138)	(51)	1,783

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	268	240	(28)	(28)
Maintenance	770	734	(36)	(48)
Support costs	143	127	(16)	(16)
Traction electricity, industry costs and rates	78	92	14	-
Schedule 4	100	86	(14)	(26)
Schedule 8	(76)	17	93	92
	1,283	1,296	13	(26)
Capital expenditure				
Renewals	1,358	1,441	83	(84)
Enhancements	743	805	62	(110)
	2,101	2,246	145	(194)
Total Regionally-managed expenditure	3,384	3,542	158	(220)
Centrally-managed expenditure				
Operating expenditure				
Network operations	10	12	2	1
Maintenance	28	29	1	(2)
Support costs	258	312	54	61
Traction electricity, industry costs and rates	178	195	17	2
Schedule 4	1	17	16	17
Schedule 8	(1)	3	4	4
	474	568	94	83
Capital expenditure				
Renewals	220	188	(32)	17
Enhancements	128	1	(127)	2
Other	-	-	-	-
	348	189	(159)	19
Risk Expenditure	-	160	160	-
Other				
Financing costs	1,266	1,332	66	-
Taxation	6	12	6	-
	1,272	1,344	72	-
Total centrally-managed expenditure	2,094	2,261	167	102
Total expenditure	5,478	5,803	325	(118)

Statement 3: Analysis of expenditure, Wales & Western

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is higher than the regulatory baseline this year. This is primarily due to greater than anticipated enhancements delivery and increased financing costs only being partially offset by the underspend in renewals and risk expenditure.
The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus risk underspend. Costs are higher than the previous year mainly due to increased financing costs. The Financial underperformance recognised this year and for the control period to date, primarily relates to higher like for like costs within capital expenditure.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to greater than anticipated enhancements delivery. Costs are higher than the previous year due to the increased Enhancements delivery, plus the transfer of traction electricity costs from centrally managed technical authority function to the regions. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date primarily relates to underperformance within the capital portfolio, due to the impact of Covid-19 on project delivery and higher like for like costs. Maintenance and support underperformance as a result of Covid-19 and the PPF restructure, has also contributed to this position.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline. This is due to savings made against the risk fund, schedule 4 and taxation, offsetting the impact of greater than expected financing costs. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Wales & Western

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	46	41	(5)	(5)	45
Operations Management	4	5	1	1	6
Controllers	8	11	3	3	8
Electrical control room operators	2	1	(1)	(1)	2
	60	58	(2)	(2)	61
Non signaller expenditure					
Mobile operations managers	7	6	(1)	(1)	7
Managed stations	14	11	(3)	(3)	15
Performance	2	3	1	1	2
Other	11	4	(7)	(7)	8
Total Regionally-managed Operations expenditure	94	82	(12)	(12)	93
Centrally-managed Operations expenditure					
Network Services	4	4	-	-	3
Total centrally-managed Operations expenditure	4	4	-	-	3
Total operations expenditure	98	86	(12)	(12)	96

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	130	120	(10)	(10)
Operations Management	16	15	(1)	(1)
Controllers	28	34	6	6
Electrical control room operators	5	4	(1)	(1)
	179	173	(6)	(6)
Non signaller expenditure				
Mobile operations managers	19	17	(2)	(2)
Managed stations	39	33	(6)	(6)
Performance	6	9	3	3
Other	25	8	(17)	(17)
Total Regionally-managed Operations expenditure	268	240	(28)	(28)
Centrally-managed Operations expenditure				
Network Services	10	12	2	1
Total centrally-managed Operations expenditure	10	12	2	1
Total operations expenditure	278	252	(26)	(27)

Statement 3.1: Analysis of operations expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline, but in line with last year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. This has been augmented by increased costs at managed stations to ensure Covid-19 standards have been adhered to. As to be expected, this has led to financial underperformance both for the current year and the control period to date. The Control Period to date spend is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year, but in line with the previous year's actuals. The primary reason for this, is Network Rail's continued response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. This has been augmented by increased costs at managed stations to ensure Covid-19 standards have been adhered to. As to be expected, this has led to financial underperformance both for the current year and the control period to date. The Control Period to date is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation for this year and the Control Period to date. There has been an increase in staff costs to provide extra resilience and ensure the railway kept moving during the Covid-19 pandemic.
- (3) Other – costs are significantly higher than the regulatory target, both for this year, and the Control Period to date. This is due to higher consultancy costs, access charges to the new Elizabeth lines and additional staff for handling route crime.

Centrally-managed operations expenditure

- (1) Network Services – costs are broadly consistent with the regulatory expectation and the previous year.

Wales & Western

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed maintenance expenditure					
Track	110	92	(18)	(18)	106
Signalling & Telecoms	53	44	(9)	(9)	54
Civils	17	31	14	3	30
Buildings	15	14	(1)	-	14
Electrical power and fixed plant	17	20	3	3	18
Other network operations	47	47	-	-	58
	259	248	(11)	(21)	280
Centrally-managed maintenance expenditure					
Telecoms	2	4	2	2	3
Route Services - Asset Information	6	6	-	-	5
STE Maintenance	1	1	-	-	-
Property	-	-	-	-	-
Route Services - Other	(1)	(1)	-	-	(1)
Other	-	-	-	-	2
	8	10	2	2	9
Total maintenance expenditure	267	258	(9)	(19)	289

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	299	272	(27)	(27)
Signalling & Telecoms	151	133	(18)	(18)
Civils	73	91	18	8
Buildings	40	42	2	-
Electrical power and fixed plant	50	58	8	8
Other network operations	157	138	(19)	(19)
	770	734	(36)	(48)
Centrally-managed maintenance expenditure				
Telecoms	8	11	3	3
Route Services - Asset Information	16	17	1	-
STE Maintenance	2	3	1	1
Property	1	(2)	(3)	(3)
Route Services - Other	1	-	(1)	(4)
Other	-	-	-	1
	28	29	1	(2)
Total maintenance expenditure	798	763	(35)	(50)

Statement 3.2: Analysis of maintenance expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall maintenance costs are slightly higher than the regulatory baseline this year, but lower than the previous year's outturn. The primary cause for the increase in costs is Network Rails response to the Covid-19 pandemic, reorganisation associated with PPF and increased vegetation works. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional costs incurred throughout the pandemic, where we saw increased premium costs for staff, investment in PPE and investment in vehicle shields. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date.

Regionally-managed maintenance costs

- (1) Total regionally-managed maintenance costs are slightly higher than the regulatory baseline this year, but lower than the previous year's outturn. The primary cause for the increase in costs is Network Rails response to the Covid-19 pandemic, reorganisation associated with PPF and increased vegetation works. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional costs incurred throughout the pandemic, which we saw increased premium costs for staff, investment in PPE and investment in vehicle shields.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the regulatory baseline and the previous year's expenditure. Increased off-track spend and greater volumes of vegetation work are primarily the reasons for the extra spend this year. These were as a result of funding being released to carry out these works. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the increased costs that arose during our response to Covid-19.
- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline. Overtime was required to support the training of staff and to cover sickness and self-isolation. Spend is in line with the previous year as similar costs were occurred in keeping a continual working railway, unaffected by Covid-19 sickness and isolation. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional costs incurred in the past two years in our response to Covid-19.

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

In £m cash prices unless stated

- (4) Civils – costs were lower than the regulatory baseline and the previous years expenditure. This is largely owed to a change in the treatment of Civils reactive opex within the Western route such that it aligned the treatment with that of the Wales route. A material reduction in the reactive maintenance was also recognised during the financial year, thus requiring less spend than was anticipated. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Control Period to date spend is lower than the regulatory baseline.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. This year, spend is in line with the regulatory baseline as an increase in costs were counteracted by a reduction in the reactive maintenance spend. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Control Period to date spend is slightly lower than the regulatory baseline

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are slightly lower than the regulatory baseline and the previous years actual.

Wales & Western

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed Support costs					
Human resources	7	5	(2)	(2)	6
Finance	4	3	(1)	(1)	4
Accommodation	11	9	(2)	(2)	16
Utilities	12	12	-	-	13
Other	10	7	(3)	(3)	19
	44	36	(8)	(8)	58
Centrally-managed Support costs					
Finance & Legal	8	9	1	1	6
Communications	3	3	-	-	3
Human Resources	5	5	-	-	4
System Operator	7	10	3	3	6
Property	1	3	2	1	1
Telecoms	10	10	-	-	11
Network Services	-	-	-	-	3
Safety Technical and Engineering	7	7	-	-	6
RS - IT and Business Services	19	19	-	-	21
RS - Asset Information	3	5	2	2	2
RS - Directorate	6	4	(2)	(2)	5
Other corporate functions	3	1	(2)	(2)	2
Insurance	5	7	2	2	4
OPEX/CAPEX Adjustment	22	12	(10)	-	32
Group costs	2	9	7	7	(7)
	101	104	3	12	99
Total support costs	145	140	(5)	4	157

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	18	14	(4)	(3)
Finance	11	9	(2)	(2)
Accommodation	35	28	(7)	(7)
Utilities	37	37	-	(1)
Other	42	39	(3)	(3)
	143	127	(16)	(16)
Centrally-managed Support costs				
Finance & Legal	20	25	5	5
Communications	8	8	-	-
Human Resources	12	12	-	-
System Operator	19	26	7	7
Property	(13)	3	16	15
Telecoms	27	28	1	-
Network Services	6	8	2	2
Safety Technical and Engineering	18	20	2	2
RS - IT and Business Services	57	56	(1)	(1)
RS - Asset Information	7	13	6	6
RS - Directorate	14	11	(3)	(3)
Other corporate functions	9	11	2	(4)
Insurance	13	19	6	6
OPEX/CAPEX Adjustment	68	39	(29)	-
Group costs	(7)	33	40	26
	258	312	54	61
Total support costs	401	439	38	45

Statement 3.3: Analysis of support costs, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline but lower than the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay. The Control Period to date spend is lower than the regulatory expectation, as a result of savings in the form of slower implementation of the PPF re-organisation, PRP savings and the settlement of historic property disputes in the previous year. FPM outperformance this year is due the savings made by reductions in performance related pay, and augmented in the control period to date, by the favourable commercial property dispute outcome last year.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline, due to the implementation of the PPF re-organisation programme and the undertaking of additional graffiti removal work. This is reflected in the financial underperformance both for the current year and the control period to date. For the Control Period to date, spend is higher than the regulatory expectation, as the additional costs incurred this year were only partially offset by extra efficiencies realised in the first year of the control period.
- (2) Human resources – costs in the current year are higher than the baseline expectation and the Control Period to date, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative.
- (3) Accommodation – costs are higher than the baseline expectation and the Control Period to date, as a result of the required expenditure on Covid-19 compliance at NR sites.
- (4) Other – costs were higher than the regulatory baseline this year, but lower than the previous years outturn. This is primarily due to implementation of the PPF programme and additional funding for graffiti removal. There was less Covid-19 related expenditure than FY21, accounting for the decrease in cost. This additional spend is not offset in the Control Period to date by extra efficiencies realised during the first year of the control period, leaving expenditure higher than the regulatory assumption.

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

In £m cash prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are several areas with savings, the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is lower than the previous year as, although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are in line with the previous year.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are slightly higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Property – costs are slightly lower than the regulatory baseline this year and lower for the control period to date. Although extra costs have been incurred at corporate offices this year, these have been offset by the favourable settlement of a long-running commercial dispute in the FY20. Net costs are in line with the previous year. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are broadly in line with target but lower than the regulatory baseline for the control period to date. This is primarily due to efficiencies arising from headcount control in previous years.
- (8) Network Services – this function no longer exists and has been devolved out to other functions within this statement.

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

In £m cash prices unless stated

- (9) Technical Authority – costs are in line with the regulatory baseline. Costs are slightly lower than the control period to date due to efficiencies that were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (10) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly higher than in the control period to date. Savings have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs are lower than the previous year.
- (11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20 and 2020/21. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme and the Great British Railway Transition Team. Costs are significantly higher than the baseline this year, as a result of the new GBRTT being formed without a corresponding baseline. Changes in strategy for PPF means that some parts of this programme are being delivered by other Support. Reprofiling of this activity is also the main reason for the control period to date underspend. Savings relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are higher than the previous year due to greater activity on the aforementioned Great British Railway Transition Team.
- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.

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

In £m cash prices unless stated

- (15) Opex/capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline, but lower than the previous year. Although there has been additional expenditure in R&D programmes delivered by Technical Authority, greater spend in this category was experienced in FY21. This is because of transferring DfT funded enhancement programmes cancelled due to the spending review update into opex. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other notable savings include reductions in the FY22 performance-related pay following a decision to reduce expected pay-outs. This decision was taken at the end of the year, the benefit is currently showing in the Group category, but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by redundancy costs as a result of rail modernisation. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is lower than the previous year (in other words, net costs are lower) as the benefits from performance-related pay reductions this year are offset by the additional costs in redundancy costs as mentioned above.

Wales & Western

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

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	40	54	14	-	-
Business rates	26	26	-	-	-
British transport police costs	11	11	-	-	1
	77	91	14	-	1
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	-	-	-	-	41
Business rates	-	-	-	-	31
British transport police costs	-	-	-	-	11
ORR licence fee and railway safety levy	5	5	-	-	5
RDG membership costs	-	-	-	-	-
RSSB costs	2	2	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	7	7	-	-	90
Total traction electricity, industry costs and rates	84	98	14	-	91

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	40	54	14	-
Business rates	26	26	-	-
British transport police costs	12	12	-	-
	78	92	14	-
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	82	103	21	1
Business rates	55	51	(4)	-
British transport police costs	20	20	-	1
ORR licence fee and railway safety levy	15	15	-	-
RDG membership costs	-	-	-	-
RSSB costs	6	6	-	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	178	195	17	2
Total traction electricity, industry costs and rates	256	287	31	2

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year as a result of reduced business rate expenses.

Regionally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally managed to the geographic regions those costs relate to. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are in line with the previous year, which can be seen in last year's centrally managed section. This has been offset by reduced charges made to operators (refer to Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates - In FY22, Network Rail has allocated out business rates from centrally managed to the geographic regions those costs relate to. Costs are in line with the baseline, but lower than the previous year's actuals which can be seen in the centrally-managed section of the statement. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs – Costs were in line with the regulatory baseline and the previous year. Most of last year's numbers can be seen in the centrally managed section of the statement.

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

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – In FY22, Network Rail has allocated out traction electricity costs from centrally managed to the geographic regions those costs relate to.
- (2) Business rates – In FY22, Network Rail has allocated out business rates from centrally managed to the geographic regions those costs relate to.
- (3) British Transport Police costs – In FY22, Network Rail has allocated out British Transport Police costs from centrally managed to the geographic regions those costs relate to.
- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Wales & Western

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

				Of which financial out / (under) performance	
2021-22	Actual	Regulatory baseline	Variance		2020-21 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	36	30	(6)	(10)	29
Access charge supplement Income	(27)	(25)	2	-	(26)
Net (income)/cost	9	5	(4)	(10)	3
Schedule 8					
Performance element income	(15)	-	15	15	(45)
Performance element costs	11	11	-	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(4)	11	15	15	(45)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(2)	6	8	8	3
Access charge supplement Income	(7)	(7)	-	-	(6)
Net (income)/cost	(9)	(1)	8	8	(3)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	1	1	-	-	(3)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	1	1	-	-	(3)
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	34	36	2	(2)	32
Access charge supplement Income	(34)	(32)	2	-	(32)
Net (income)/cost	-	4	4	(2)	-
Schedule 8					
Performance element income	(15)	-	15	15	(45)
Performance element costs	12	12	-	-	(3)
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(3)	12	15	15	(48)
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	100	86	(14)	(26)	-
Access charge supplement Income	(77)	(69)	8	-	-
Net (income)/cost	23	17	(6)	(26)	
Schedule 8					
Performance element income	(87)	-	87	87	-
Performance element costs	11	17	6	5	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(76)	17	93	92	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	17	16	17	-
Access charge supplement Income	(18)	(19)	(1)	-	-
Net (income)/cost	(17)	(2)	15	17	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(1)	3	4	4	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(1)	3	4	4	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	101	103	2	(9)	-
Access charge supplement Income	(95)	(88)	7	-	-
Net (income)/cost	6	15	9	(9)	
Schedule 8					
Performance element income	(87)	-	87	87	-
Performance element costs	10	20	10	9	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(77)	20	97	96	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial underperformance has been recognised. Despite few disturbances caused by adverse weather, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality this control period. This has resulted in the highly favourable Control Period to date position too.

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) The schedule 4 variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are higher and financial underperformance was recognised. This underperformance relates to the lower activity in signalling renewals compared to the regulatory expectation. The control period to date cost is higher than the regulatory baseline due to higher like-for-like costs. The higher like-for-like costs include the adverse impact from weather events, notably the various storms experienced across the control period.
- (2) Schedule 8 experienced a positive year this year. Covid-19 led to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance this control period. The regulatory baseline expected a net outflow to operators, but instead there was an inflow. Under the terms of the train operator contracts in place, most of this cost was borne by DfT. The positive achievement this year, allied to outperformance in FY20 and FY21 has resulted in a highly favourable control period to date position.

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

In £m cash prices unless stated

Centrally-managed schedule 4 and schedule 8 income and costs

- (1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.
- (2) Schedule 4 – Access charge supplement income is in line with the regulatory baseline for this year and slightly lower for the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is a net inflow much greater than the regulatory baseline resulting from Schedule 4 costs in FY21/22 returning an income. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear lower than the prior year due to the favourable settlement of a commercial claim in 2021/22.
- (3) Schedule 8 – this year's cost is directly in line with the regulatory baseline. Comparing to the previous year the Schedule 8 variance is largely adverse as in FY20/21 there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow. Centrally managed Schedule 8 income/cost is largely favourable in the control period to date as a result of settlement reached in FY20/21.

Wales & Western

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2021-22	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2020-21 Actual
Regionally-managed					
Track					
PL Replace Full	43	32	(11)	-	43
PL Replace Partial	33	28	(5)	-	53
PL High Output	42	31	(11)	-	28
PL Refurbishment	5	12	7	-	3
PL Track Slab Track	-	-	-	-	-
Switches & Crossing - Replace	19	26	7	-	35
Switches & Crossing - Other	6	3	(3)	-	9
Off Track	13	11	(2)	-	8
Track Other	7	(1)	(8)	-	2
	168	142	(26)	(28)	181
Signalling					
Signalling Full	18	45	27	-	17
Signalling Partial	4	1	(3)	-	3
Signalling Refurb	50	89	39	-	53
Level crossings	10	28	18	-	16
Minor works	12	21	9	-	17
Other	0	0	0	-	-
	94	184	90	1	106
Civils					
Underbridges	34	39	5	-	41
Overbridges	15	8	(7)	-	5
Major structures	11	13	2	-	6
Tunnels	3	10	7	-	4
Minor works	19	12	(7)	-	10
Other	7	10	3	-	11
	89	92	3	(1)	77
Earthworks					
Earthworks - Embankments	16	11	(5)	-	22
Earthworks - Soil Cuttings	17	22	5	-	8
Earthworks - Rock Cuttings	10	6	(4)	-	6
Earthworks - Other	-	5	5	-	1
	43	44	1	(2)	37
Buildings					
Managed stations	18	26	8	-	12
Franchised stations	20	17	(3)	-	19
Light maint depots	1	5	4	-	2
Depot plant	-	5	5	-	3
Lineside buildings	2	3	1	-	3
MDU buildings	7	12	5	-	2
Other	-	-	-	-	-
	48	68	20	(1)	41
Electrical power and fixed plant					
AC distribution	3	-	(3)	-	2
Overhead Line	2	3	1	-	4
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	8	18	10	-	2
Other	3	2	(1)	-	19
Fixed plant	8	3	(5)	-	8
	24	26	2	-	35
Drainage					
Drainage (Track)	10	5	(5)	-	10
Drainage (Earthworks)	2	3	1	-	1
Drainage (Resilience)	-	-	-	-	1
	12	8	(4)	-	12
Property					
Property	5	8	3	-	11
	5	8	3	-	11
Total Regionally-managed renewals expenditure					
	483	572	89	(31)	500

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms					
Operational communications	1	4	3	-	-
Network	2	1	(1)	-	2
SISS	1	2	1	-	2
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	9	9	-	-	11
	14	16	2	(1)	16
Wheeled plant and machinery					
High output	8	4	(4)	-	6
Incident response	1	-	(1)	-	-
Infrastructure monitoring	-	2	2	-	1
Intervention	2	5	3	-	2
Materials delivery	2	6	4	-	-
On track plant	-	1	1	-	-
Seasonal	-	-	-	-	1
Other	4	1	(3)	-	1
	17	19	2	-	11
Route Services					
Business Improvement	8	1	(7)	-	13
IT Renewals	4	12	8	-	6
Asset Information	1	2	1	-	1
Other	2	-	(2)	-	1
	15	15	-	-	21
STE Renewals					
Intelligent infrastructure	12	7	(5)	-	8
Faster Isolations	10	6	(4)	-	14
Centrally Managed Signalling Costs	1	1	-	-	1
Research and development	5	7	2	-	7
Integrated Management System (Incl. BCR)	-	1	1	-	-
Other National SCADA Programmes	3	1	(2)	-	2
Small plant	1	1	-	-	1
Other	15	1	(14)	-	11
	47	25	(22)	-	44
Property					
Property	-	3	3	-	8
	-	3	3	-	8
Other renewals					
ETCS	-	12	12	(1)	3
Digital Railway	2	(3)	(5)	-	1
Civils & Drainage - Insurance Fund	-	5	5	7	2
Buildings - Insurance Fund	-	3	3	-	-
OPEX/CAPEX Adjustment	(19)	(12)	7	-	(21)
Phasing overlay	-	(22)	(22)	-	-
System Operator	3	3	-	-	2
Other renewals	1	1	-	3	(4)
	(13)	(13)	-	9	(17)
Total centrally-managed renewals expenditure	80	65	(15)	8	83
TOTAL RENEWALS EXPENDITURE	563	637	74	(23)	583

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	117	98	(19)	-
PL Replace Partial	111	84	(27)	-
PL High Output	102	99	(3)	-
PL Refurbishment	11	29	18	-
PL Track Slab Track	-	-	-	-
Switches & Crossing - Replace	79	70	(9)	-
Switches & Crossing - Other	19	10	(9)	-
Off Track	29	29	-	-
Track Other	20	-	(20)	-
	488	419	(69)	(60)
Signalling				
Signalling Full	47	78	31	-
Signalling Partial	16	26	10	-
Signalling Refurb	126	187	61	-
Level crossings	31	55	24	-
Minor works	50	55	5	-
Other	-	-	-	-
	270	401	131	(15)
Civils				
Underbridges	100	104	4	-
Overbridges	29	30	1	-
Major structures	18	19	1	-
Tunnels	12	23	11	-
Minor works	40	26	(14)	-
Other	23	27	4	-
	222	229	7	(3)
Earthworks				
Earthworks - Embankments	55	41	(14)	-
Earthworks - Soil Cuttings	37	41	4	-
Earthworks - Rock Cuttings	30	23	(7)	-
Earthworks - Other	1	8	7	-
	123	113	(10)	1
Buildings				
Managed stations	32	51	19	-
Franchised stations	55	58	3	-
Light maint depots	4	10	6	-
Depot plant	3	6	3	-
Lineside buildings	6	8	2	-
MDU buildings	15	31	16	-
Other	-	-	-	-
	115	164	49	(2)
Electrical power and fixed plant				
AC distribution	8	7	(1)	-
Overhead Line	10	10	-	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	19	39	20	-
Other	23	3	(20)	-
Fixed plant	32	20	(12)	-
	92	79	(13)	(8)
Drainage				
Drainage (Track)	28	13	(15)	-
Drainage (Earthworks)	4	10	6	-
Drainage (Resilience)	1	-	(1)	-
	33	23	(10)	3
Property				
Property	15	13	(2)	-
	15	13	(2)	-
Total Regionally-managed renewals expenditure	1,358	1,441	83	(84)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	-	-	-	-
	-	-	-	-
Telecoms				
Operational communications	2	6	4	-
Network	4	3	(1)	-
SISS	4	4	-	-
Projects and other	3	1	(2)	-
Non-route capital expenditure	31	28	(3)	-
	44	42	(2)	(2)
Wheeled plant and machinery				
High output	16	16	-	-
Incident response	1	-	(1)	-
Infrastructure monitoring	1	5	4	-
Intervention	5	12	7	-
Materials delivery	4	18	14	-
On track plant	-	1	1	-
Seasonal	2	-	(2)	-
Other	6	2	(4)	-
	35	54	19	-
Route Services				
Business Improvement	36	18	(18)	-
IT Renewals	16	27	11	-
Asset Information	3	4	1	-
Other	3	1	(2)	-
	58	50	(8)	-
STE Renewals				
Intelligent infrastructure	24	17	(7)	-
Faster Isolations	30	15	(15)	-
Centrally Managed Signalling Costs	2	4	2	-
Research and development	16	16	-	-
Integrated Management System (Incl. BCR)	-	4	4	-
Other National SCADA Programmes	8	9	1	-
Small plant	3	3	-	-
Other	28	6	(22)	-
	111	74	(37)	-
Property				
Property	11	5	(6)	-
	11	5	(6)	-
Other renewals				
ETCS	5	27	22	(1)
Digital Railway	3	(5)	(8)	-
Civils & Drainage - Insurance Fund	2	14	12	9
Buildings - Insurance Fund	-	8	8	-
OPEX/CAPEX Adjustment	(55)	(39)	16	-
Phasing overlay	-	(50)	(50)	-
System Operator	6	6	-	-
Other renewals	-	2	2	11
	(39)	(37)	2	19
Total centrally-managed renewals expenditure	220	188	(32)	17
TOTAL RENEWALS EXPENDITURE	1,578	1,629	51	(67)

Statement 3.6: Analysis of renewals expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is lower than the regulatory baseline and last year's outturn. Although there are numerous variances significant causes for this decrease include underspending within the signalling and buildings portfolio. This underspend has resulted from the rephasing of works within these programmes for volumes to be achieved in later years of the control period. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors, but primarily relates to delivery within the Track and Signalling portfolio.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were slightly lower than the regulatory assumption. Additional activity in Track has been offset by slippage experienced in in the buildings and signalling portfolio. Control period to date spend is slightly lower than the baseline, due to the acceleration of schemes in FY20 to ensure funding was utilised being offset by project slippage as mentioned above. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors, but primarily relates to delivery, within the Track portfolio.
- (2) Track – overall, costs in the year were higher than the regulatory baseline, but lower than last year's outturn. Most of the financial underperformance is a result of difficulties in High Output delivery. The main causes for this underperformance in High Output are Issues with the access received for a Re-laying High Output campaign causing a subsequent reduction in scope whilst still incurring fixed costs and a change in workbank in Western's Ballast Cleaning campaign from larger areas to smaller sites which have higher cost per volume. Ballast Cleaning also suffered from plant failure and a safety incident that resulted in front line workers standing down and a subsequent loss of volumes. Control period to date spend is higher than the regulatory baseline due to the aforementioned reasons plus additional re-padding at Aberlert in FY21 and the additional Plain Line full, Plain Line partial and Switches & Crossings delivered in FY20. Covid-19 also led to additional welfare costs, higher labour costs to ensure social distancing restrictions were adhered to, extra vehicle costs, additional PPE requirements and project prolongation costs in FY21 which add to the negative FPM realised in the control period to date.

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

In £m cash prices unless stated

- (3) Signalling – major programmes this year include the continuation of ETCS, the use of modular technology in Devon and Cornwall, and works from Northport to Shrewsbury. Overall, expenditure was less than expected mainly due to rephasing of works on major re signalling programmes, such as the Port Talbot West Phase 2. Financial outperformance is reported in the current year as underperformance in some areas has been offset by outperformance in other areas. Underperformance is recognised in ETCS caused by contractor delays and increased power scope in the Vamos safety intervention project has resulted in a reduction in volumes too keep AFC to the budget. Outperformance recognised through the implementation of modular signalling technology in Devon and Cornwall and the use of this technology allowed economies of scale to be achieved. Further to this, the use of innovative technology in MSL crossings has allowed all the benefits of the usual implementation to be achieved without incurring all the costs. In FY21 financial underperformance had been recognised. This was primarily due to commercial and delivery challenges. Contractor tendered prices received had been higher than anticipated for key schemes such as Tondur resignalling and Port Talbot phase 2, which was a significant contributor to the financial underperformance experienced. Control period to date position also shows a significant underspend as in addition to the aforementioned costs there were also delays to Bristol Area Resignalling programmes. The control period to date reports cumulative financial underperformance resulting from commercial and delivery challenges. Contractor tendered prices received have been higher than anticipated for key schemes such as Tondur resignalling and Port Talbot Phase 2.
- (4) Civils – expenditure in the year was lower than the regulatory baseline, primarily due to slippage in the underbridge's portfolio and reduced spend in the tunnels portfolio. Slight financial underperformance has been recognised this year. Britannia Bridge lintel renewals had to be delayed to FY23, thus incurring prolongation costs, due to the presence of nesting peregrine falcons. Initial delays to this project caused works to be pushed into bird nesting season. The route also dealt with prolongation due to ecological issues resulting from badger presence at Stocks. Furthermore, a key contractor went into administration, this resulted in many due diligence checks and the project to be postponed. The remaining FPM is a result of higher tender prices than plan provisions expected. The control period to date shows minor underspend and underperformance. The underperformance results from the aforementioned as well as original interventions planned on the London street programme required further asset condition investigations, which have led to the scale of work increasing significantly. There has also been a reduction in volumes delivered, across a few sites, which have led to financial underperformance. This has offset the Financial outperformance delivered in FY20, through a combination of enhanced planning, including successfully acquiring a blockade to deliver works at Yarnbrook, closer working with contractors to deliver works at River Parrett, and using innovative delivery methods, such as offsite production for Basildon Skew bridge and injection waterproofing for Mynydd bridge.
- (5) Earthworks – investment this year is broadly in line with the regulatory baseline. The control period to date shows greater investment than baseline expected which was due to accelerated delivery. The extra investment included accelerating schemes at Little Haglow and Bargoed to utilise available resources. Marginal financial outperformance has been reported this year and control period to date. This is due to reduced staff costs resulting from leavers, some projects being simpler than anticipated and reduced unit rates for rock cuttings whilst achieving increased volumes. Additionally, previous years in the control period achieved better workbank packaging, favourable tender prices at Kelston Park and acquiring longer possessions at Llandudno Junction to facilitate more productive workings arrangements.

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

In £m cash prices unless stated

- (6) Buildings – investment this year is significantly lower than the regulatory baseline. This relates to re-profiling of works until later in the control period. Slight financial underperformance is recognised for the year as a result of asset conditions being worse than anticipated at Chester, Holyhead, Cambourn and Penance which drove additional spending on materials and design. Spend was lower in the previous year due to the re-profiling of the Bristol Temple Meades programme and the MDU portfolio, including the Shrewsbury MDU upgrade. In the control period to date, large underspend is recognised due to the change in the timeframes of project delivery to later in the control period. Slight financial underperformance is also recognised due to the aforementioned.
- (7) Electrical power and fixed plant – investment is slightly lower than the regulatory baseline this year, but higher for the control period to date. Performance has been in line with expectations this year as efficiencies recognised from effective work bank planning have been offset by increased inflation beyond assumptions and reduced access. The control period to date overspend is due to extra activity on reducing risk in FY21. Some minor financial underperformance has been reported in the control period to date. This includes needing to retender the Scada programme due to underperformance of the original contractor in FY21, and additional contractor costs on signalling cable projects owing to design delays and difficulties acquiring the required access, in FY20.
- (8) Property – investment is lower than the regulatory baseline this year, but larger for the control period to date as last years overspend is only partially offset.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is over the regulatory baseline this year, with higher spend on STE programmes and overspend as a result of the phasing overlay in Group, being slightly offset by underspend in Telecoms and Wheeled plant and machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, primarily due to less spend being transferred to OPEX this year. Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in telecoms and wheeled plant and machinery activities.
- (2) Track – no costs were incurred or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. In FY20 however, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs

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

In £m cash prices unless stated

- (3) Telecoms – investment is lower than the regulatory baseline. Slippage on operational communications and SISS are the primary reasons for this variance. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. These programmes have been reforecast into the last two years of the control period, with significant investment in CIS CCTV forecast for FY23 and FY24. There has been financial underperformance experienced this year due to commercial pressures and design challenges. This results from tender prices that were higher than original estimates anticipated, and original design and implementation plans for project Railnet IP did not provide a sustainable solution and thus a new contractor was appointed.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline but higher than the previous year. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:
- a. High output – investment was higher than the regulatory baseline and higher than last year's outturn. This is due to reprofiling of activity into the last three years of the control period. Expenditure this year includes renewing the high output ballast cleaner system fleet. Year 4 and 5 of the control period will see significant investment in this area, which will compensate for the control period to date slippage experienced so far.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the remainder of CP6 and then CP7.
 - c. Intervention – costs were lower than the regulatory baseline and last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. The stoneblower renewals contract has been deferred into CP7 and there is also a review of the grinding/milling fleet overhaul requirement.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, but higher than last year. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory in Bescot. There is also slippage in the Rail delivery Train renewals programme. Spend is higher than last year, as negative spend was incurred due to sunk costs realised in production of the sleeper factory have been expensed to the P&L in FY21, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower than the regulatory baseline. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. The reason for the significant increase in spend to last year and higher than expected spend against the baseline, relates to fleet support plant where additional facilities renewals have been identified.

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

In £m cash prices unless stated

- (5) Route Services – Expenditure is broadly in line with the baseline but lower than last years outturn. In the last two years, there has been significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Whilst this spend has continued, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation and last year's expenditure. Notable variances at Key Cost Line include:
 - a. Intelligent infrastructure – costs are higher than the regulatory baseline and last year's outturn. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - b. Faster isolations – costs are broadly in line with the target and last years outturn.
 - c. Centrally-managed signalling costs – costs are in line with the regulatory baseline and last year's actuals.
 - d. Research & Development – progress on this fund has been ahead of schedule this control period. More of the CP6 programme being was delivered in FY21 compared to the baseline expectation, which is why spend this year is lower than the regulatory baseline assumed. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line in the control period to date.
 - e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - f. Other national SCADA programmes – investment is higher than the regulatory baseline but slightly lower than the prior year actual. Delays were experienced in the programme, but work has now caught up. As the overspend is due to timing rather than a genuine overspend, no financial underperformance has been recognised this year.
 - g. Small Plant – investment is broadly in line with the regulatory baseline this year and last years actual. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions.
 - h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline. Expenditure is expected in this area throughout the control period.

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

In £m cash prices unless stated

- (7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is lower than the regulatory baseline and last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. The project has experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - b. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Spend is lower than last year, due to an element of the Stonehaven derailment renewals costs in FY21 being borne by the civils insurance fund. The financial outperformance recognised control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored
 - c. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year.
 - d. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). The adjustment is higher than the regulatory baseline, as more schemes that are OPEX in nature have been delivered. Last years adjustment was higher, due to enhancements schemes being cancelled as part of the spending review and then being reclassified as OPEX.

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

In £m cash prices unless stated

- e. System Operator – expenditure this year is in line with the regulatory baseline but higher than last year's outturn
- f. Other renewals – expenditure in the previous control period includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Wales & Western

Statement 3.7: Analysis of enhancements expenditure

	2021-22			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Great Western Electrification	29	29	-	242	268	(53)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Oxford Corridor Capacity Phase 2	16	(8)	-	24	29	-
GWEP Distribution Network Operators clearance work	1	(13)	-	6	(7)	-
Reading Independent Feeder (Power Supply)	19	(27)	(4)	29	34	(4)
Bristol East Junction	47	66	25	89	119	23
South West Rail Resilience Programme	40	42	(3)	85	92	(3)
Access for All	4	4	-	7	12	-
Western Rail Access to Heathrow	1	(21)	1	15	16	1
Crossrail	54	10	(33)	116	94	(75)
Dr Days to Filton Abbey Wood Capacity	1	3	-	10	10	-
Portfolio Contingency (including T-12)	-	(2)	-	1	1	2
Depots & Stabling Fund	-	(1)	-	-	-	-
Thames Valley EMU Capability	-	6	-	10	11	-
IEP Western Capability	2	5	-	17	19	-
West of England Plat Length	1	(1)	-	4	4	-
Access to Assets	4	(4)	-	9	14	-
Restoring Your Railway	31	23	-	38	36	-
GWML W10-W12 Gauge Enhancement	1	2	-	11	10	-
Crumlin River Bridge	-	(1)	-	4	4	1
W009 West of England DMU Capability	-	(5)	-	6	7	-
New Stations Fund	-	5	-	-	5	-
Other	9	(87)	-	5	11	-
Total	260	25	(14)	744	806	(108)
Other Capital Expenditure	(2)	-	-	127	-	-
Other third party funded schemes						
HS2	22	-	-	107	-	-
Other third Party	40	-	-	70	-	-
Total	62	-	-	177	-	-
Total enhancements	320	25	(14)	1,048	806	(108)
Total enhancements less Other third party funded schemes	258	25	(14)	871	806	(108)

Statement 3.7: Analysis of enhancement expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.
- (2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £258m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£320m) less the PAYGO schemes funded by third parties (£62m).

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

In £m cash prices unless stated

- (1) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline. This is mainly due to Spending review re-baseline in 2021 and offset by slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Great Western Electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been with baseline. Cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.
 - b. Oxford Corridor Capacity Phase 2 – The project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services. Progress has been slower than anticipated this year pending release of further government investment and re-profiling works into future years following submission of a Transport and Works Act Order (TWAo) for land purchase.
 - c. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Cumulative underspend and financial underperformance is due to works been reprofiled into future years of the control period.
 - d. Bristol East Junction – This project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
 - e. South West Rail Resilience Programme – This programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Financial underperformance is due to programme anticipated final cost is greater than baselined.
 - f. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is slower than baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - g. Crossrail – This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. The programme adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London.

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

In £m cash prices unless stated

- h. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF).
- (2) Third party funded schemes –a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year is CAF Gauging Wales and Ebbw Vale Integration
- (3) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements.

Wales & Western

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY22			FY21			
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	47	19	2,474	38	23	1,652
	PL Replace Partial	km	41	89	461	66	100	660
	PL High Output	km	44	32	1,375	46	37	1,243
	PL Refurbishment	km	7	74	95	3	59	51
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	10	34	294	25	51	490
	Switches & Crossing - Other	point ends	18	103	175	5	36	139
	Off Track	km/No.	17	223	76	11	188	59
	Track Other		-	-	-	-	-	-
Total		184			194			
Signalling	Signalling Full	SEU	-	-	-	-	-	-
	Signalling Partial	SEU	-	-	-	1	3	333
	Signalling Refurb	SEU	91	272	335	84	120	700
	Level crossings	No.	21	61	344	43	83	518
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		112			128			
Civils	Underbridges	m2	72	21,357	3	62	20,903	3
	Overbridges (incl BG3)	m2	7	4,147	2	7	3,191	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	5	7,035	1	4	3,039	1
	Culverts	m2	3	845	4	3	985	3
	Footbridges	m2	-	-	-	1	130	8
	Coastal & Estuarial Defences	m2	3	685	4	3	14,810	0
	Retaining Walls	m2	5	3,018	2	4	3,332	1
	Structures Other	m2	-	-	-	-	-	-
Other		-	-	-	-	-	-	
Total		95			84			
Earthworks	Earthworks - Embankments	No.	36	946	38	27	856	32
	Earthworks - Soil Cuttings	No.	24	1,014	24	15	1,030	15
	Earthworks - Rock Cuttings	No.	20	272	74	16	612	26
	Earthworks - Other	No.	-	49	-	2	38	53
	Drainage - Earthworks	m	6	21,251	0	1	4,867	0
	Drainage - Other	m	12	51,887	0	16	68,920	0
TOTAL		98			77			
Buildings	Buildings (MS)	m2	-	-	-	-	-	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	3	11	273	-	1	-
	Buildings (FS)	m2	1	1,915	1	1	2,518	0
	Platforms (FS)	m2	6	1,041	6	2	970	2
	Canopies (FS)	m2	-	-	-	5	7,439	1
	Train sheds (FS)	m2	-	-	-	-	-	-
	Footbridges (FS)	m2	5	556	9	2	255	8
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	17	114,053	0	19	120,927	0
	Light Maintenance Depots	m2	-	-	-	4	39,214	0
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	4	6,803	1	3	1,335	2
	MDU Buildings	m2	1	9,898	0	2	10,481	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
Total		37			38			

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	2	42	48	2	41	49
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	7	-	-	-	-
	Signalling Power Cables	km	6	66	91	23	109	211
	Signalling Supply Points	point end	-	-	-	-	3	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		8			25		
Telecoms	Customer Information Systems	No.	3	199	15	-	-	-
	Public Address	No.	-	44	-	-	-	-
	CCTV	No.	-	57	-	-	-	-
	Other Surveillance	No.	-	9	-	-	-	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		3			-		

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2021/22 (or 2020/21 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2020/21 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2021/22, 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 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - There has been an increase in the unit cost of PL Replace Full and PL Refurbishment. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. However there has been a decrease in the unit cost of PL Replace Partial and Switches and Crossing Replace for the complexity and location issues mentioned above. There has also been an increase in the unit cost of Off Track in the year. The mix issue also affects Off Track as the work can be fencing or longitudinal timbers. The High Output volumes delivered in the year are slightly lower than the volumes delivered in the prior year. In high output, volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The decreased volumes tell the story of why the unit cost has increased.
- (3) Signalling – There has been a decrease in the unit cost of Signalling Refurb in the year. This was due to the fact that there was a major project at Paddington which delivered a large proportion of volumes and skewed the unit cost downwards. There has also been a decrease in the unit cost for Level Crossings in the year. In the prior year there was a complex project at Worcester which dragged up the unit cost.

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

In £m cash prices unless stated

- (4) Civils - There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (5) Earthworks & Drainage – There has been an increase in the unit cost of Soil Cuttings in the year as in the prior year there was a higher proportion of the least expensive maintain work. There has been an increase in the unit cost for Rock Cuttings in the year for similar reasons. There has also been an increase in the unit costs of Embankments for the same reasons as above.
- (6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (7) Electrical Power and Fixed Plant – There has been a decrease in the unit cost of Signalling Power Cables in the year. There was only one project which delivered volumes in the year at Westbury. This project also delivered volumes in the prior year but there was also a second project being delivered then which skewed the unit cost upwards.
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year

Wales & Western**Statement 4: Regulatory financial position**

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2020-21 Actual prices)	13,157
Indexation to 2021-22 prices	13,828
RAB additions	
Renewals expenditure	563
Enhancements expenditure	-
Less amortisation	(563)
Property Sales	(4)
Closing RAB	13,824

Net debt

	£m
Opening net debt	10,239
Income	(1,459)
Expenditure	1,188
Financing Costs - Government borrowing	169
Financing Costs - index linked debt	340
Financing Costs - Other	23
Corporation tax	0
Working capital	34
Closing net debt	10,534

Statement 4: Regulatory financial position, Wales & Western

In £m cash prices unless stated

Note:

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

Comments:

- (1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Wales & Western part of the network and how it has moved during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2020/21 prices and is inflated by the November 2021 CPI (5.1 per cent).
- (3) Renewals – renewals added to the RAB was £0.6bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable Wales & Western and how it has moved this year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Wales & Western is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year working capital movements have been adverse, reversing the benefits reported earlier in the control period.
- (10) Income is set out in more detail in Statement 2.

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

In £m cash prices unless stated

- (11) Expenditure is set out in more detail in Statement 3.
- (12) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (except for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.
- (13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some adverse working capital movements, reversing the benefits reported earlier in the control period.

Appendices to the Regulatory financial statements – Reconciliations between Regulatory financial statements and statutory accounts*

*Note: The reconciliations are made to Network Rail Limited's statutory accounts as no consolidated statutory accounts are prepared or published for the Network Rail Infrastructure Limited group

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2022

	£m
RAB valuation at 31 March 2022 (Statement 4)	76,313
Investment properties (including assets held for resale)	(223)
Adjustment for cash flow differences the CP6 Business Plan compared to Periodic Review 2018	(200)
Property, plant and equipment per NRL statutory accounts at 31 March 2022	75,890

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2022

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2022 per the regulatory Statements (Statement 1)	2,545	1,947	4,492
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets	1,949		1,949
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	266		266
IFRS16 Leases adjustment	(125)		(125)
Other, including GBR Transition Team costs	12		12
	2,102	-	2,102
Operating and maintenance expenditure for year ended 31 March 2022 per NRL statutory accounts	4,647	1,947	6,594

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2022

	£m	£m
Regulatory income for year ended 31 March 2022 (Statement 1)		9,771
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(135)	
Income from property sales and other asset divestments	<u>(83)</u>	
		(218)
Turnover per NRL statutory accounts for year ended 31 March 2022		9,553

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2022

	£m	£m
Regulatory debt at 31 March 2022 (Statement 4)		55,459
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39: Fair value hedging, fair value through profit & loss adjustment and foreign exchange differences	172	
IFRS 16 Leases adjustment	<u>420</u>	
		592
Net debt per NRL statutory accounts at 31 March 2022		56,051

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2022

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2022 (Statement 1)		5,735
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	405	
Investment property schemes	(1)	
		404
Capital expenditure per NRL statutory accounts for the year ended 31 March 2022		6,139

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2022

	£m	£m
Total financing costs for the year ended 31 March 2022 (Statement 1)		2,783
Differences between regulatory interest expense and statutory interest expense		
Net finance costs relating to defined pension schemes assets and liabilities	60	
Investment revenue disclosed separately in statutory accounts	1	
		61
Interest expense per NRL statutory accounts for the year ended 31 March 2022		2,844