



Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2013

Contents

Directors' Review	8
Statement of Directors' Responsibilities.....	19
Independent Auditors' Report to the company and the ORR - PwC.....	20
Independent Reporters' Report to the company and the ORR – Arup	25
Accounting Policies	28
Statement 1: GB Summary regulatory financial performance.....	33
Statement 2a: GB RAB - regulatory financial position	35
Statement 2b: GB RAB - reconciliation of expenditure.....	37
Statement 2c: Summary of RAB movements.....	41
Statement 3: GB Analysis of enhancement capital expenditure	42
Statement 4: GB Net debt and financial ratios.....	46
Statement 5: GB Financial performance statement.....	51
Statement 6a: GB Analysis of income.....	54
Statement 6b: GB Analysis of other single till income.....	57
Statement 6c: GB Analysis of income by operator.....	60
Statement 7a: GB Analysis of operating expenditure.....	68
Statement 7b: GB Analysis of operating expenditure by activity.....	72
Statement 7c: GB Insurance reconciliation	77
Statement 7d: GB Cost of own work capitalised	79
Statement 8a (1): GB Summary analysis of maintenance expenditure	82
Statement 8a (2): GB Summary analysis of maintenance headcount by activity	83
Statement 8b (1): GB Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU). ..	84
Statement 8b (2): GB Analysis of maintenance headcount by MDU	86
Statement 9a: GB Summary analysis of renewals expenditure	88
Statement 9b: GB Detailed analysis of renewals expenditure	91
Statement 10: GB Other information	96
Statement 11: GB Analysis of Network Rail's charges to Network Rail (High Speed) Limited for	

work on HS1.....	99
Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure).....	100
Statement 13: GB Volume incentives.....	104
Statement 14: GB Maintenance unit costs.....	105
Statement 15: GB Renewals unit costs and coverage.....	108
DISAGGREGATED FINANCIAL INFORMATION - ENGLAND & WALES AND SCOTLAND.....	113
Statement 1: England & Wales Summary regulatory financial performance.....	114
Statement 2a: England & Wales RAB - regulatory financial position.....	116
Statement 2b: England & Wales RAB - reconciliation of expenditure.....	118
Statement 2c: England & Wales Summary of RAB movements.....	122
Statement 3: England & Wales Analysis of enhancement capital expenditure.....	123
Statement 4: England & Wales Net debt and financial ratios.....	127
Statement 5: England & Wales Financial performance statement continued.....	133
Statement 6a: England & Wales Analysis of income.....	134
Statement 6b: England & Wales Analysis of other single till income.....	137
Statement 6c: England & Wales Analysis of income by operator.....	140
Statement 7a: England & Wales Analysis of operating expenditure.....	148
Statement 7b: England & Wales Analysis of operating expenditure by activity.....	151
Statement 7c: England & Wales Insurance reconciliation.....	155
Statement 7d: England & Wales Cost of own work capitalised.....	157
Statement 8a (1): England & Wales Summary analysis of maintenance expenditure.....	160
Statement 8a (2): England & Wales Summary analysis of maintenance headcount by activity.....	161
Statement 8b (1): England & Wales Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU).....	162
Statement 8a (2): England & Wales Summary analysis of maintenance headcount by Maintenance Delivery Unit (MDU).....	164
Statement 9a: England & Wales Summary analysis of renewals expenditure.....	166
Statement 9b: England & Wales Detailed analysis of renewals expenditure.....	169
Statement 10: England & Wales Other Information.....	174
Statement 11: England & Wales Analysis of Network Rail's charges to Network Rail (High Speed)	

Limited for work on HS1.....	177
Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure).....	178
Statement 13: England & Wales Volume incentives.....	182
Statement 14: England & Wales Maintenance unit costs.....	183
Statement 15: England & Wales Renewals unit costs and coverage.....	186
Statement 1: Scotland Summary regulatory financial performance	191
Statement 2a: Scotland RAB - regulatory financial position.....	193
Statement 2b: Scotland RAB - reconciliation of expenditure.....	195
Statement 2c: Scotland Summary of RAB movements	198
Statement 3: Scotland Analysis of enhancement capital expenditure	199
Statement 4: Scotland Net debt and financial ratios.....	202
Statement 5: Scotland Financial performance statement.....	205
Statement 6a: Scotland Analysis of income	208
Statement 6b: Scotland Analysis of other single till income.....	210
Statement 6c: Scotland Analysis of income by operator.....	212
Statement 7a: Scotland Analysis of operating expenditure.....	215
Statement 7b: Scotland Analysis of operating expenditure by activity	218
Statement 7c: Scotland Insurance reconciliation	222
Statement 7d: Scotland Cost of own work capitalised	224
Statement 8a (1): Scotland Summary analysis of maintenance expenditure	227
Statement 8a (2): Scotland Summary analysis of maintenance headcount by activity	228
Statement 8b (1): Scotland Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU)	229
Statement 8b (2): Scotland Analysis of maintenance headcount by MDU	230
Statement 9a: Scotland Summary analysis of renewals expenditure	231
Statement 9b: Scotland Detailed analysis of renewals expenditure	234
Statement 10: Scotland Other Information	239
Statement 11: Scotland Analysis of Network Rail's charges to Network Rail (High Speed) Limited for work on HS1.....	241
Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure).....	242

Statement 13: Scotland Volume incentives.....	246
Statement 14: Scotland Maintenance unit costs.....	247
Statement 15: Scotland Renewals unit costs and coverage.....	250
DISAGGREGATED ROUTE INFORMATION	255
Statement 1: Anglia Summary regulatory financial performance	256
Statement 3: Anglia Analysis of enhancement capital expenditure	257
Statement 6a: Anglia Analysis of income	258
Statement 7a: Anglia Analysis of operating expenditure.....	259
Statement 8a: Anglia Summary analysis of maintenance expenditure	260
Statement 9a: Anglia Summary analysis of renewals expenditure	261
Statement 10: Anglia Other information	262
Statement 13: Anglia Volume incentives.....	263
Statement 1: Kent Summary of regulatory financial performance	264
Statement 3: Kent Analysis of enhancement capital expenditure	265
Statement 6a: Kent Analysis of income	266
Statement 7a: Kent Analysis of operating expenditure	267
Statement 8a: Kent Summary analysis of maintenance expenditure	268
Statement 9a: Kent Summary analysis of renewals expenditure	269
Statement 10: Kent Other information	270
Statement 13: Kent Volume incentives.....	271
Statement 1: LNE Summary regulatory financial performance	272
Statement 3: LNE Analysis of enhancement capital expenditure.....	273
Statement 6a: LNE Analysis of income	274
Statement 7a: LNE Analysis of operating expenditure	275
Statement 8a: LNE Summary analysis of maintenance expenditure.....	276
Statement 9a: LNE Summary analysis of renewals expenditure.....	277
Statement 10: LNE Other information.....	278
Statement 13: LNE Volume incentives	279
Statement 1: LNW Summary regulatory financial performance	280

Statement 3: LNW Analysis of enhancement capital expenditure	281
Statement 6a: LNW Analysis of income	282
Statement 7a: LNW Analysis of operating expenditure	283
Statement 8a: LNW Summary analysis of maintenance expenditure	284
Statement 9a: LNW Summary Analysis of renewals expenditure	285
Statement 10: LNW Other information	286
Statement 13: LNW Volume incentives.....	287
Statement 1: East Midlands Summary regulatory financial performance.....	288
Statement 3: East Midlands Analysis of enhancement capital expenditure	289
Statement 6a: East Midlands Analysis of income.....	290
Statement 7a: East Midlands Analysis of operating expenditure.....	291
Statement 8a: East Midlands Summary analysis of maintenance expenditure	292
Statement 9a: East Midlands Summary analysis of renewals expenditure	293
Statement 10: East Midlands Other information	294
Statement 13: East Midlands Volume incentives.....	295
Statement 1: Sussex Summary regulatory financial performance	296
Statement 3: Sussex Analysis of enhancement capital expenditure	297
Statement 6a: Sussex Analysis of income	298
Statement 7a: Sussex Analysis of operating expenditure	299
Statement 8a: Sussex Summary analysis of maintenance expenditure	300
Statement 9a: Sussex Summary analysis of renewals expenditure	301
Statement 10: Sussex Other information	302
Statement 13: Sussex Volume incentives.....	303
Statement 1: Wessex Summary regulatory financial performance.....	304
Statement 3: Wessex Analysis of enhancement capital expenditure	305
Statement 6a: Wessex Analysis of income.....	306
Statement 7a: Wessex Analysis of operating expenditure.....	307
Statement 8a: Wessex Summary analysis of maintenance expenditure	308
Statement 9a: Wessex Summary analysis of renewals expenditure	309

Statement 10: Wessex Other information	310
Statement 13: Wessex Volume incentives.....	311
Statement 1: Western Summary regulatory financial performance	312
Statement 3: Western Analysis of enhancement capital expenditure.....	313
Statement 6a: Western Analysis of income.....	314
Statement 7a: Western Analysis of operating expenditure	315
Statement 8a: Western Summary analysis of maintenance expenditure.....	316
Statement 9a: Western Summary analysis of renewals expenditure.....	317
Statement 10: Western Other information.....	318
Statement 13: Western Volume incentives	319
Statement 1: Wales Summary regulatory financial performance	320
Statement 3: Wales Analysis of enhancement capital expenditure	321
Statement 6a: Wales Analysis of income	322
Statement 7a: Wales Analysis of operating expenditure	323
Statement 8a: Wales Summary analysis of maintenance expenditure	324
Statement 9a: Wales Summary analysis of renewals expenditure	325
Statement 10: Wales Other information	326
Statement 13: Wales Volume incentives.....	327
Statement 16: Strategic routes maintenance analysis	328
Statement 17: Strategic routes renewals analysis	329
Appendices to the Regulatory financial statements	330
Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation.....	331
Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts	331
Appendix C: Reconciliation of Regulatory Income to Statutory Turnover	332
Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt.....	332
Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure	333

Directors' Review

Introduction

This year saw the company face significant operational and financial challenges as we approach the final year of our current five year regulatory settlement which ends in March 2014.

Income was in line with the Delivery Plan update 2012 whilst controllable opex, maintenance, financing and Schedule 4 costs were all favourable to budget. Non-controllable opex and Schedule 8 costs were higher than expected, the latter reflecting the deterioration in train performance.

Our asset base continued to grow as we invested in the railway; debt increased as we financed this long term investment and our 64 per cent gearing remained comfortably below the regulatory limit of 75 per cent. The ratio was higher than anticipated, largely due to a RAB adjustment in respect of missed train performance in the year.

Overall asset condition improved in the year and our asset stewardship indicator is already ahead of the target set at the beginning of the control period. We remain concerned about the condition of our structures assets, especially bridges and embankments. We have continued to improve our asset information and update our policies such that we are better placed to focus renewals expenditure where it is needed and in a cost effective way. At the same time, Network Rail has gone through significant organisational change, with the completion of devolution of decision making to routes, restructuring of our project delivery organisation and the relocation of nearly 3,000 staff to the new national operating centre in Milton Keynes.

Against this background, in January 2013 we submitted our Strategic Business Plan to the Office of Rail Regulation (ORR). This was followed by a period of intense engagement with the Regulator including over 200 meetings. The ORR's Draft Determination was issued on 12 June 2013, with the Final Determination due in October 2013.

Progress in achieving the financial targets set out in the CP4 Delivery Plan

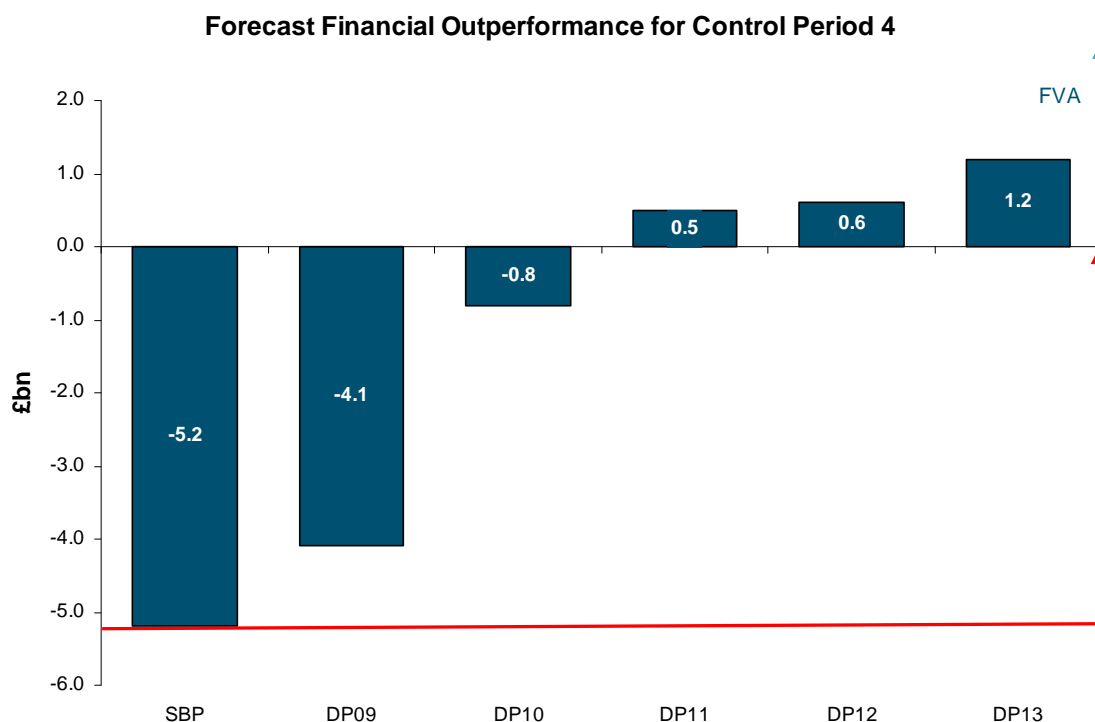
The Strategic Business Plan incorporated the fourth and final update of our Control Period 4 (CP4) Delivery Plan, reflecting performance for the Control Period so far and with updated projections to March 2014.

Financial performance compared to the regulatory settlement for the Control Period continues to be robust. In our Strategic Business Plan, we forecast outperformance for CP4 of £1.2bn including £0.9bn of savings on interest. This is after achieving the £4.1bn additional efficiency saving in our original CP4 Delivery Plan.

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Financial outperformance is disclosed in more detail in Statement 5 of these Regulatory financial statements.



During the year, we made the first payments to train operators under the Efficiency Benefits Sharing Mechanism for a total of £16m. The mechanism gives operators a 25 per cent share of Network Rail's outperformance on defined income and expenditure categories, which can only be paid when the ORR has agreed that reported savings are robust.

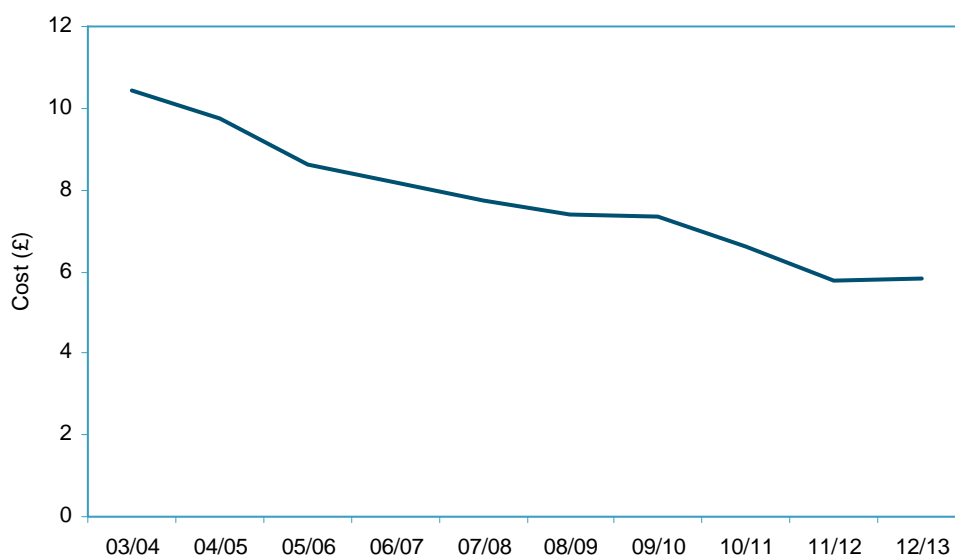
Efficiencies

The regulatory settlement was based on achieving year on year savings in maintenance, operating and renewals costs against the baseline set at the beginning of the Control Period. Delivery challenges in the renewal of track, including industrial action in the supply chain, poor plant performance and adverse weather, meant that the volume of work delivered in the year was significantly lower than planned. With a high level of fixed cost, this resulted in a higher unit cost of track renewal than last year. Signalling renewals also saw an increase in overall spend compared to plan and consequently a lower level of efficiency than last year. The rate of efficiency savings on operating costs was affected by the additional costs incurred due to the weather conditions in the year. (Efficiencies achieved in the year and in the control period to date are discussed in more detail in Statement 12.) With traffic levels also not showing a significant increase in the year, the unit cost of running the railway remained unchanged from last year, as shown in the chart below.

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Controllable opex and maintenance costs per train mile



Financial Review of the Year

Summary income and expenditure comparison to the Delivery Plan update 2012 (DPu12) and PR08 2012/13

	Actual	DPu12	Difference to DPu12	Difference between DPu12 and PR08	Difference between Actual and PR08
Income	6,540	6,542	(2)	(24)	(26)
Expenditure					
Controllable opex	939	1,049	110	(249)	(139)
Non-controllable opex	497	473	(24)	(24)	(48)
Maintenance	999	1,022	23	140	163
Schedule 4 & 8	258	246	(12)	(96)	(108)
Renewals	2,760	2,814	54	(519)	(465)
Enhancements	2,046	2,243	197	(636)	(439)
Financing costs	1,496	1,656	160	(37)	123
Corporation tax	-	-	-	14	14
Rebates	35	-	(35)	-	(35)
Total expenditure	9,030	9,503	473	(1,407)	(934)

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Revenue

Network Rail generates the majority of its income from track access charges, revenue grants and property rental. Fixed track access charges and the revenue grant are set by the ORR and are largely fixed over the five year control period and increase in line with inflation. Fluctuations in turnover are more perceptible in variable track access charges and property income. Turnover for the year was in line with the previous year and in line with the Delivery Plan update 2012. Turnover is set out in more detail in Statement 6.

Property

Income from managed stations grew by more than 5 per cent during the year. This compared favourably to high street retail which continued to face a challenging trading environment and saw several household names collapse into administration. The underlying rent roll of Network Rail's Commercial Estate business grew from £73m to £75m during the year. This business largely services the UK Small and Medium Enterprise (SME) market and this modest growth in income against a backdrop of a decline in UK Gross Domestic Product was particularly impressive.

Significant prior year investment in the new Kings Cross Western Concourse and a retail balcony at Waterloo started to pay back. Not only was the rental income received, as a result of these new schemes, a major factor in the overall rental growth achieved but passenger satisfaction scores improved at Kings Cross and Waterloo by 32 per cent and 11 per cent respectively.

A new serviced office joint venture with The Office Group opened its first site at Paddington Station. Both occupancy and trading were significantly ahead of initial projections. As well as bringing a beautiful listed building back into use, the joint venture has been able to provide a convenient and high quality service at a Network Rail station. There are plans for further serviced offices at Kings Cross, Leeds and Liverpool Street over the coming year.

Expenditure

Controllable opex

Operating costs remained in line with the previous year but were 10 per cent better than planned.

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

The year saw an increase in the losses arising from weather related incidents, compared to last year. Although storms were more frequent, the biggest costs came from sustained and excessive rainfall, which caused flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £15m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Weather aside, a lower level of redundancy costs and good budgetary management delivered savings. Finding areas for savings is, as expected, getting harder each year, however devolution of decision making to routes, enabling closer working with customers, and the restructuring of our delivery organisation, to engage better with suppliers, are intended to address this.

The favourable performance against the Delivery Plan update 2012 arose from lower redundancy and bonus expenses, tight management cost control and a deferral of operating expenditure schemes funded through the HLOS and Seven day railway regulatory allowances until later in the control period and beyond. The deferral of this type of expenditure is not included in Network Rail's calculation of efficiencies or regulatory outperformance. Savings made compared to the budget were partly offset by the higher insurance costs noted above.

In July, The Quadrant:MK, our new operating headquarters in Milton Keynes, opened its doors. The building has been rated BREEAM "excellent", the highest standard for environmental design. The facility is now occupied by 2,780 Network Rail employees and has allowed Network Rail to close thirteen, predominately leasehold, buildings.

Controllable opex variances are discussed in more detail in Statement 7.

Non-controllable opex

Non-controllable opex was higher than planned which is almost all due to higher than expected EC4T (Electricity Costs for Traction) costs. This represents the costs that Network Rail has to pay for electricity which is passed on to train operators to allow them to power their electrified train services. The cost to Network Rail, therefore, varies with market electricity prices. Most of these costs are recoverable from operators through turnover. Non-controllable opex is disclosed in more detail in Statement 7a.

Maintenance costs

Maintenance costs were 2 per cent lower than expected in the Delivery Plan update 2012 and in line with the previous year. Savings arising from headcount reductions were mostly offset by higher than inflation pay rises given to non-managerial staff.

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Additional information surrounding maintenance costs is provided in Statement 8.

Performance regime

Network Rail is expected to operate the railway reliably and the regulatory settlement sets Network Rail a target of reducing unplanned disruption year on year. When performance is not as good as assumed in the regulatory settlement and this is attributable to Network Rail, compensation is paid to train operators.

While high levels of reliability are being achieved, as mentioned elsewhere, not all the performance targets are being met. As a result, payments of £136m (2012: £82m) were made to operators in respect of unplanned delays and cancellations to services. The increase reflects worse performance on key routes as well as more demanding targets.

While there is a very real risk that train performance will not achieve the regulatory target in the coming year, the combination of industry initiatives and improved external factors will see the gap between target and actual performance reduce, together with the cost of compensating operators. The ORR has, however, stated that a fine may be imposed in respect of train performance in the Long Distance sector in the 2013/14 financial year.

Network Rail also compensates operators for amendments to the train timetable, typically to allow work to be carried out or for the introduction of emergency timetables. Costs relating to these changes remain better than target through better planning and coordination of our infrastructure works but were £27m higher than last year due to the increased capital workload.

Renewals

Renewals expenditure in the year was 3 per cent lower than planned. In certain renewals categories expenditure was higher than anticipated whereas in others it was lower. For example, plant & machinery spend was in excess of the budget due to additional purchases of fleet vehicles that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Track costs were lower than expected. However, this was a consequence of a lower number of volumes being delivered at a higher unit rate. Expenditure was also notably lower on electrification as certain projects were deferred until later in the control period and beyond.

Additional information about renewals expenditure is presented in Statement 9.

Directors' Review continued

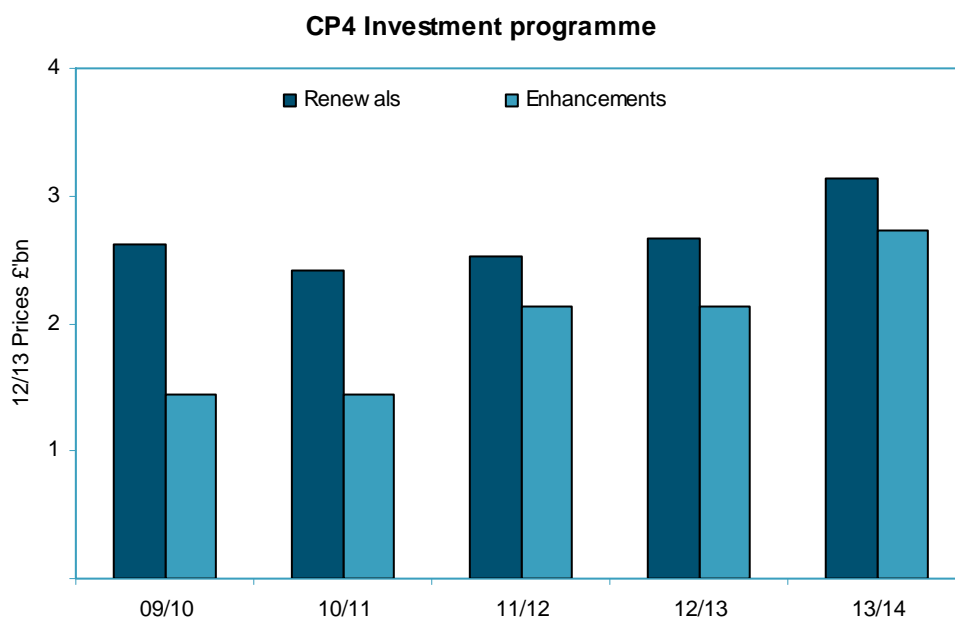
In £m 2012/13 prices unless stated otherwise

Enhancements

Significant progress continues to be made on enhancing the railway network. The Thameslink programme achieved key milestones which have increased the capacity available for services into and through London. The programme of platform lengthening means longer trains are able to operate on more of the network. The King's Cross Station redevelopment is largely complete; the redevelopment of Reading Station area and Birmingham New Street Station are on schedule and both achieved major milestones shortly after the year end. In addition to these major projects, we are delivering other enhancements around the network that increase capacity, reliability, accessibility and customer experience.

Enhancements are disclosed in more detail in Statement 3.

We have a significant delivery challenge for the year ahead. The planned expenditure of £6.1bn on renewing and enhancing the network represents a sizeable increase on the first four years of the Control Period. Improved planning and securing access to the railway are key features of our strategy to deliver the workload.



Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Statement 2: The Regulatory Asset Base (RAB)

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

Subject to certain criteria established by the ORR and set out in the Regulatory Accounting Guidelines March 2013, each year capital expenditure is added to the RAB and amortisation is deducted. The ORR can make deductions from the RAB in the event that Network Rail does not achieve its outputs, for example meeting train performance or breaching a licence condition. The valuation of the railway network includes a reduction of £436m in respect of missed train performance using a calculation that makes no allowance for the impact of extreme weather or other external factors. Current estimates suggest that the size of the adjustment should be reduced by at least £115m. We continue to have discussions with the ORR about this adjustment.

We have also been advised by the ORR of prospective adjustments in relation to deemed under performance in asset management, specifically on our civils assets (including bridges and earthworks), fencing and drainage. Network Rail does not agree with the principle or the basis of assessment and discussions are at an early stage. Whilst the adjustments could have an impact of up to £1bn, the outcome of discussions with the ORR is so uncertain that we have not reflected any reduction in these Regulatory financial statements.

Statement 4: Net Debt

Network Rail Limited is a company limited by guarantee and is the ultimate parent company of Network Rail Infrastructure Limited. There are no external shareholders and all investment is funded through the raising of debt or from operating cash flow. Debt is raised by issuing bonds through the financing vehicle Network Rail Infrastructure Finance plc.

The cost of servicing this debt is addressed as part of the regulatory settlement, whereby income for a control period is set at a level that provides a return on the regulatory asset base. Provided we meet or exceed our financial targets during a control period, we will generate enough funds from our operations to cover the interest expense.

Ultimately, the Group benefits from a financial indemnity mechanism provided by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates.

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Ultimately, the Group benefits from a financial indemnity mechanism provided by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates.

In view of the indemnity, the credit rating given to Network Rail's debt is based on that of the United Kingdom Government. As at 5 June 2013, the ratings from the three principal rating agencies are AA+ Stable (Fitch), Aa1 Stable (Moody's) and AAA (Standard and Poor's).

Borrowing

The Group borrowed principally to fund part of its £5.1bn investment programme in the year and debt repayments of £1,204m were also made in the year

	2013	2012
For the year ended 31 March (cash prices)	£m	£m
Cash generated from operations	2,703	2,692
Capital grants	137	400
Borrowing to fund investment	3,547	2,943
Other (debt and financial instrument remeasurements)	(1,309)	(1,313)
Total investment	5,078	4,722

During the year ended 31 March 2013 Network Rail raised £4,751m through the issue of debt. Our success in raising debt in difficult market conditions is a reflection of confidence in the ability of Network Rail to service its debt and of the existence of the financial indemnity from the UK Government.

	2013	2012
For the year ended 31 March (cash prices)	£m	£m
Borrowing to fund investment	3,547	2,943
Borrowing to refinance	1,204	2,546
Bonds issued in the year	4,751	5,489

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

Net debt increased in the year from £26,489m to £28,930m as a result of the investment in the network. The requirement to invest in increasing the capacity and capability of the network generates a financing need. As this creates a long term source of income and economic benefit, debt finance is considered an appropriate source of funding under the current regulatory regime.

At the end of the year, the key ratio of debt compared to the Regulatory Asset Base was 64 per cent (2012: 63 per cent) and well below the ceiling of 75 per cent set in the Network Licence.

Looking Ahead to CP5

The process of reviewing our funding and outputs for the next Control Period will culminate in October 2013 when the ORR publishes its Final Determination. We need to consider the financial and operating challenges this will entail and how we are going to meet the demands of reducing costs while managing asset condition, improving standards and safety and increasing capacity on an increasingly busy network. At the same time we need to continue to address adverse external factors such as extreme weather, crime and suicides.

The Strategic Business Plan set out our vision for the delivery of sustainable improvements to the railway. The ORR has to evaluate the evidence and make a judgment about what level of change is sustainable and achievable. A key judgement is the proposal to amend the basis of the return on capital, which will reduce our income in the next Control Period and potentially beyond. Key uncertainties that remain for us include the required levels of train performance and asset condition, the level of efficiency that will be assumed, to what extent project contingencies will be included and to what extent the settlement may be segregated into the ten operating routes.

In advance of the Final Determination, we are preparing our Control Period 5 (CP5) Delivery Plan that will set out in detail how the performance and savings set out in the Strategic Business Plan will be achieved. In addition, we are developing some of the projects to be delivered in CP5 so that we can avoid the hiatus in delivery seen after the end of Control Period 3.

Summary

In a number of areas this has been a difficult year but with several positive and promising aspects. Overall train performance remains at a historically high level but not meeting regulatory targets; customer and passenger satisfaction is higher than ever; the organisation has been through significant change but is now better placed for the future. At the same time, overall financial performance remains positive and we are on track to deliver £1.2bn of savings over and above the £4.1bn stretch target we faced at the beginning of the Control Period.

Directors' Review continued

In £m 2012/13 prices unless stated otherwise

The final year of the Control Period will see continued focus on improving train performance and delivering the capital work we said we would. We are also setting out to reach an acceptable financial settlement for the next Control Period that allows for continued investment in the railway, appropriate levels of maintenance and achievable levels of train performance.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 19th June 2013.

Signed on behalf of the Board of Directors

A handwritten signature in black ink, appearing to be 'DH' followed by a long horizontal stroke.

David Higgins (Director)

A handwritten signature in black ink, appearing to be 'PB' followed by a stylized flourish.

Patrick Butcher (Director)

Statement of Directors' Responsibilities

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

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

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2013 and (save as otherwise provided in Condition 11 or the Regulatory Accounting Guidelines March 2013) on a consistent basis in respect of each financial year;
- prepare the Regulatory financial statements such that, insofar as reasonably practical, the definition of items in primary Statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:
 - (i) the ORR's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
 - (ii) the Determination Assumptions for the access review periods specified in the Regulatory Accounting Guidelines March 2013; (and so that where the presentation of an item in the primary Statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- include, as a primary Statement, a Statement of regulatory financial performance comparing income and expenditure for the access review periods specified in the Regulatory Accounting Guidelines March 2013 with the Determination Assumptions;
- include all details reasonably necessary to reconcile items included in the primary financial Statements with any corresponding items in annual statutory accounts for the access review periods specified in the Regulatory Accounting Guidelines March 2013;
- include narrative explaining the material variances from the previous year and from the Determination Assumptions; and
- include the confirmation required under Condition 3.3 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 11, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 3.1 and (where applicable) with Condition 3.2 and, if so requested by the ORR, evidence in support of that confirmation.

In addition the directors are responsible for selecting suitable accounting policies where these are not directed by Regulatory Accounting Guidelines March 2013 and for making judgements and estimates that are reasonable and prudent.

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

In accordance with the Regulatory Accounting Guidelines March 2013 the statutory financial statements are submitted to the ORR along with these Regulatory financial statements to enable a comparison. It should be noted that these statutory financial statements, which do not form a part of the Regulatory financial statements, are covered by a separate audit engagement and opinion and are submitted for information only.

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

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

We have audited the regulatory financial statements (the "Regulatory financial statements") of Network Rail Infrastructure Limited (the "Company") for the year ended 31 March 2013, which comprise the Accounting Policies, and the following statements:

- Statement (separately for GB, England and Wales and Scotland)("referred to collectively as "Statement") 1: Summary regulatory financial performance;
- Statement 2a: RAB – regulatory financial position;
- Statement 2b: RAB – reconciliation of expenditure;
- Statement 2c: RAB – Summary of movements;
- Statement 3: Analysis of enhancement capital expenditure;
- Statement 4: Net debt and financial ratios;
- Statement 6a: Analysis of income;
- Statement 6b: Analysis of other single till income;
- Statement 6c: Analysis of income by operator;
- Statement 7a: Analysis of operating expenditure;
- Statement 7b: Analysis of operating expenditure by activity;
- Statement 7d: Overhead reconciliation;
- Statement 8a: Summary analysis of maintenance expenditure;
- Statement 9a: Summary analysis of renewals expenditure;
- Statement 10: Other information;
- Route Statements 1: Summary regulatory financial performance;
- Route Statements 3: Analysis of enhancement capital expenditure;
- Route Statements 6a: Analysis of income;
- Route Statements 7a: Analysis of operating expenditure;
- Route Statements 8a: Summary analysis of maintenance expenditure;
- Route Statements 9a: Summary analysis of renewals expenditure;
- Route Statements 10: Other information;
- Financial information about alliancing arrangements with train operators;
- Route Statements 18: Strategic routes maintenance expenditure analysis;
- Route Statements 19: Strategic routes renewals expenditure analysis;
- A: Reconciliation of RAB to Statutory Railway Network Fixed Assets;
- B: Reconciliation of Operating and Maintenance Expenditure between regulatory financial statements and Statutory Accounts;
- C: Reconciliation of Regulatory Income to Statutory Turnover;
- D: Reconciliation of Regulatory Debt to Statutory Net debt; and
- E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure.

As set out in the Regulatory Accounting Guidelines, we have not audited the other statements contained within the Regulatory financial statements. These Regulatory financial statements have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Regulator, the Directors and the Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the Regulatory financial statements and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory financial statements in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory financial statements' below, and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Scope of the audit of the Regulatory financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory financial statements sufficient to give reasonable assurance that the Regulatory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Regulatory financial statements. In addition, we read all the financial and non-financial information in the Regulatory financial statements to identify material inconsistencies with the Regulatory financial statements to be audited. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. However, we have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Regulatory Accounting Guidelines. Where the Regulatory Accounting Guidelines do not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory financial statements are consistent with those used in the preparation of the statutory financial statements of Network Rail Infrastructure Limited. Furthermore, as the nature, form and content of Regulatory financial statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

We read the other information contained in the Regulatory financial statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory financial statements. The other information comprises the operating and financial review, the notes on regulatory information, and the additional information required by the Regulatory Licence.

Opinion on Regulatory financial statements

In our opinion the Regulatory financial statements:

- fairly present in accordance with Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on pages 28 to 32, the state of the Company's financial position at 31 March 2013 and its financial performance for the year then ended; and
- have been properly prepared in accordance with Condition 11 of the Regulatory Licence, the Regulatory Accounting Guidelines and the accounting policies.

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

Basis of preparation

Without modifying our opinion, we draw attention to the Statement of Accounting Policies which describes the basis of preparation of the Regulatory financial statements. The Regulatory financial statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

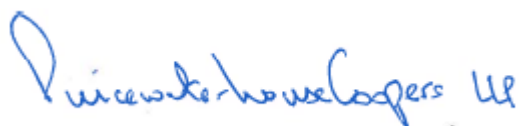
Opinion on other matters in accordance with the engagement contract

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

Other matters

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

Our opinion on the Regulatory financial statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we reported on 5 June 2013, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 July 2013

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

Notes:

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

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

Introduction

In accordance with the terms of engagement for the Independent Reporter, we have reviewed the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the Company) for the year ended 31 March 2013, which comprise:

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

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 11 of the Network Licence. As stated in Clause 2.26 of the Regulatory Accounting Guidelines (RAGs) dated March 2013, the Regulator may use a reporter to validate some of the information provided by Network Rail in the regulatory accounts. This complements the work of the auditors.

Work completed – basis of opinion

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

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

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

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

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

For track renewals, we consider there to be uncertainty associated with the volume efficiency calculation associated with plain line track renewals. The Company has continued to experience significant shortfalls in the delivery of its planned volume of plain line track renewals during 2012/13 and has now indicated there is a “likely deferral” of 280km of Plain Line renewal into CP5.

We consider that non-delivery of planned plain line volume during 2012/13 may impact adversely on the capability of the infrastructure to deliver regulated outputs in the future. We consider there to be a risk that expenditure of up to £85m associated with delivery of the deferred volume may be inefficiently incurred¹. Further analysis would be required in order for us to adequately assess what proportion (if any) of expenditure associated with an “inefficient” deferred volume of work could affect reported efficiencies in CP4.

For electrification and Fixed Telephone Network (FTN) assets, Network Rail is anticipating deferral of around £116m of its CP4 renewals programme into CP5. This comprises £103m of electrification renewals, together with £13m of FTN renewals. We consider non-delivery of programme of work associated with this expenditure during CP4 may impact on the capability of the infrastructure to deliver required outputs in future. There is a risk that deferral may result in additional cost being incurred. Further analysis would be required in order for us to adequately assess what proportion (if any) of the £116m of expenditure associated with an “inefficient” deferral of planned work could affect reported efficiencies in CP4.

With regard to buildings renewals, we have not been able to assure ourselves that the efficiency amounts associated with the positive management actions (PMAs) cited by Network Rail have been calculated to an appropriate standard. We have been unable to link the claimed efficiency savings with cost information at sub-asset or project level. Further relevant evidence and analysis would be required in order for us to adequately assess what proportion, if any, of £100m efficiencies should not be claimed as efficiency.

For plant and machinery renewals, we have not received an explanation of how the portions of the efficiency total attributed to the categories “Signalling, Power & Communications” and “Civils” have been calculated. We have not had received evidence demonstrating how the efficiencies have been realized. The total claimed efficiencies in respect of these two categories of plant and machinery expenditure amount to approximately £28m.

¹ We also note that much of the cost associated with this “deferred work” has been incurred under ‘take or pay’ style contracts. This will have had the effect of increasing Network Rail’s unit costs for track in 2012/13.

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

For certain categories of maintenance activity (associated with maintaining track-related asset condition) we have not received sufficient evidence to fully demonstrate that there is no linkage between the reduction in expenditure and non-delivery of regulated CP4 outputs (train service performance, measured using the 'PPM' for 'Long distance', 'London & SE', 'Regional' services as well as 'freight delay per 100 train kilometres'). The total claimed efficiencies in respect of these categories of expenditure amount to approximately £35m. Further relevant evidence and analysis would be required in order for us to adequately assess what proportion, if any, of this expenditure relates to non-performance and hence should not be claimed as efficiency.

Yours faithfully.

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

Stefan J Sanders
Named Independent Reporter
Ove Arup & Partners Ltd
30 July 2013

Accounting Policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence dated 31 March 1994, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 11 of the Licence and the Statements must be prepared in accordance with detailed Regulatory Accounting Guidelines issued by ORR under Condition 11 in March 2013.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the Regulatory Accounting Guidelines ("RAGs") issued by the ORR in March 2013. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2013 which were approved by the Directors on 5th June 2013 and will be filed with the Registrar of Companies in July 2013 with the following exceptions:

Inflation

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

Regulatory Asset Base

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

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight line basis over its estimated weighted average remaining useful economic life (currently 30 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2008. The opening RAB at 1 April 2012 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Reactive works on structures and operational property

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

Debt

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

Accounting Policies continued

Capitalised interest

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

Pensions

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

Turnover

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

Basis of disaggregation

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

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

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

Operational Routes

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

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

Accounting Policies continued

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

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

(2) Income

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

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

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

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

(3) Operating Expenditure

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

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

Accounting Policies continued

(4) Maintenance Expenditure

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

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

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

(5) Renewals Expenditure

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

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

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

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

(6) Enhancements Expenditure

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

Accounting Policies continued

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

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

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

Strategic Routes

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

Statement 1: GB Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference	Actual
Income	6,540	6,566	(26)	26,120	26,088	32	6,464
Expenditure							
Controllable opex	939	800	(139)	3,913	3,457	(456)	933
Non-controllable opex	497	449	(48)	1,877	1,718	(159)	433
Maintenance	999	1,162	163	4,433	4,900	467	997
Schedule 4 & 8	258	150	(108)	804	728	(76)	177
Renewals	2,760	2,295	(465)	10,318	11,041	723	2,528
Enhancements	2,046	1,607	(439)	7,074	7,967	893	2,139
Financing costs	1,496	1,619	123	5,753	5,699	(54)	1,514
Corporation tax	-	14	14	12	16	4	3
Rebates	35	-	(35)	198	-	(198)	41
Total expenditure	9,030	8,096	(934)	34,382	35,526	1,144	8,765

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £68m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period to date. In March 2012, Network Rail published its Delivery Plan update 2012 which set out how Network Rail plans to deliver the outputs for the quinquennial regulatory period at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison of performance for the year to the Delivery Plan update 2012 is included in the Directors' Review. For the avoidance of doubt, note that comments about variances in these Regulatory financial statements refer to the current year rather than the cumulative position for the control period unless otherwise stated.
- (2) Income was lower than the PR08, mainly due to lower freight income and property sales, partly offset by higher than expected stations income. This is set out in more detail in Statement 6a.
- (3) Once again, controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Non-controllable opex was higher than the PR08 largely due to additional EC4T and cumulo costs. This is set out in more detail in Statement 7a.
- (5) As in previous years, Maintenance costs were lower than the PR08. This is set out in more detail in Statement 8a(1).

Statement 1: GB Summary regulatory financial performance continued

In £m 2012/13 prices unless stated otherwise

- (6) Net Schedule 4 & 8 costs were higher than the PR08 mostly due to Schedule 8 performance penalties. This is set out in more detail in Statement 10.
- (7) Renewals expenditure is set out in more detail in Statement 9a and is higher than the PR08 largely due to re-profiling of expenditure within the control period. Underspend compared to the PR08 in earlier years of the control period have been partly caught up in recent years.
- (8) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 mostly due to re-profiling of expenditure within the control period and the impact of non-PR08 enhancements projects (such as Crossrail and Electrification).
- (9) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (10) During the year a rebate of £18m was paid to Transport Scotland to allow them to share in Network Rail's financial outperformance. Financial outperformance occurs when Network Rail saves even more money than expected under the regulatory settlement. Rebates also includes £17m payable to Train Operating Companies, Freight Operating Companies and other Open Access Operators under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This allows Network Rail's track customers to benefit from the financial outperformance achieved by Network Rail.

Statement 2a: GB RAB - regulatory financial position

In £m 2012/13 prices unless stated otherwise

A) Calculation of the GB RAB at 31 March 2013

	Actual	PR08	Difference
Opening RAB for the year (2006/07 prices)	35,726	38,358	(2,632)
Indexation to 2011/12 prices	6,645	7,134	(489)
Opening RAB for the year (2011/12 prices)	42,371	45,492	(3,121)
Indexation for the year	1,263	1,355	(92)
Opening RAB (2012/13 prices)	43,634	46,847	(3,213)
Adjustments for the actual capex outturn in CP3	-	-	-
Renewals	2,317	2,295	22
Enhancements PR08	1,397	1,607	(210)
Non PR08 Enhancements (added to RAB)	456	-	456
Total Enhancements	1,853	1,607	246
Renewals & Enhancements funded from Ring Fenced Fund (RFF)	(649)	(649)	-
Amortisation	(1,781)	(1,781)	-
Adjustment for missed regulatory outputs	(436)	-	(436)
Closing RAB at 31 March 2013	44,938	48,319	(3,381)

RAB Regulatory financial position - cumulative

B) Calculation of the cumulative GB RAB at 31 March 2013

	2009/10	2010/11	2011/12	2012/13	CP4 Total
Opening RAB (2012/13 prices)	38,849	40,514	41,794	43,634	38,849
Adjustments for the actual capex outturn in CP3	(64)	-	-	-	(64)
Renewals	2,595	2,290	2,252	2,317	9,454
Enhancements PR08	1,180	1,070	1,525	1,397	5,172
Non PR08 Enhancements (added to the RAB)	242	255	458	456	1,411
Total Enhancements	1,422	1,325	1,983	1,853	6,583
Renewals & Enhancements funded from RFF	(508)	(555)	(615)	(649)	(2,327)
Amortisation	(1,780)	(1,780)	(1,780)	(1,781)	(7,121)
Adjustment for missed regulatory outputs	-	-	-	(436)	(436)
Closing RAB	40,514	41,794	43,634	44,938	44,938

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in Part B), from the start of the control period. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and Network Rail continues to have regular discussions around the treatment of capital expenditure with the ORR.

Statement 2a: GB RAB - regulatory financial position continued

In £m 2012/13 prices unless stated otherwise

- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in its Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. The variance to the Delivery Plan update 2012 is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a). Although Network Rail spent more on renewals in the current year than the PR08 assumed, not all of this variance was eligible inclusion in the RAB. This was mostly because the Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances eligible for RAB addition to reflect the impact of input prices (measured using IOPI).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. The variance to the Delivery Plan update 2012 is mostly due to re-profiling of expenditure within the control period (refer to Statement 3). The value of enhancements added to the RAB was higher than the ORR assumed due to expenditure on non-PR08 enhancement schemes. These schemes (such as Crossrail and Electrification) were not included as part of the original PR08 but have been approved in principle for RAB addition by the ORR.
- (4) In 2012/13 the RAB has been reduced to reflect missed regulatory outputs, namely failure to achieve the ORR's punctuality targets for the following railway sectors: Long Distance, London South East and Regional. The reduction represents the estimated amount of PR08 funding Network Rail has received for improving train performance that has not resulted in the required improvements. This treatment is consistent with the guidance in the Regulators' determination. The £436m reduction is a mechanistic figure which does not take into account the external factors preventing Network Rail from achieving the Regulator's targets such as weather (2012 was the second wettest year since records began), cable theft and network trespass. Current estimates suggest that the size of the adjustment should be reduced by at least £115m. We continue to have discussions with the ORR about this adjustment.
- (5) We have been advised by the ORR of prospective adjustments to the RAB in relation to deemed under performance in asset management, specifically on our civils assets (including bridges and earthworks), fencing and drainage. Network Rail does not agree with the principle or the basis of assessment and discussions are at an early stage. The ORR has informed us that they will assess and conclude on the quantum of the adjustments in their annual efficiency and finance assessment later this year. Whilst the adjustments could reduce the RAB by up to £1bn, the outcome of discussions with the ORR is so uncertain that we have not reflected any reduction in these Regulatory Financial Statements.
- (6) In the recently published Draft Determination the ORR have noted that they will reduce the control period 5 opening RAB by £1.3bn to reflect a perceived tax double count in control period 3. The ORR have advised us that this adjustment will only apply from 1 April 2014 and, therefore, it not included in the RAB valuation included in these Regulatory Financial Statements.

Statement 2b: GB RAB - reconciliation of expenditure

In £m 2012/13 prices unless stated otherwise

	Movements in 2012/13			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/13	Actual	PR08	Difference
Renewals						
Renewals in the determination			2,295	10,994	10,994	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(40)	(11)	(51)	(258)	(203)	(55)
CP3 deferrals to CP4	-	12	12	263	223	40
Seven day railway	21	1	22	29	27	2
Other adjustments	26	1	27	27	-	27
Adjusted PR08 determination (renewals)	7	3	2,305	11,055	11,041	14
Adjustments for the PR08 RAB roll forward policy						
Adjustments for acceleration/ (deferrals) of expenditure within CP4	70	(56)	14	(1,180)	-	(1,180)
IOPI index adjustments	(152)	(27)	(179)	(664)	-	(664)
Adjustments for efficient over spend ⁽⁴⁾	226	10	236	328	-	328
25% retention of efficient over spend ⁽⁴⁾	(57)	(2)	(59)	(82)	-	(82)
Other adjustments	-	-	-	(3)	-	(3)
Total Renewals (added to the RAB)	94	(72)	2,317	9,454	11,041	(1,587)
Adjustment for inefficient overspend			304	551	-	551
Adjustment for capitalised financing			72	200	-	200
Adjustment for 25% retention of efficient over spend			57	82	-	82
Other adjustments			10	31	-	31
Total actual renewals expenditure (see Statement 9a)			2,760	10,318	11,041	(723)

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2012/13 prices unless stated otherwise

	Movements in 2012/13			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/13	Actual	PR08	Difference
Enhancements						
Enhancements in PR08			1,713	7,952	7,807	145
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	40	11	51	258	203	55
CP3 deferrals to CP4	-	4	4	94	83	11
Change in funding arrangements	(20)	(6)	(26)	(156)	-	(156)
Other adjustments	(118)	(19)	(137)	(473)	(126)	(347)
Adjusted PR08 determination (enhancements)	(98)	(10)	1,605	7,675	7,967	(292)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for efficient over/under spend	(17)	-	(17)	(17)	-	(17)
25% retention of efficient over/under spend	4	-	4	4	-	4
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(84)	(111)	(195)	(2,490)	-	(2,490)
Other Adjustments	-	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(195)	(121)	1,397	5,172	7,967	(2,795)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing ⁽⁵⁾	233	7	240	240	-	240
Non PR08 enhancements expenditure not qualifying for capitalised financing	216	-	216	1,171	-	1,171
Total Non PR08 enhancement expenditure	449	7	456	1,411	-	1,411
Total non PR08 enhancements (added to the RAB)	449	7	456	1,411	-	1,411
Total enhancements (added to the RAB)	254	(114)	1,853	6,583	7,967	(1,384)
Adjustment for inefficient overspend			-	9	-	9
Adjustment for capitalised financing			114	297	-	297
Adjustment for 25% retention of efficient under spend			(4)	(4)	-	(4)
Other adjustments			-	(19)	-	(19)
Non PR08 expenditure						
Third party funded schemes			272	1,247	-	1,247
Other adjustments			83	208	-	208
Total actual enhancement expenditure (see Statement 3)			2,318	8,321	7,967	354

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2012/13 prices unless stated otherwise

Memo item 1 - renewals over/under spend log	2009/10	2010/11	2011/12	2012/13	CP4 to date
Net volume under/over spend (efficient)	-	-	-	-	-
Net volume overspend (inefficient)	-	-	-	-	-
Net unit cost over/under spend	-	-	-	-	-
Total over/under spend renewals	-	-	-	-	-

Memo item 2 - Outstanding non-capex RAB additions (cash prices)	2009/10	2010/11	2011/12	2012/13
Brought forward balance	4,750	4,605	4,662	4,739
Indexation for the year	13	217	241	141
Amortisation	(158)	(160)	(164)	(175)
Closing balance	4,605	4,662	4,739	4,705

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Non-delivery of regulatory outputs;
 - b. Deferrals/ acceleration of capital works within the control period and net deferrals/ acceleration of capital works into/ from CP5;
 - c. Changes in input prices as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2013. The Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances to reflect the impact of IOPI when assessing the value of renewals expenditure that can be added to the RAB. During the control period to date the IOPI index has increased by 6.4 per cent compared to the RPI equivalent figure of 14.1 per cent over the same period. This has the impact of reducing the PR08 renewals allowance eligible for RAB addition by £179m in the year and £664m for the control period to date.
- (4) Efficient Renewals overspend refers to projects where Network Rail are delivering schemes over and above those required and funded in control period 4. Many of these schemes are designed to produce long run cost savings and operational improvements, the benefits of which will not all be realised in the current control period. Examples include amounts spent on the new national centre in Milton Keynes and ORBIS, a programme to improve asset management information, both of which will enable efficiency savings in CP5 and beyond. Funding for these schemes were not included in the original PR08. Under the terms of the Regulatory Asset Guidelines Network Rail bears the first 25 per cent of the cost of each of these projects.

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2012/13 prices unless stated otherwise

- (5) Certain non-PR08 enhancements, such as Electrification, attract capitalised financing. This is to reflect the additional borrowing costs that Network Rail has incurred as part of the cost of constructing this new asset as these financing costs would not have been included as part of the Regulator's revenue calculation. For other non-PR08 enhancements, such as Crossrail, Network Rail is compensated for borrowing costs on an on-going basis meaning that no addition to the RAB for these financing costs is required.

Statement 2c: Summary of RAB movements

In £m 2012/13 prices unless stated otherwise

A) Renewals RAB additions

Movements	2009/10	2010/11	2011/12	2012/13
PR08 determination	3,287	2,879	2,533	2,295
Deferrals from CP3	229	26	(4)	12
Delivery plan additions/ (reductions)	2	33	(28)	49
Delivery plan re-classifications	(69)	(74)	(64)	(51)
Adjusted PR08 determination	3,449	2,864	2,437	2,305
(Deferrals to)/ acceleration from later in CP4	(767)	(551)	124	14
IOPI index adjustment	(88)	(45)	(352)	(179)
Other adjustments	-	(3)	-	-
Adjustments for efficient over spend	1	25	43	177
Total additions to RAB	2,595	2,290	2,252	2,317

B) Enhancements RAB additions

Movements	2009/10	2010/11	2011/12	2012/13
PR08 determination	1,875	2,417	1,946	1,713
Deferrals from CP3	85	-	4	4
Delivery plan reductions	(8)	(115)	(6)	(26)
Delivery plan re-classifications	69	84	(282)	(86)
Adjusted PR08 determination	2,021	2,386	1,662	1,605
(Deferrals to)/ acceleration from later in CP4	(837)	(1,320)	(137)	(195)
Adjustments for efficient over/(under) spend	(4)	4	-	(13)
Other adjustments	-	-	-	-
PR08 determination additions to the RAB	1,180	1,070	1,525	1,397
Non-PR08 determination additions to the RAB	242	255	458	456
Total additions to RAB	1,422	1,325	1,983	1,853

Statement 3: GB Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Thameslink	404	599	195	2,113	2,782	669
Airdrie to Bathgate	-	-	-	247	233	(14)
Total Schemes covered by a tailored protocol or fixed price agreement	404	599	195	2,360	3,015	655
Funds						
CP5 development fund	22	17	(5)	58	33	(25)
NRDF (Network Rail Discretionary Fund)	25	57	32	167	229	62
Access for All	39	57	18	202	216	14
NSIP (National Stations Improvement Programme)	41	25	(16)	138	91	(47)
Performance fund (HLOS)	22	24	2	163	93	(70)
SFN (Strategic Freight Network)	74	58	(16)	108	190	82
Seven day railway fund	47	63	16	79	185	106
Safety and environment fund	20	-	(20)	98	134	36
Tier 3 project development	1	2	1	7	13	6
Small projects fund	5	5	-	12	19	7
Adjustment due to change of funding from DfT	(20)	-	20	(140)	-	140
Total Funds	276	308	32	892	1,203	311
Other PR08 funded schemes						
Intercity express programme	22	106	84	37	213	176
King's Cross ⁽¹⁾	26	12	(14)	357	360	3
Birmingham New Street gateway project	33	98	65	46	121	75
East Coast Mainline overhead line enhancement	4	11	7	26	32	6
St Pancras - Sheffield line speed improvements	22	3	(19)	30	78	48
Nottingham Resignalling	6	10	4	7	13	6
North London Line capacity enhancement	1	4	3	78	76	(2)
GSM-R on freight routes	-	-	-	-	-	-
Station security	3	5	2	13	18	5
Reading	223	160	(63)	424	486	62
Platform Lengthening - Southern	79	126	47	208	349	141
Southern Capacity	14	15	1	24	33	9
ECML improvements	180	204	24	255	431	176
Power supply upgrade	39	40	1	83	117	34
Western Improvements Programme	24	7	(17)	69	104	35
WCML Committed Schemes	125	120	(5)	190	367	177
Midlands Improvement Programme	6	28	22	27	68	41
Northern Urban Centres - Leeds	6	22	16	15	101	86
Northern Urban Centres - Manchester	13	31	18	34	77	43
Trans Pennine Express linespeed improvements	1	11	10	3	28	25
Paisley Corridor Improvements	7	16	9	157	179	22
Borders railway	-	1	1	-	2	2
Glasgow to Kilmarnock	-	-	-	18	17	(1)
Unallocated Overheads	1	-	(1)	37	-	(37)
Total Other PR08 funded schemes	835	1,030	195	2,138	3,270	1,132
CP4 Delivery Plan	1,515	1,937	422	5,390	7,488	2,098
Schemes carried over from CP3						
WCRM	-	-	-	45	45	-
ERTMS	-	-	-	23	23	-
Cab fitment	-	-	-	14	14	-
Total Schemes carried over from CP3	-	-	-	82	82	-
Re-profiled expenditure due to programme deferral						
	-	(330)	(330)	-	397	397
Total PR08 funded enhancements (see Statement 2b)	1,515	1,607	92	5,472	7,967	2,495

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Crossrail	119	-	(119)	299	-	(299)
Edinburgh - Glasgow Improvements (EGIP)	53	-	(53)	99	-	(99)
Electrification	168	-	(168)	234	-	(234)
Ayrshire Inverclyde	-	-	-	20	-	(20)
Edinburgh Waverley steps	3	-	(3)	11	-	(11)
Borders Railway	27	-	(27)	29	-	(29)
Paisley Canal line electrification	9	-	(9)	9	-	(9)
Northern Hub - Phase 1	10	-	(10)	15	-	(15)
Stations Commercial Project Fund (SCPF)	13	-	(13)	13	-	(13)
Winter resilience	16	-	(16)	16	-	(16)
Nuneaton North Cord (TIF)	4	-	(4)	4	-	(4)
Mid tier accessibility	7	-	(7)	7	-	(7)
Other	4	-	(4)	54	-	(54)
Total Government sponsored schemes	433	-	(433)	810	-	(810)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	-	-	-	5	-	(5)
Victoria Place shopping centre	-	-	-	96	-	(96)
Waterloo Retail development project	6	-	(6)	24	-	(24)
Kings Cross concourse	-	-	-	11	-	(11)
London Bridge retail development	7	-	(7)	7	-	(7)
Other income generating schemes	29	-	(29)	128	-	(128)
Adjustment for income generating schemes ⁽¹⁾	(21)	-	21	(39)	-	39
Total Network Rail sponsored schemes (income generating)	21	-	(21)	232	-	(232)
Network Rail sponsored schemes (cost saving) ⁽²⁾						
York Acquisition Thrall Site	(9)	-	9	-	-	-
Three Bridges signalling centre	(6)	-	6	-	-	-
Other cost saving schemes	(13)	-	13	-	-	-
Total Network Rail sponsored schemes (cost saving)	(28)	-	28	-	-	-
Schemes promoted by third parties						
Virgin West Coast Car Parks	-	-	-	44	-	(44)
Evergreen 3	10	-	(10)	160	-	(160)
SSWT promoted schemes	8	-	(8)	35	-	(35)
Edge Hill Depot	-	-	-	9	-	(9)
Etches Park Depot	-	-	-	23	-	(23)
EMT promoted schemes	2	-	(2)	15	-	(15)
Southampton Airport Parkway Car Park	-	-	-	13	-	(13)
Chiltern Moor Street	-	-	-	14	-	(14)
SSWT ticket gates and vending machine	-	-	-	19	-	(19)
Southern promoted schemes	14	-	(14)	30	-	(30)
Nottingham hub	8	-	(8)	20	-	(20)
FGW promoted schemes	-	-	-	13	-	(13)
FSR ticket gates	-	-	-	5	-	(5)
Virgin 11 car Pendolino on West Coast	3	-	(3)	12	-	(12)
Thameshaven Branch Re-doubling	10	-	(10)	10	-	(10)
Other schemes promoted by third parties	8	-	(8)	38	-	(38)
Adjustment for third party promoted schemes ⁽³⁾	(40)	-	40	(100)	-	100
Total Schemes promoted by third parties	23	-	(23)	360	-	(360)

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Enhancement expenditure not meeting ORR criteria for RAB addition						
Outperformance expenditure	21	-	(21)	45	-	(45)
Schemes with pay back period within the control period	-	-	-	16	-	(16)
Adjustment for income generating schemes and facility fees	61	-	(61)	139	-	(139)
Total enhancement expenditure not meeting ORR criteria for RAB addition	82	-	(82)	200	-	(200)
Total Network Rail funded enhancements (see Statement 1)	2,046	1,607	(439)	7,074	7,967	893
Third party funded (PAYG)	272	-	(272)	1,247	-	(1,247)
Total enhancements (see Statement 2b)	2,318	1,607	(711)	8,321	7,967	(354)

Notes:

- (1) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received as a direct result of completing such enhancements. For these schemes, the amount to be added to the RAB at the end of CP4 should be the capital expenditure less the total net income received from that scheme during the control period.
- (2) Following consultation with ORR, schemes previously categorised as Network Rail sponsored schemes (cost saving) undertaken in the control period to date have been removed from the above table. The above table shows negative expenditure in the current year in order to get the control period to date expenditure to £nil for these types of schemes.
- (3) Within schemes promoted by third parties is an adjustment for revenue received from third parties as a direct result of completing such schemes. For such schemes, the amount to be added to the RAB at the end of CP4 should be the capital expenditure less the total net income received from that scheme during the control period.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's latest response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2012/13 prices unless stated otherwise

- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition or from Network Rail's outperformance. The current year and the control period to date figure also includes £20m and £140m respectively received from the DfT for schemes previously being funded through CP4 RAB addition.
- (5) Enhancement expenditure by Network Rail in the year was £2,046m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£2,318m) less the PAYG schemes (£272m).
- (6) Expenditure on PR08 enhancements was 4 per cent lower than the previous year. Thameslink expenditure was £315m lower than the previous year as higher expenditure in 2011/12 was required in order to achieve key project milestones in line with the agreed timetable for completion. Expenditure in the current year was noticeably higher on Reading (with the Key Output stage 1 completed by November 2012 and Key Output stage 2 scheduled for completion in 2013), ECML improvements (including additional spend on the Capacity Relief project) and WCML committed schemes (mostly due to extra work on the power supply upgrade programme which commenced in March 2012), reflecting additional activity on these projects this year. This was partly offset by expenditure on the Paisley Corridor Improvements project which was 90 per cent lower than in 2011/12 as this project is now substantially complete.
- (7) Non-PR08 RAB-funded enhancement expenditure decreased by 5 per cent compared to the previous year mostly as a result of the purchase of Victoria Place shopping centre in 2011/12 and the removal of cost-saving enhancements from this table (as noted above). Ignoring the impact of these items, Non-PR08 RAB-funded expenditure was some £110m higher than the previous year. Increased expenditure on government sponsored schemes (notably Electrification programme, Crossrail, EGIP and Borders Railway as these projects progress) was partly offset by lower expenditure on Evergreen 3 (now largely complete) and higher deductions made for additional income earned by Network Rail (refer to Note above).
- (8) Outperformance expenditure was significantly than the previous year primarily due to expenditure on reducing the number of level crossings in operation on the network. This is part of the company's continued commitment to improving the safety of the railway network. The level crossing risk reduction programme is being funded from savings made from outperforming the Regulator's determination (as set out in Statement 5).
- (9) PAYG expenditure was about 40 per cent more than the previous year. This was mainly due to increased expenditure on the Birmingham Gateway project as activity on this project accelerated in the year, the change in funding from the DfT referred to above and additional projects required to facilitate the extra traffic owing to the Olympic and Paralympics games in London in summer 2012.

Statement 4: GB Net debt and financial ratios

In £m cash prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt GB at 31 March 2013						
Opening net debt	26,489	28,804	2,315	20,890	21,267	377
Income						
Fixed charges	(1,109)	(1,099)	10	(3,690)	(3,684)	6
Total variable charges (including EC4T)	(732)	(715)	17	(2,848)	(2,758)	90
Grant income	(3,999)	(4,016)	(17)	(15,497)	(15,578)	(81)
Total other single till income	(700)	(736)	(36)	(2,619)	(2,620)	(1)
Other income	-	-	-	-	-	-
Total income	(6,540)	(6,566)	(26)	(24,654)	(24,640)	14
Expenditure						
Controllable operating expenditure	939	800	(139)	3,685	3,254	(431)
Non-controllable operating expenditure	497	449	(48)	1,770	1,625	(145)
Maintenance expenditure	999	1,162	163	4,166	4,619	453
Schedule 4&8	258	150	(108)	763	684	(79)
Renewals expenditure	2,760	2,295	(465)	9,753	10,335	582
Enhancement expenditure	2,046	1,607	(439)	6,739	7,474	735
Total expenditure	7,499	6,463	(1,036)	26,876	27,991	1,115
Financing						
Interest expenditure on nominal debt - FIM covered	584	709	125	2,237	2,799	562
Interest expenditure on IL debt - FIM covered	209	213	4	720	669	(51)
Accretion on IL debt - FIM covered	485	332	(153)	2,018	1,071	(947)
Expenditure on the FIM	218	210	(8)	778	769	(9)
Total interest costs	1,496	1,464	(32)	5,753	5,308	(445)
Interest expenditure on nominal debt - unsupported	-	155	155	-	391	391
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	1,496	1,619	123	5,753	5,699	(54)
Corporation tax	-	14	14	19	16	(3)
Rebates	35	-	(35)	187	-	(187)
Other¹	(49)	1	50	(141)	2	143
Movement in net debt	2,441	1,531	(910)	8,040	9,068	1,028
Closing net debt	28,930	30,335	1,405	28,930	30,335	1,405

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Analysis of movement in net debt

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

C) Analysis of net debt

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

D) Derivative financial instruments

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

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

E) Financial Ratios

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

F) Average interest costs by category of debt

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

(1) Other

Movements in working capital	(2)	(134)	(221)	(49)
Other	265	-	-	-

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part E) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines March 2013. As the Statement presents the reconciliation of net debt all figures are reported in cash prices.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Maintenance is shown in more detail in Statement 8a.
- (5) Schedule 4 & 8 is shown in more detail in Statement 10.
- (6) Renewals expenditure is shown in more detail in Statement 9a.
- (7) Enhancements expenditure is shown in more detail in Statement 3.

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (8) Financing – Network Rail incurred interest expenses on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). The FIM is a facility provided to Network Rail by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. The PR08 also assumed that Network Rail would issue debt that was not supported by the FIM. However, this has not been the case.
- (9) Financing - significant variances from the prior year are as follows:
- Interest expenditure on nominal debt – FIM covered was approximately 4 per cent higher than the previous year. Increases in the average levels of nominal debt and financial investments of approximately 5 per cent (as illustrated in part C) of this statement) were partly offset by a decrease in the interest rates associated with this level of debt (as noted in part C) of this statement).
 - Interest expenditure on IL debt – FIM covered was 13 per cent higher than the previous year which was mostly caused by a 12 per cent increase in the average value of the index linked debt compared to the previous year (as illustrated in part C) of this statement) and a slight increase in the average rate from 1.3 per cent to 1.4 per cent (as noted in part C) of this statement).
 - Expenditure on the FIM – this has increased by 9 per cent compared to the previous year reflecting an increase in average net debt of approximately 9 per cent. The 0.8 per cent rate payable under the FIM to the Department for Transport remains the same as 2011/12.
 - Accretion on IL debt – FIM covered was lower than in 2011/12 despite a higher volume of this type of debt (as shown in part C) of this Statement) This was due to lower RPI at the dates used to calculate accretion compared to those in the previous year.
- (10) Other – the value in 2009/10 includes a £265m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.
- (11) Financial ratios – ratios are defined as follows:

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines March 2013. ****Retained cash flow (RCF) is defined as FFO minus net interest.

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (12) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 64.4 per cent (2012: 62.5 per cent) which was higher than planned in the Delivery Plan update 2012 as the value of RAB did not increase by the amount expected. This was mostly due to a RAB adjustment of £436m to reflect missed regulatory outputs for train punctuality (refer to Statement 2a). Note that this reduction does not take into account any allowances for external factors outside of Network Rail's control that contributed to missing these regulatory targets (such as extreme weather, cable theft or network trespass). Current estimates suggest that the size of the adjustment should be reduced by at least £115m. The ORR imposes regulatory limits on the debt to RAB gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utility companies face. The gearing ratio is well within the limit in the revised Licence condition of 75.0 per cent for the current year.
- (13) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all net running costs including as assumption for steady state renewals. Network Rail's AICR for the year was 2.04 (2012: 2.15), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as the business generated operational revenue 104 per cent greater than the cash required to pay net financing costs.
- (14) Part B) of this statement shows the increase in net debt by movement in types of net debt. This shows that during the year Network Rail raised £4.8bn of bonds under the Debt Issuance Programme (DIP). Network Rail's ability to raise debt in difficult market conditions is a reflection of the existence of the financial government guarantee and of confidence in the ability of Network Rail to service its debt.
- (15) Part C) of this statement shows the proportion of Network Rail's nominal debt that is denominated in foreign currencies and GBP, as well as the level of index-linked debt. Although there has been a marginal change compared to the previous year index-linked debt continues to represent about half of Network Rail's gross regulatory debt. As both the RAB and franchised track access and grant income are index-linked a natural hedge exists between the RAB and debt and income and interest expense. The valuation of debt denominated in foreign current us disclosed in line with the Regulatory Accounting Guidelines (i.e. the debt is valued at its swapped value) and will, therefore, be different to the valuation in the Network Rail Limited's statutory accounts.
- (16) Network Rail issues debt in a range of currencies and in floating and fixed interest rates to obtain the best commercial deal available. To minimise risk, interest rate and foreign currency exchange rate hedges. The book value of these financial instruments presented in Network Rail Limited's statutory accounts are reported in Part D) of this statement.

Statement 5: GB Financial performance statement

In £m 2012/13 prices unless stated otherwise

Cumulative

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(3,614)	(3,949)	(9,384)	(211)	(17,158)
Adjustments in DP09 in 2009/10 prices	14	118	575	17	724
Inflation adjustment from 2009/10 to nominal prices	(312)	(329)	(792)	(15)	(1,448)
Adjusted DP09 in nominal prices	(3,912)	(4,160)	(9,601)	(209)	(17,882)
Actuals in nominal prices	(3,716)	(4,114)	(9,451)	(209)	(17,490)
(Under)/ out performance in nominal prices	196	46	150	-	392

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	22,326	(6,529)	(1,733)	(4,567)	-		9,497	(7,661)
Adjustments in DP09 in 2009/10 prices	598	1,790	-	282	-		2,670	3,394
Inflation adjustment from 2009/10 to nominal prices	1,013	(457)	(161)	(141)	-		254	(1,194)
Adjusted DP09 in nominal prices	23,937	(5,196)	(1,894)	(4,426)	-		12,421	(5,461)
Actuals in nominal prices	23,753	(5,196)	(1,769)	(3,724)	12		13,076	(4,414)
(Under)/ out performance in nominal prices	(184)	-	125	702	12	(52)	603	995

Statement 5: GB Financial performance statement continued

In £m 2012/13 prices unless stated otherwise

2012/13

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(836)	(894)	(2,011)	-	(3,741)
Adjustments in DP09 in 2009/10 prices	11	31	(301)	(5)	(264)
Inflation adjustment from 2009/10 to nominal prices	(128)	(134)	(349)	(7)	(618)
Adjusted DP09 in nominal prices	(953)	(997)	(2,661)	(12)	(4,623)
Actuals in nominal prices	(906)	(1,016)	(2,661)	(12)	(4,595)
(Under)/ out performance in nominal prices	47	(19)	-	-	28

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	5,586	(1,674)	(541)	(1,545)	-	-	1,826	(1,915)
Adjustments in DP09 in 2009/10 prices	186	369	-	190	-	-	745	481
Inflation adjustment from 2009/10 to nominal prices	631	(202)	(79)	68	-	-	418	(200)
Adjusted DP09 in nominal prices	6,403	(1,507)	(620)	(1,287)	-	-	2,989	(1,634)
Actuals in nominal prices	6,227	(1,507)	(554)	(908)	-	-	3,258	(1,337)
(Under)/ out performance in nominal prices	(176)	-	66	379	-	-	269	297

Notes:

- (1) This statement uses the same principles as Network Rail's internal measure of financial outperformance: Financial Value Assed ("FVA"). FVA represents the amount that Network Rail has outperformed the Regulators' post efficient determination and so represents savings over and above those the Regulator expected in the control period.

Comments

- (1) FVA is reported on a 'gross' basis and excludes assessment of the impact of missing regulatory outputs.
- (2) The Other column within Pot 2 represents the total difference between the PR08 and Network Rail's original Delivery Plan. This is adjusted so that the total financial outperformance can be measured against the Regulator's original determination.
- (3) The above table shows that Network Rail have generated more net income in total than expected in the Regulator's determination both in the current year and in the control period to date.

Statement 5: GB Financial performance statement continued

In £m 2012/13 prices unless stated otherwise

- (4) In the current year the FVA generated was mainly a result of savings in interest, non-controllable opex and operating costs partially offset by lower income.
- (5) Interest savings in the year were largely a result of lower nominal interest rates than assumed at the time of the Delivery Plan 2009. At the time the Delivery Plan 2009 the turbulent macro economic situation and outlook resulted in assumed higher rates. Lower levels of debt have also contributed to lower interest expenses.
- (6) Non-controllable opex savings in the year arose largely from lower traction electricity costs. Traction electricity costs are dictated by the market price for electricity. The estimated costs for 2012/13 in the Delivery Plan 2009 were markedly different to the actual prices. Most of the traction electricity costs are passed onto the train and freight operators. Therefore, lower costs also results in lower income.
- (7) Operating costs FVA earned in the year was higher than planned due to tight management controls around costs, headcount reductions and limiting managerial staff pay rises to lower than inflation.
- (8) Income in 2012/13 was lower than expected mainly as a result of higher Schedule 8 costs. The Delivery Plan 2009 assumed £nil performance income/ costs compared to costs of £136m. In addition, the Delivery Plan 2009 estimated a higher level of electricity traction income. As noted above, lower traction electricity income is a result of lower non-controllable opex, so any underperformance in income is largely offset by FVA earned in non-controllable opex.

Statement 6a: GB Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Fixed charges	1,109	1,099	10	3,897	3,891	6	913
Variable charges							
Variable usage charge	160	148	12	617	583	34	155
Traction electricity charges	236	223	13	936	846	90	206
Electrification asset usage charge	10	9	1	38	34	4	9
Capacity charge	177	185	(8)	699	732	(33)	174
Station usage charges	-	-	-	-	-	-	-
Schedule 4 net income	149	150	(1)	727	728	(1)	183
Schedule 8 net income	-	-	-	6	-	6	-
Total gross variable charge income	732	715	17	3,023	2,923	100	727
Total franchised track access income	1,841	1,814	27	6,920	6,814	106	1,640
Grant income	3,999	4,016	(17)	16,428	16,504	(76)	4,108
Total franchised track access and grant income	5,840	5,830	10	23,348	23,318	30	5,748
Other single till income							
Property income	144	191	(47)	543	611	(68)	134
Freight income	54	88	(34)	212	341	(129)	53
Open access income	23	22	1	98	88	10	27
Stations income	398	370	28	1,597	1,468	129	394
Depots income	66	56	10	258	226	32	66
Other	15	9	6	64	36	28	42
Total other single till income	700	736	(36)	2,772	2,770	2	716
Total income	6,540	6,566	(26)	26,120	26,088	32	6,464

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Comments:

- (1) This Statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely pre-determined. The remaining income types are variable.
- (2) Fixed charges – these are higher than the PR08 as Network Rail has worked with train operating companies to provide additional facilities and services which generates extra revenue for Network Rail. Income is 21 per cent higher than the previous year. This is in line with the Regulator's income model which assumed an 18 per cent increase in fixed charges compared to the previous year, at the expense of Grant income.

Statement 6a: GB Analysis of income continued

In £m 2012/13 prices unless stated otherwise

- (3) Variable usage charge – this was higher than the PR08 and £5m higher than the previous year as Network Rail provided an increased number of paths to franchised train operators to run more services for the public. Better planning of capex and maintenance works also helped increase the availability of the network for operators to run trains, especially during the Olympics and Paralympics Games.
- (4) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex in the PR08. Income is £30m higher than 2011/12 due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. Electricity traction costs were £47m higher compared to the previous year.
- (5) Capacity charge – although capacity charges were slightly higher than the previous year they remain below the level assumed by the PR08. This is because the PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies. The Delivery Plan 2009 targets, Network Rail's response to the PR08, reflected these rates and so it is nearly £50m lower over the course of the Control Period. ORR has indicated that Network Rail will be funded for this shortfall in CP5 through the Opex Memorandum (refer to Statement 10).
- (6) Grant income – the variance to the PR08 arises from differences in the inflation assumed in the deed of grant with the Department for Transport and Transport Scotland compared to that used to uplift the determination from 06/07 prices. In addition, grants paid by Transport Scotland were lower than the PR08 assumed this year as additional amounts were received in 2010/11. Overall grant income was lower than the previous year as planned by the Regulator's determination, with compensating amounts receivable through Fixed charges instead.
- (7) Property income – although this is £10m higher than the previous year it is £47m less than the PR08. The PR08 assumed that property sales income would arise in the final two years of the control period from developments at Victoria and Euston stations. Network Rail asserted that this was unlikely to happen. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments. This is included in the Opex memo (refer to Statement 10). Other property income is less than the PR08 due to different expectations about market conditions when the PR08 was prepared compared to the current difficult trading environment.
- (8) Freight income – although income was in line with the previous year it was less than the PR08 for the year and for the control period to date. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (9) Open access income – income is in line with the PR08 assumption but adverse to the prior year which included a favourable settlement of a commercial claim.
- (10) Stations income – income is higher than the PR08 and in line with the previous year. The variance to the PR08 is due to better than expected retail income and additional investment income as operators pay supplementary charges for incremental facilities provided by network Rail.
- (11) Depots income – income is higher than the PR08 mostly due to additional investment framework income received in the year as operators pay incremental charges for additional facilities provided by Network Rail.

Statement 6a: GB Analysis of income continued

In £m 2012/13 prices unless stated otherwise

- (12) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). This was recognised in the Regulatory financial statements for the first time in the prior year and included a £26m catch up for the first two years of the control period. Therefore, income in the current year is significantly less than in 2011/12.
- (13) Analysis of income does not include the impact of rebates paid to stakeholders. These are disclosed separately in Statement 1.

Statement 6b: GB Analysis of other single till income

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Property income							
Property sales income	39	76	(37)	81	139	(58)	29
Other property income	105	115	(10)	462	472	(10)	105
Total property income	144	191	(47)	543	611	(68)	134
Freight income							
Freight variable usage charge	51	72	(21)	198	282	(84)	50
Freight EC4T	5	7	(2)	23	24	(1)	5
Freight EAU	-	-	-	-	-	-	-
Freight capacity charge	4	5	(1)	16	20	(4)	4
Freight performance payments							
net income	(14)	(8)	(6)	(49)	(30)	(19)	(12)
Coal spillage charge (incl investment charge)	(9)	3	(12)	2	12	(10)	5
Freight only line charge	14	6	8	14	21	(7)	-
Freight access agreement and other income	3	3	-	8	12	(4)	1
Total Freight income	54	88	(34)	212	341	(129)	53
Open access income							
Variable usage charge income	3	5	(2)	13	21	(8)	3
Other open access charges	20	17	3	85	67	18	24
Total open access income	23	22	1	98	88	10	27
Stations income							
Managed stations income							
Retail income	81	73	8	323	283	40	76
Advertising income	22	19	3	80	82	(2)	20
Concessions income	20	14	6	73	51	22	17
Long term charge	21	23	(2)	98	90	8	22
Qualifying expenditure	44	50	(6)	183	198	(15)	45
Other	5	-	5	17	-	17	3
Total	193	179	14	774	704	70	183
Franchised stations income							
Long term charge	138	145	(7)	576	580	(4)	145
Stations lease income	45	46	(1)	191	184	7	47
Other	22	-	22	56	-	56	19
Total	205	191	14	823	764	59	211
Total stations income	398	370	28	1,597	1,468	129	394
Depots income	66	56	10	258	226	32	66
Other income	15	9	6	64	36	28	42
Total other single till income	700	736	(36)	2,772	2,770	2	716

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

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 PR08	Difference	Actual	Cumulative PR08	Difference	2011/12 Actual
Memo:							
Investment framework income							
Stations related	22	-	22	64	-	64	19
Depot related	5	-	5	17	-	17	5
Track related	13	-	13	19	-	19	6
Total investment framework income	40	-	40	100	-	100	30

Memo item:

	2009/10	2010/11	2011/12	2012/13	Cumulative
Hypothecated gains in year	-	25	19	-	44

Note:

- (1) In previous years' Regulatory financial statements the amounts receivable relating to Freight only line charge were included within the Coal spillage charge as these charges could not be clearly identified. This data can now be separately disclosed. The current year result includes a switch of £11m from Coal spillage charge to Freight only line charge in order to get the control period to date position correct.

Comments:

- (1) Property sales income – income is £37m less than the PR08. The Regulator's determination assumed a lower level of property sales earlier in the control period but had assumed that economic conditions would be more conducive to maximising the returns from property disposals as the control period progressed. The PR08 also assumed that property sales income would arise in the final two years of the control period from developments at Victoria and Euston stations. Network Rail asserted that this was unlikely to happen. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments. This is included in the Opex memo (refer to Statement 10). Property sales generated £10m more revenue than the previous year. This was mostly due to one-off disposals as property sales depend on the wider property market and the ability to achieve the optimum price for different disposals.
- (2) Other property income – income is less than the PR08 due to different expectations about market conditions when the PR08 was prepared compared to the current difficult trading environment. Other property income (which is largely non-station property rental and advertising income) is in line with the previous year.
- (3) Freight income – although income was in line with the previous year it was less than the PR08 for the year and for the control period to date. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (4) Open access income – income is in line with the PR08 assumption but adverse to the prior year which included a favourable settlement of a commercial claim.

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

In £m 2012/13 prices unless stated otherwise

- (5) Stations income – total income is higher than the PR08 and higher than the previous year. Managed station retail and concession income increased by 9 per cent per cent in real terms compared to the previous year, despite the difficult macroeconomic trading environment. This increase was largely due to the successful redevelopment of the commercial offerings at Kings Cross station. In addition, investment framework income was higher this year as operators pay incremental charges for additional facilities provided by Network Rail. This income is shown within Franchised station income - other. The PR08 did not assume any income for this. Favourable performance compared to the PR08 has been offset to a degree by lower than expected Managed station income which was partly due to Gatwick station (which transferred from being a Managed Station to a Franchised Station towards the end of 2011/12). Despite this, Franchised stations income was lower than the determination and the prior year as, following agreement with the Department for Transport, responsibility for a number of stations passed from Network Rail to the Greater Anglia franchise. This should manifest itself in lower maintenance and operating expenses connected with these stations.
- (6) Depots income – income is higher than the PR08 mostly due to additional investment framework income received in the year as operators pay incremental charges for additional facilities provided by Network Rail.
- (7) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). This was recognised in the Regulatory financial statements for the first time in the prior year and included a £26m catch up for the first two years of the control period. Therefore, income in the current year is significantly less than in 2011/12.

Statement 6c: GB Analysis of income by operator

In £m 2012/13 prices unless stated otherwise

Franchised Train Operating Companies

	Actual Income In Year			
	2009/10	2010/11	2011/12	2012/13
Arriva Trains Wales				
Variable Usage Charges	3.4	3.0	3.1	3.2
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	4.5	4.0	4.0	4.1
Fixed Charges	51.0	51.0	48.5	52.3
Station Long Term Charges	-	9.6	9.6	9.7
Station QX	-	0.4	0.3	0.4
Station Facility Charge	-	-	-	-
Other Charges	-	1.4	1.8	1.5
Total income	58.9	69.4	67.3	71.2

	Actual Income In Year			
	2009/10	2010/11	2011/12	2012/13
C2C				
Variable Usage Charges	2.3	1.7	1.8	1.7
Traction Electricity Charges	9.1	7.2	5.9	5.8
Electrification Asset Usage Charges	-	0.3	0.3	0.4
Capacity Charges	1.1	0.8	0.8	0.9
Fixed Charges	10.2	10.5	9.9	10.6
Station Long Term Charges	1.1	4.1	4.1	4.8
Station QX	-	0.2	0.2	0.1
Station Facility Charge	-	-	0.1	-
Other Charges	-	1.2	1.1	1.4
Total income	23.8	26.0	24.2	25.7

	Actual Income In Year			
	2009/10	2010/11	2011/12	2012/13
Chiltern				
Variable Usage Charges	1.1	1.3	1.5	1.8
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	2.3	1.9	2.2	2.3
Fixed Charges	18.2	18.5	24.1	29.5
Station Long Term Charges	-	4.5	4.5	4.6
Station QX	-	-	-	-
Station Facility Charge	-	-	0.1	-
Other Charges	-	0.1	0.1	0.1
Total income	21.6	26.3	32.5	38.3

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in Year			
	2009/10	2010/11	2011/12	2012/13
Cross Country				
Variable Usage Charges	10.2	8.1	9.1	9.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	12.5	12.0	12.4	12.5
Fixed Charges	70.2	71.7	68.4	73.2
Station Long Term Charges	1.1	0.7	0.6	0.6
Station QX	2.3	2.5	2.6	2.6
Station Facility Charge	-	-	-	-
Other Charges	-	-	-	-
Total income	96.3	95.0	93.1	98.0

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
East Coast Main Line Rail				
Variable Usage Charges	21.5	19.5	20.8	21.4
Traction Electricity Charges	23.8	18.0	16.8	18.5
Electrification Asset Usage Charges	1.1	1.2	1.2	1.2
Capacity Charges	5.7	5.4	5.8	6.1
Fixed Charges	47.7	47.1	46.5	48.8
Station Long Term Charges	1.1	7.9	11.7	8.3
Station QX	2.3	2.1	2.0	2.4
Station Facility Charge	-	-	0.5	-
Other Charges	-	2.6	5.7	2.8
Total income	103.2	103.8	111.0	109.5

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
East Midlands				
Variable Usage Charges	6.8	6.9	7.0	7.2
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	16.0	16.1	16.1	16.2
Fixed Charges	44.1	45.3	43.1	46.2
Station Long Term Charges	-	10.1	8.9	8.2
Station QX	-	0.1	0.2	0.3
Station Facility Charge	-	0.3	0.5	1.1
Other Charges	-	6.0	4.1	6.1
Total income	66.9	84.8	79.9	85.3

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
First Capital Connect				
Variable Usage Charges	5.7	5.6	5.8	6.2
Traction Electricity Charges	30.7	24.7	20.3	23.5
Electrification Asset Usage Charges	1.1	0.9	1.0	1.1
Capacity Charges	13.7	13.7	13.9	14.3
Fixed Charges	29.4	29.0	26.8	28.3
Station Long Term Charges	2.3	12.3	29.5	11.7
Station QX	4.5	3.7	3.7	4.2
Station Facility Charge	-	0.4	0.9	0.7
Other Charges	-	1.8	9.1	2.6
Total income	87.4	92.1	111.0	92.6

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
First Great Western				
Variable Usage Charges	17.0	17.4	16.5	17.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	28.5	30.2	28.4	28.8
Fixed Charges	77.1	78.1	74.4	79.4
Station Long Term Charges	1.1	18.4	12.3	18.8
Station QX	2.3	2.5	2.2	2.2
Station Facility Charge	-	-	0.2	-
Other Charges	1.1	8.5	4.1	-
Total income	127.1	155.1	138.1	146.3

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Greater Anglia ⁽⁵⁾				
Variable Usage Charges	-	-	1.7	10.7
Traction Electricity Charges	-	-	5.4	25.0
Electrification Asset Usage Charges	-	-	0.2	1.6
Capacity Charges	-	-	1.5	10.1
Fixed Charges	-	-	7.5	52.5
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Station Facility Charge	-	-	0.2	1.1
Other Charges	-	-	0.6	3.8
Total income	-	-	17.1	104.8

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
London Midland				
Variable Usage Charges	4.6	4.5	4.5	4.8
Traction Electricity Charges	21.5	12.8	8.7	12.3
Electrification Asset Usage Charges	1.1	0.6	0.6	0.6
Capacity Charges	14.7	13.7	13.7	14.2
Fixed Charges	33.0	33.8	32.2	34.5
Station Long Term Charges	1.1	11.2	11.0	15.6
Station QX	4.5	4.4	4.2	4.4
Station Facility Charge	-	0.2	0.2	-
Other Charges	-	3.0	1.7	2.9
Total income	80.5	84.2	76.8	89.3

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
London Overground				
Variable Usage Charges	-	0.5	0.8	1.0
Traction Electricity Charges	2.3	2.6	2.6	2.8
Electrification Asset Usage Charges	-	-	0.1	0.1
Capacity Charges	-	0.2	0.2	0.3
Fixed Charges	4.5	4.4	4.2	4.5
Station Long Term Charges	-	2.2	2.9	3.7
Station QX	-	0.2	0.3	0.4
Station Facility Charge	-	-	-	-
Other Charges	-	0.5	0.2	-
Total income	6.8	10.6	11.3	12.8

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Merseyrail				
Variable Usage Charges	1.1	0.6	0.6	0.6
Traction Electricity Charges	5.7	4.9	3.9	3.8
Electrification Asset Usage Charges	-	0.1	0.1	0.1
Capacity Charges	-	-	0.1	0.1
Fixed Charges	7.9	8.5	8.2	7.9
Station Long Term Charges	-	5.0	2.9	2.8
Station QX	-	-	-	-
Station Facility Charge	-	-	-	-
Other Charges	-	0.6	0.4	0.4
Total income	14.7	19.7	16.2	15.7

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Northern				
Variable Usage Charges	4.5	3.9	4.0	4.1
Traction Electricity Charges	6.8	4.8	3.6	3.9
Electrification Asset Usage Charges	-	0.2	0.2	0.2
Capacity Charges	4.5	4.9	4.9	5.1
Fixed Charges	88.5	88.6	84.4	91.1
Station Long Term Charges	1.1	16.1	9.4	16.3
Station QX	2.3	2.8	2.8	2.7
Station Facility Charge	-	-	-	-
Other Charges	-	4.0	5.4	3.0
Total income	107.7	125.3	114.7	126.4

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
National Express East Anglia ⁽⁵⁾				
Variable Usage Charges	10.2	9.2	8.7	-
Traction Electricity Charges	30.7	29.3	19.0	-
Electrification Asset Usage Charges	1.1	1.4	1.2	-
Capacity Charges	10.2	9.7	8.1	-
Fixed Charges	52.2	52.1	41.6	-
Station Long Term Charges	1.1	16.8	18.0	-
Station QX	2.3	2.5	2.3	-
Station Facility Charge	-	0.3	4.8	-
Other Charges	-	3.9	2.1	-
Total income	107.8	125.2	105.8	-

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Scotrail				
Variable Usage Charges	7.9	6.5	7.6	8.1
Traction Electricity Charges	12.4	9.6	11.1	11.7
Electrification Asset Usage Charges	-	0.4	0.5	0.6
Capacity Charges	2.3	2.4	2.7	2.8
Fixed Charges	127.1	126.1	135.6	273.3
Station Long Term Charges	2.3	18.5	10.7	18.9
Station QX	3.4	3.4	3.4	3.4
Station Facility Charge	-	-	-	-
Other Charges	-	4.7	2.5	5.7
Total income	155.4	171.6	174.1	324.5

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
South Eastern				
Variable Usage Charges	7.9	7.5	8.1	8.2
Traction Electricity Charges	39.7	35.0	27.5	28.7
Electrification Asset Usage Charges	1.1	0.5	0.6	0.6
Capacity Charges	11.3	11.0	11.5	11.2
Fixed Charges	58.9	60.3	57.3	61.5
Station Long Term Charges	3.4	25.5	25.0	35.1
Station QX	5.7	4.9	5.1	5.1
Station Facility Charge	-	0.1	0.1	-
Other Charges	-	7.7	4.0	7.3
Total income	128.0	152.5	139.2	157.7

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
South West Trains				
Variable Usage Charges	13.7	13.2	12.9	12.2
Traction Electricity Charges	48.7	40.2	29.3	25.5
Electrification Asset Usage Charges	1.1	0.6	0.6	0.7
Capacity Charges	6.8	6.0	6.0	6.0
Fixed Charges	63.5	64.1	60.4	64.5
Station Long Term Charges	1.1	23.0	28.2	34.5
Station QX	3.4	3.5	3.4	3.4
Station Facility Charge	4.6	6.4	6.8	9.3
Other Charges	1.1	7.0	3.5	-
Total income	144.0	164.0	151.1	156.1

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Southern				
Variable Usage Charges	9.1	8.3	8.1	8.4
Traction Electricity Charges	36.2	35.8	25.5	26.9
Electrification Asset Usage Charges	1.1	0.5	0.5	0.6
Capacity Charges	16.0	15.0	14.8	14.9
Fixed Charges	46.4	46.9	44.2	47.1
Station Long Term Charges	2.3	16.1	18.5	23.4
Station QX	4.5	5.6	4.8	3.1
Station Facility Charge	-	0.2	-	-
Other Charges	-	1.6	1.1	1.2
Total income	115.6	130.0	117.5	125.6

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Transpennine				
Variable Usage Charges	4.5	4.2	4.5	4.4
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	2.3	2.7	2.7	2.7
Fixed Charges	28.4	28.9	27.4	29.1
Station Long Term Charges	1.1	4.0	2.5	4.1
Station QX	2.3	1.3	1.4	1.5
Station Facility Charge	-	-	-	-
Other Charges	-	-	-	-
Total income	38.6	41.1	38.5	41.8

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Virgin West Coast				
Variable Usage Charges	27.2	26.8	27.2	30.0
Traction Electricity Charges	38.5	34.1	28.2	35.0
Electrification Asset Usage Charges	2.2	1.9	1.9	2.1
Capacity Charges	23.8	23.5	23.5	23.7
Fixed Charges	72.6	73.2	68.9	74.6
Station Long Term Charges	2.3	10.1	6.2	10.3
Station QX	4.5	5.0	4.8	5.0
Station Facility Charge	4.5	6.8	4.2	-
Other Charges	-	0.1	-	-
Total income	175.6	181.5	164.9	180.7

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Consolidated Non-Franchised Train Operators				
Variable Usage Charges	3.4	3.9	3.1	3.4
Traction Electricity Charges	-	3.0	2.9	3.3
Electrification Asset Usage Charges	3.4	-	-	-
Capacity Charges	-	0.7	0.7	-
Fixed Charges	18.3	16.9	21.1	17.2
Station Long Term Charges	-	-	0.7	1.8
Station QX	-	-	0.1	0.1
Station Facility Charge	-	-	-	-
Performance regime	1.3	(2.3)	(1.7)	(2.4)
Other Charges	1.1	(1.5)	0.5	-
Total income	27.5	20.7	27.4	23.4

Statement 6c: GB Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Consolidated Freight Operating Companies				
Variable Usage Charges	52.1	44.8	49.8	51.5
Traction Electricity Charges	6.7	5.6	4.9	4.6
Capacity Charges	4.5	3.9	4.1	4.2
Performance Regime	(10.2)	(13.3)	(12.2)	(14.3)
Freight Only Line & Coal Spillage Charge	2.3	4.8	5.5	5.1
Freight Connection Agreements and Other Income	3.4	0.6	0.6	2.7
Total income	58.8	46.4	52.7	53.8

Notes:

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

Statement 7a: GB Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Controllable operating expenditure						
Signaller staff costs	233	186	(47)	950	787	(163)
Non-signaller staff costs	650	531	(119)	2,681	2,252	(429)
Staff incentives	45	-	(45)	220	-	(220)
Other employee related costs	83	58	(25)	438	249	(189)
Pensions	72	116	44	338	493	155
Consultants/contractors/agency	139	91	(48)	479	385	(94)
Insurance and claims	80	71	(9)	239	303	64
Accommodation, office, property	99	102	3	447	434	(13)
Information management	55	43	(12)	202	181	(21)
Other	213	103	(110)	876	499	(377)
Total gross controllable operating expenditure	1,669	1,301	(368)	6,870	5,583	(1,287)
Less:						
Other operating income	(162)	(96)	66	(680)	(407)	273
Own work capitalised	(568)	(405)	163	(2,277)	(1,719)	558
Total controllable operating expenditure	939	800	(139)	3,913	3,457	(456)
Non-controllable operating expenditure						
Traction electricity costs	264	239	(25)	1,018	910	(108)
Cumulo rates	132	111	(21)	427	413	(14)
British Transport Police costs	72	69	(3)	313	278	(35)
Rail Safety and Standards Board levy	9	10	1	37	39	2
ORR fees (incl. ORR Licence fee and the railway safety levy)	20	20	-	82	78	(4)
Other (i.e. CIRAS fees)	-	-	-	-	-	-
Total non-controllable operating expenditure	497	449	(48)	1,877	1,718	(159)
Total operating expenditure	1,436	1,249	(187)	5,790	5,175	(615)

Note:

- (1) The 2009/10 pensions and staff incentives have been restated to reflect a reclassification of costs introduced in 2010/11 in order to create a like-for-like comparison. These changes have resulted in a decrease in the cumulative staff incentives figures of £20m and a decrease in pension expense of £48m. These costs are now reported within Maintenance.

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines the scope of non-controllable costs in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines March 2013.

Statement 7a: GB Analysis of operating expenditure continued

In £m 2012/13 prices unless stated otherwise

- (2) Signaller staff costs – as expected these costs are in line with the previous year. Reducing signaller staff numbers is the main way to reduce the Signaller staff costs. Our recently published Strategic Business Plan sets out how we intend to make efficiencies under our National Operating Strategy to reduce the cost base going forwards. As in previous years costs are higher than the PR08.
- (3) Non-signaller staff costs – these costs are 4 per cent lower than the prior year mainly due to a 3 per cent decrease in non-signaller headcount within operating costs. Costs are higher than the PR08 as the assumptions regarding staff numbers and costs are different to the actual levels. This is reflected in the higher Own work capitalised figure compared to the PR08 as more capex work has been delivered in-house rather than using third parties as Network Rail seeks the most efficient way to deliver its outputs.
- (4) Staff incentives – these costs are lower than previous year as achievement against the incentive targets was lower than the prior year. Costs are higher than the PR08 which assumed no staff incentive payments.
- (5) Other employee related costs – costs were £42m lower than the previous year which was almost all due to lower redundancy and re-organisation costs. The devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all contributed to these additional costs in 2011/12.
- (6) Pensions – costs are approximately 15 per cent lower than the previous year which is mostly due to a change in the rules of the Network Rail Section of the Railway Pension Scheme that came into effect in 2012/13. Under the new rules the contributions made by the company to the scheme have decreased in order to make the scheme more affordable and sustainable. Costs are, once more, significantly lower than those assumed in the PR08.
- (7) Consultants/contractors/agency – these costs are higher than assumed in the PR08 in both the current year and the control period to date. Costs in this area are 6 per cent higher than the prior year. This is mostly due to an increase in the number of agency staff costs partly offset by a decrease in one-off legal costs compared to the previous year. One of the main reasons for the increase in agency staff costs is due to the current reorganisations occurring within the company. To facilitate the move to Network Rail's new national centre in Milton Keynes short term solutions to resourcing have been enacted.
- (8) Insurance and claims – costs are higher than the PR08 mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012 with sustained and excessive rainfall causing flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £15m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Costs are higher than the previous year which benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12.
- (9) Information management – costs in the year are £12m higher than assumed in the PR08. However, costs are in line with 2011/12.

Statement 7a: GB Analysis of operating expenditure continued

In £m 2012/13 prices unless stated otherwise

(10)

Breakdown of Other controllable operating costs

	2011/12	2012/13
Private Party Costs	47	34
Utilities	47	48
Other Plant	19	12
Telecoms Costs	44	41
Media Services / Campaigns	13	13
Vehicle Costs	8	7
Post / Printing / Reprographics	6	6
Railhead treatment	21	20
Other	24	32
Total	229	213

Private party costs – these are lower as less work has been completed for third parties compared to the previous year. Income relating to this is included within other operating income in the above table which has decreased as a result of this.

Other plant – the decrease on the previous year is due to a reduction in stone blower costs (£7m). This activity is now managed by Network Operations and is included within Maintenance costs.

Other – increase in expense compared to prior year is partly due to additional expenditure on HLOS Performance and Seven Day Railway funds (£3m) as suitable projects were identified and approved for completion. In addition, there was a £5m credit in 2011/12 as a result of writing back a bad debt.

- (11) Other operating income – income in the year was significantly higher than the PR08, reflecting the trend of previous years in the control period. The amount earned was in line with the prior year. The decrease in private party activity, as noted above, was offset by increased sales of scrap rail and ballast.
- (12) Own work capitalised – this amount is higher than the PR08. The PR08 assumed both a lower level of costs and a lower level of costs recovered through capex than the Delivery Plan. More capex work has been delivered in-house rather than using third parties as Network Rail seeks the most efficient way to deliver its outputs. The level of own work capitalised is approximately 6 per cent lower than the previous year. This is mostly due to movements in Asset Management. This area of the business is moving from being a large delivery organisation (thus incurring costs and recovering these costs through Own costs capitalised) to being a smaller, more efficient, service provider.
- (13) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs. Costs are lower than the PR08 due to different assumptions made by the ORR regarding electricity rates. Costs have increased in comparison to the prior year by £47m due to higher market electricity prices. This is reflected in Statement 6a, where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are £30m higher than the previous year.
- (14) Cumulo rates – these are 19 per cent higher than the previous year. Cumulo rates are the business rates that Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the PR08 had been published. The Regulator's determination assumed a lower level of rates than the Valuation Office Agency decided and so the expense in the year is higher than the PR08. As Cumulo rates are set by a third party and outside of Network Rail's influence they are considered to be non-controllable.

Statement 7a: GB Analysis of operating expenditure continued

In £m 2012/13 prices unless stated otherwise

- (15) British Transport Police – although costs in the current year are only marginally more than the PR08, the control period to date expense is noticeably more than the Regulator's assumption. Achieving the PR08 targets would necessitate cost savings that could endanger the travelling public.

Statement 7b: GB Analysis of operating expenditure by activity

In £m 2012/13 prices unless stated otherwise

		CP3			CP4		
	2006/07	2007/08	2008/09	2009/10 ⁽¹⁾	2010/11	2011/12	2012/13
Controllable operating expenditure							
Human resources							
Functional support	19	24	26	24	28	28	27
Training	30	33	33	31	31	21	20
Graduates	4	4	2	2	1	2	2
Apprenticeships	7	7	11	11	9	7	7
Other	12	10	8	13	12	13	8
Total	72	78	80	81	81	71	64
Information management							
Support	4	4	13	15	10	10	7
Projects	12	8	3	8	5	5	4
Business Operations	67	64	59	59	66	53	50
Other	4	1	-	7	1	-	-
Total	87	77	75	89	82	68	61
Operations & customer services signalling	222	236	243	246	235	236	233
Operations & customer services non-signalling							
MOMS Staff Costs	33	35	35	34	32	31	30
Control staff costs	38	35	40	40	38	36	35
Planning & Performance Staff Costs	19	22	20	20	15	24	23
Managed Stations Staff Costs	18	17	18	20	21	19	19
Operations Management Staff Costs	22	21	16	13	13	19	19
Other	83	70	59	118	122	91	101
Total operations & customer services costs	435	436	431	491	476	456	460
Finance	21	19	20	26	33	34	30
Contracts & procurement	6	6	-	-	-	-	10
Strategic sourcing	-	-	48	46	50	45	-
Planning & development	7	11	11	16	14	13	14
Safety & sustainable development	4	2	2	2	3	4	11
Other corporate services	34	38	40	41	43	33	49
Commercial property	49	47	55	54	94	87	86
Infrastructure Projects	(8)	(3)	(9)	(2)	-	18	(30)
Route asset management	-	-	-	-	-	-	11
Asset management & Engineering/Asset heads	44	46	46	61	55	101	139
National delivery service	9	16	14	14	12	16	7
Group/central							
Pensions	147	146	135	5	2	2	-
Insurance	135	90	58	69	68	4	79
Redundancy/reorganisation costs	9	1	33	27	15	46	5
Staff incentives	41	65	62	5	5	3	(8)
Corporate costs capitalised	(41)	(40)	(55)	(7)	-	(2)	-
Maintenance/Opex reclassification	(25)	(42)	(70)	-	-	-	-
Wayleaves/West Coast feeder stations	28	27	26	1	-	-	-
Accommodation & Support recharges	-	-	-	-	(68)	(64)	(30)
Fleet vehicle recharges	-	-	-	-	-	(8)	(18)
Other	18	9	31	37	19	6	(1)
Total controllable operating expenditure	1,072	1,029	1,033	1,056	984	933	939

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

In £m 2012/13 prices unless stated otherwise

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the CP4 data. These changes have resulted in a decrease in the cumulative staff incentives figures of £20m and a decrease in pension expense of £48m. These costs are now reported within Maintenance.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) The variance of a number of reporting unit's costs to FY09/10 (Finance, Commercial Property, Other Corporate Services) relates to a change in treatment. Previously accommodation and support charges were recovered from these functions but are now recovered centrally. This is reflected in the 'Accommodation & Support Recharges' line.
- (3) Human resources – until 2011/12 the Training category included costs relating to Westwood, Network Rail's central training facility. These costs are now included within Commercial property. In 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. Savings were also made by other headcount reductions and limiting pay awards to lower than inflation. Human resources expenses in the year include £2m relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (4) Information management – costs are £7m lower than the previous year. This is mostly due to a 20 per cent decrease in the average number of permanent staff compared to the prior year and limiting pay rises to less than inflation.
- (5) Finance – the £4m decrease in costs compared to the previous year is mainly due to the transfer of staff from Finance to Shared Services (included within the Other corporate services category).
- (6) Contracts & procurement/ Strategic sourcing – in 2008/09 the activities of Contracts & procurement were expanded to include management of utilities costs for the company (before this, costs were largely borne by Maintenance). To reflect the increase in activities the function was re-branded Strategic sourcing. In 2012/13 responsibility for utilities management was transferred to Asset management resulting in costs of approximately £39m being switched in the current year. Consequently, the remaining Strategic sourcing activities were re-named Contracts & procurement.
- (7) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed in the current year to reflect the additional activities undertaken by this department (such as a revamp of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.

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

In £m 2012/13 prices unless stated otherwise

- (8) Other corporate services – costs were higher than the previous year. This was mainly due to a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies. In addition, the current year also includes £5m of one-off costs relating to the movement of many operations to the new National Centre in Milton Keynes. These costs are not expected to re-occur in 2013/14.
- (9) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. In 2012/13 these reorganisation costs were not present. In addition, charges for accommodation and support made by Group to Infrastructure Projects were £27m lower than in previous years. There is a corresponding £27m increase in Group costs as a result and, therefore, no net impact upon Network Rail as a whole.
- (10) Route asset management – this is reported separately for the first time in these Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies.
- (11) Asset management & Engineering/Asset heads – the variance to CP3 is due to an increased headcount in these functions as a result of reorganising the business. The additional costs in the current year compared to 2011/12 relate to the transfer of utility management from Strategic sourcing/ Contracts & procurement and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to the Route asset management category.
- (12) National Delivery Services – £7m of the decrease in cost in the year is due to a transfer in responsibility for stone blower machine activities moving to the devolved routes. This has resulted in additional costs in Maintenance.
- (13) Pensions/ Staff incentives – the variance to CP3 is due to a change in treatment. In order to drive appropriate management behaviour more of the costs of employing an individual are now borne by the function/budget holder where that individual works (previously recovered centrally). Therefore, an element of these costs from CP3 are now included within Maintenance.

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

In £m 2012/13 prices unless stated otherwise

- (14) Insurance – costs are higher than the prior year mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012 with sustained and excessive rainfall causing flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £15m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Also, the previous year benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12.
- (15) Redundancy/reorganisation costs – the decrease compared to the previous year was due to the devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all of which contributed to the 2011/12 costs. There were no major reorganisation programmes that resulted in significant costs during the current year.
- (16) Staff incentives – staff incentive costs are lower than the prior year mainly due to a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.
- (17) Corporate Costs Capitalised – in the previous control period an element of central costs were capitalised for expenses relating to staff wholly connected with the delivery of capital projects. These costs are generally charged directly to projects in CP4 as noted above.
- (18) Maintenance/Opex reclassification – in the previous control period an adjustment was made to reflect the switch of costs between Maintenance and Controllable opex to mirror the funding arrangements in CP3. No such adjustment is required in the current control period.
- (19) Wayleaves/ West Coast feeder stations – under the ACR 2003 allowances for West Coast feeder stations and Wayleaves activities were given within opex. Network Rail treated these items as capex in their Statutory financial statements and made an adjustment to opex in the Regulatory financial statements. There was no funding for such items in the PR08 and so there is no balance in CP4.
- (20) Accommodation & Support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges which has manifested itself in a £27m reduction in gross Infrastructure Projects costs and a £7m reduction in gross Asset Management costs.

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

In £m 2012/13 prices unless stated otherwise

(21) Fleet vehicle recharges – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals in the control period (refer to Statement 9), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an economic benefit to the railway in future control periods. The increase in this credit in the current year reflects additional fleet purchases.

Statement 7c: GB Insurance reconciliation

In £m 2012/13 prices unless stated otherwise

Risk	Market based insurance			Self insurance				Total		
	Underlying claims cost	Claims paid / outstanding	Market premiums	Underlying claims cost	Claims paid by the captive	Claims outstanding with the captive	Captive reinsurance premiums and expenses	Captive premiums and reimbursement arrangements	Other	Total cost
			A					B	C	D
Property , business interruption and public liability	50	50	14	103	-	66	-	41	-	55
Terrorism	-	-	4	-	-	-	5	6	-	10
Employer's liability	-	-	1	1	-	1	-	5	-	6
Stations & depots property damage, terrorism & public liability	-	-	3	2	-	2	-	5	-	8
Motor	-	-	1	2	1	1	-	3	-	4
Construction all risks	1	1	1	1	-	1	-	1	-	2
Other cover ⁽²⁾	-	-	2	-	-	-	-	1	-	3
Investment return	-	-	-	-	-	-	-	-	-	-
Total	51	51	26	109	1	71	5	62	-	88

Statement 7c: GB Insurance reconciliation continued

In £m 2012/13 prices unless stated otherwise

Notes:

(1) Total insurance cost: $A + B + C = D$

(2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.

(3) Premiums include Insurance Premium Tax.

(4) Claims are not actuarially assessed, i.e. are latest available records of known claims paid and outstanding, not an estimate of ultimate claims incurred. The figures will therefore change as more claims are notified and settled.

(5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and claims are logged against the captive.

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

Statement 7d: GB Cost of own work capitalised

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative ⁽¹⁾		
	Gross costs	Own costs capitalised	Net costs	Gross costs	Own costs capitalised	Net costs
Controllable operating expenditure						
Human resources	67	(3)	64	302	(5)	297
Information management	91	(30)	61	411	(111)	300
Operations & customer services	533	(73)	460	2,068	(185)	1,883
Finance	30	-	30	125	(2)	123
Contracts & procurement	11	(1)	10	158	(7)	151
Planning & development	23	(9)	14	104	(47)	57
Safety & sustainable development	11	-	11	20	-	20
Other corporate services	52	(3)	49	172	(6)	166
Commercial property	96	(10)	86	359	(38)	321
Infrastructure Projects	339	(369)	(30)	1,403	(1,417)	(14)
Route asset management	44	(33)	11	44	(33)	11
Asset management & Engineering/ Asset heads	170	(31)	139	647	(291)	356
National delivery service	13	(6)	7	104	(55)	49
Group/central	27	-	27	273	(80)	193
Total controllable operating expenditure	1,507	(568)	939	6,190	(2,277)	3,913

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Human resources – in 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. Savings were also made by other headcount reductions and limiting pay awards to lower than inflation. Human resources expenses in the year include £2m relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (3) Information management – net costs are £7m lower than the previous year. This is mostly due to a 20 per cent decrease in the average number of permanent staff compared to the prior year and limiting pay rises to less than inflation. The lower staff numbers resulted in lower gross costs and a lower level of capitalised costs.
- (4) Operations & customer services – net costs are in line with the prior year. Recoveries have increased by £9m this year, reflecting additional capex works delivered by Operations & customer services staff, particularly with regard to possession management activities. There was a corresponding increase in gross costs to offset this.
- (5) Finance – the £4m decrease in gross and net costs compared to the previous year is mainly due to the transfer of staff from Finance to Shared Services (included within the Other corporate services category).

Statement 7d: GB Cost of own work capitalised continued

In £m 2012/13 prices unless stated otherwise

- (6) Contracts & procurement – in the current year responsibility for utilities moved to Asset Management which greatly reduced the gross and net costs. This resulted in activities with associated costs of approx £39m being transferred. To reflect the change in responsibilities the remaining department was re-branded Contracts & procurement (formerly known as Strategic sourcing).
- (7) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed in the current year to reflect the additional activities undertaken by this department (such as a revamp of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.
- (8) Other corporate services – gross and net costs were higher than the previous year. This was mainly due to a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies. In addition, the current year also includes £5m of one-off costs relating to the movement of many operations to the new National Centre in Milton Keynes. These costs are not expected to re-occur in 2013/14.
- (9) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. In 2012/13 these reorganisation costs were not present, thus reducing gross and net costs. In addition, charges for accommodation and support made by Group to Infrastructure Projects were £27m lower than in previous years. There is a corresponding £27m increase in Group costs as a result and, therefore, no net impact upon Network Rail as a whole.
- (10) Route asset management – this is reported separately for the first time in these Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies.
- (11) Asset management & Engineering/Asset heads – the additional net costs in the current year relate to the transfer of utility management from Contracts & procurement and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to Route asset management functions. The move to Route asset management reduced the recoveries compared to the prior year by £33m. The remaining decrease in recoveries was mostly due to changes in the activities of Asset Management as it becomes more focussed on promoting assurance and driving best practice within Network Rail.
- (12) National Delivery Service – £7m of the decrease in cost in the year is due to a transfer in responsibility for stone blower machine activities moving to the devolved routes. This has resulted in additional costs in Maintenance.

Statement 7d: GB Cost of own work capitalised continued

In £m 2012/13 prices unless stated otherwise

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

- a. £75m additional insurance costs – costs are higher than the prior year mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012 with sustained and excessive rainfall causing flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £15m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Also, the previous year benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12;
- b. £34m Accommodation & Support recharges - recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on these the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges which has manifested itself in a £27m reduction in gross Infrastructure Projects costs and a £7m reduction in gross Asset Management costs.

These additional costs were partly offset by:

- a. £41m Redundancy/reorganisation reduction in costs – the decrease compared to the previous year was due to the devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all of which contributed to the 2011/12 costs. There were no major reorganisation programmes that resulted in significant costs during the current year;
- b. £11m Staff incentives reduction in cost – staff incentive costs are lower than the prior year mainly due to a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers;
- c. £10m Vehicle costs credit – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals in the control period (refer to Statement 9), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an economic benefit to the railway in future control periods. The increase in this credit in the current year reflects additional fleet purchases.

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽³⁾	PR08	Difference
Core Maintenance ⁽¹⁾						
Track	511	450	(61)	2,025	1,941	(84)
Structures	39	42	3	154	180	26
Signalling	160	136	(24)	719	579	(140)
Telecoms	28	63	35	201	286	85
Electrification	47	38	(9)	186	161	(25)
Plant & machinery	41	17	(24)	166	69	(97)
Operational property	1	-	(1)	1	-	(1)
Other	9	45	36	93	169	76
Total	836	791	(45)	3,545	3,385	(160)
Non-Core Maintenance						
Indirect costs	93	198	105	532	845	313
Other costs	70	173	103	356	670	314
Total	163	371	208	888	1,515	627
Total maintenance expenditure	999	1,162	163	4,433	4,900	467

Notes:

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

Comments:

- (1) Overall, Maintenance costs were only £2m higher than the previous year.
- (2) Average maintenance function headcount was around 1.7 per cent lower than the previous year which helped offset better than RPI pay awards granted to the majority of maintenance function employees.
- (3) Recoveries of labour costs were £16m higher than the previous year as more capital programme activities were delivered by the maintenance function. The devolution of operational responsibility to the routes enables a more agile response to small scale capex works.
- (4) Responsibility for stone blower activity moved from National delivery services Opex to Network Operations Maintenance during the current year, resulting in approximately £7m of additional costs.
- (5) Once more, costs are lower than the PR08 as efficiency savings are being made at a faster rate than that assumed in the determination. This is illustrated in Statement 12 which sets out the maintenance efficiency for the year to date compared to the original ORR assumption in the determination.

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

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

Notes:

- (1) The above data represents the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (2) The above data reflects full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

Comment:

- (1) Headcount has decreased by around 1.7 per cent as Network Rail strives to organise its business to deliver the most cost-effective service. Changes between individual categories are largely due to organisational changes which affect where staff responsible for certain activities are positioned in Network Rail's organisational structure.

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

In £m 2012/13 prices unless stated otherwise

Actual spend in the year	2009/10 ⁽³⁾	2010/11	2011/12	2012/13	Total
Ashford	20	18	17	19	74
Bedford	27	24	18	18	87
Bletchley	33	28	25	25	111
Bristol	24	22	20	20	86
Brighton	26	23	21	20	90
Carlisle	22	18	20	25	85
Clapham	24	21	21	20	86
Cardiff	31	29	27	20	107
Croydon	23	21	20	18	82
Derby	20	18	21	20	79
Doncaster	17	16	22	21	76
Eastleigh	23	19	19	17	78
Edinburgh	23	22	20	18	83
Glasgow	17	15	14	13	59
Hitchin	24	22	22	20	88
Ipswich ⁽⁴⁾	28	26	25	24	103
Leeds	29	25	24	23	101
Lincoln	14	13	1	-	28
Liverpool ⁽⁵⁾	24	19	15	19	77
London Bridge	22	19	18	20	79
London Euston ⁽⁶⁾	25	20	21	24	90
Manchester	31	27	27	25	110
Motherwell	26	24	22	20	92
Newcastle	25	23	23	20	91
Orpington	22	18	16	16	72
Perth	14	13	12	12	51
Plymouth	19	16	14	15	64
Preston	25	20	18	17	80
Reading	20	19	18	18	75
Romford	31	29	28	29	117
Saltley	25	22	21	21	89
Sandwell & Dudley	22	20	17	18	77
Sheffield	15	13	18	17	63
Shrewsbury	12	11	14	15	52
Stafford	22	20	18	20	80
Swindon	21	18	16	16	71
Tottenham	33	30	28	28	119
Warrington ⁽⁷⁾	34	28	27	20	109
Woking	25	22	21	21	89
York	20	18	16	15	69
Total MDU	938	829	785	767	3,319
Route HQ	21	22	23	40	106
Other HQ	119	121	42	39	321
Total HQ	140	143	65	79	427
Centrally managed					
Structures examinations	38	37	40	40	155
Major items of maintenance plant	13	16	13	15	57
Other	152	131	94	98	475
Total maintenance expenditure	1,281	1,156	997	999	4,433

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

In £m 2012/13 prices unless stated otherwise

Notes:

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

Comment:

- (1) The Lincoln depot closed during 2011/12 and so the costs reported for that year are significantly lower than in previous years. No costs are reported for 2012/13.
- (2) Costs incurred at the depot level decreased by approximately 2.3 per cent. This was mostly the result of headcount reductions in depot-based staff. The decrease in cost was proportionately less than the decrease in headcount as shown in Statement 8b(2). This is because many of the headcount reductions were associated with the transfer of staff delivering capital programmes to the Route HQ category. Staff costs relating to capital programmes are recorded as capital expenditure rather than in Maintenance costs.
- (3) Costs in the category Route HQ increased significantly compared to the previous year. As part of the move towards devolved routes a number of costs and activities move moved to the Route HQ part of the organisation as each route has now greater accountability for performance in its area. This increase in cost is mostly driven by an increase in headcount in these areas. The increase in cost is less than the increase in headcount as some of the activities that moved to Route HQ were associated with capital programmes meaning that the headcount increases but the net maintenance costs remain the same as many of these expenses are capitalised and included in the costs of renewals and enhancements.

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

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

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

Notes:

- (1) The above data includes only full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The operations of the Ipswich depot were reported as Colchester depot in the 2010/11 Regulatory financial statements.
- (4) The operations of the Liverpool depot were reported as Chester depot in the 2010/11 and 2011/12 Regulatory financial statements.
- (5) The operations of the London Euston depot were reported as Stonebridge Park depot in the 2010/11 Regulatory financial statements.
- (6) The operations of the Warrington depot were reported as Crewe depot in the 2010/11 and 2011/12 Regulatory financial statements.

Comments:

- (1) The Lincoln depot closed during 2011/12 and so the average headcount reported for that year is significantly lower than in previous years. No headcount is reported for 2012/13.
- (2) Headcount has decreased by around 1.7 per cent as Network Rail strives to organise its business to deliver the most cost-effective service. Under the move towards a more devolved structure, responsibility for certain activities were moved from national HQ centres to individual routes. This was to allow greater flexibility and accountability within the organisation. Therefore, the number of staff in the category Route HQ increased at the expense of headcount reported under Other HQ. In addition, the new devolved structure required additional Route HQ staff to manage the performance and set the strategic agenda for each route. These additional roles were partly offset by decreases in the staff working at each depot as certain responsibilities were centralised within route, particularly for the delivery of capital works.

Statement 9a: GB Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	782	764	(18)	2,952	3,319	367
Structures	463	358	(105)	1,635	1,652	17
Signalling	607	480	(127)	1,933	2,026	93
Telecoms	187	130	(57)	932	1,003	71
Electrification	101	113	12	383	612	229
Plant and machinery	124	60	(64)	457	415	(42)
Operational property	203	260	57	1,036	1,236	200
Other renewals						
Information management	88	85	(3)	366	372	6
Corporate offices	23	18	(5)	209	77	(132)
Discretionary investment	16	(4)	(20)	90	98	8
West Coast CP3 rollover	9	-	(9)	134	113	(21)
ORBIS	39	-	(39)	39	-	(39)
Other	118	31	(87)	152	118	(34)
Total	293	130	(163)	990	778	(212)
Total renewals expenditure	2,760	2,295	(465)	10,318	11,041	723

Comments:

- (1) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost and is updated annually. Underspend or overspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was slightly higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Control period to date costs are 11 per cent lower than the PR08 allowance. Whilst some of this saving is due to outperformance the majority is due to re-phasing. Expenditure was 8 per cent higher than 2011/12. Plain Line track expenditure was 5 per cent higher than the previous year. This was due to higher Plain Line track unit costs compared to the prior year and a lower level of volumes delivered (refer to Statement 15). Switches & Crossings expenditure increased by 20 per cent which was due to a combination of higher unit costs (approximately 10 per cent) and additional volumes (9 per cent) (as shown in Statement 15). Non-volume costs were in line with the previous year. Total track expenditure was in line with the Delivery Plan update 2012. However, both Plain Line and Switches & Crossings unit costs were higher than expected whereas the level of volumes delivered was lower than budgeted. Plain Line volumes were affected by lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to budget is closely related to these lost volumes as there is an element of sunk costs incurred regardless of whether the volume is delivered. Typically, these costs would include mobilisation and possession costs, logistics and design costs. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- (3) Structures – expenditure in the year was higher than the PR08. This was due to a catch up of underspend in previous years of the control period and £74m for works accelerated from control period 5 incurred this year. The funding for this programme was announced in Coalition Government's Autumn Statement 2011 and was over and above the allowances set out in the PR08. Overall structures expenditure was approximately 20 per cent higher than the prior year due to this accelerated spend. Unit costs savings resulted in a decrease in costs of nearly £40m as Network Rail continued to reduce the cost of repeatable work items in structures. However, this was more than offset by increases in non-volume costs (those costs which do not have a repeatable work stream associated with them). This includes the impact of the accelerated work from control period 5 as noted above. Expenditure for the year was marginally lower than anticipated in the Delivery Plan update 2012, mostly due to lower spend on accelerated work from control period 5 as it took more time to identify, plan and deliver appropriate projects than expected.
- (4) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up of previous years' underspends expenditure for the control period to date remains lower than the PR08 allowance due to the differences in phasing in the control period. Expenditure in the year also includes £32m of work accelerated from control period 5 which was not included in the original PR08 allowances but subsequently authorised by the Regulator. Expenditure was 33 per cent higher than 2011/12 despite savings in re-signalling unit costs (refer to Statement 15). The additional expenditure in the year was a result of increased activity in areas not covered by unit cost and volume reporting. Total costs are approximately £36m higher than the Delivery Plan update 2012. Almost half of this variance is due to work accelerated from control period 5 which was higher than planned as work was re-phased in the control period to better utilise planned possessions.
- (5) Telecoms – expenditure in the year was higher than the PR08 but the control period to date remains lower than the Regulator's target due to the different profiling assumptions in the PR08 and Network Rail's Delivery Plan. This was largely caused by the FTN project where, in earlier years of the control period, certain parts of the programme were delayed as alternative, more cost-effective solutions were sought. Telecoms expenditure is lower than the prior year by 12 per cent mainly due to lower expenditure on FTN as this programme nears completion. Overall expenditure for the year is in line with the Delivery Plan update 2012, with additional FTN expenditure (owing to re-profiling of expenditure with some work planned for 2013/14 being brought forward from control period 5) being offset by lower spend on other telecoms schemes deferred to 2013/14.
- (6) Electrification – expenditure in the year and the control period to date is significantly less than assumed in the PR08. Investment is expected to be noticeably higher next year as projects have been planned to catch up some of this underspend in 2013/14. Expenditure in the year was consistent with 2011/12 although it was considerably less than the Delivery Plan update 2012 forecasts as certain projects, notably the Great Eastern overhead line programme, were postponed to later in the control period and beyond.
- (7) Plant & machinery – expenditure in the year was markedly higher than the PR08. This was due to the purchase of fleet vehicles and a general catch up of underspend against the PR08 experienced in the earlier years of the control period. Network Rail purchased around £43m of vehicles in the year that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Expenditure was in line with the previous year but higher than the Delivery Plan update 2012 mostly due to a higher level of fleet purchases than originally forecast.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- (8) Operational property – expenditure in the year and the control period to date is lower than the PR08 assumed. This is partly due to the different phasing of planned spend in the Delivery Plan compared to the PR08 and partly due to reductions to the original PR08 funding amounts agreed with the Regulator. These changes mostly relate to projects being reclassified within Enhancements which is reflected in the RAB workings disclosed in Statements 2b and 2c. Operational property spend was 27 per cent lower than the previous year due to a different mix of projects. Expenditure across all key cost lines were lower than the previous year. Relatively large projects such as Paddington station roof and Paisley Gilmour Street completed in 2011/12. In addition there was lower spend on schemes relating to frost heave damage this year. Expenditure was 23 per cent lower than the Delivery Plan update 2012 which is partly due to the deferral of a number of small schemes to 2013/14 and partly due to financial outperformance of the determination during the year.
- (9) Other – the notable differences in this category are set out below:
- a. IM – expenditure in the year and the control period to date is in line with the PR08. Expenditure in the current year is approximately 5 per cent higher than the previous year due to the mix of projects being delivered but £8m lower than expected in the Delivery Plan update 2012 as some savings have been made in the delivery of projects.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of activities to enable further cost savings while also increasing organisational effectiveness. Most of the variance to the PR08 in both the year and the control period to date can be attributed to this project, funding for which was not included in the PR08. Expenditure in this category is significantly lower than the previous year as the National Centre project is substantially complete with the final cost being significantly lower than the Network Rail's budget for the scheme.
 - c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would all occur in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Discretionary investment also includes some schemes over and above those that the PR08 funding set out.
 - d. West Coast CP3 rollover – expenditure in the current year and the control period to date is higher than the allowances in the PR08. Network Rail planned to spend more than the funding available in order to deliver a suitable asset for the railway network.
 - e. ORBIS is a programme to improve asset management information, which will enable efficiency savings in CP5 and beyond. Funding for this scheme was not included in the original PR08.
 - f. Other – expenditure in the year is higher than the PR08 as it includes a number of projects for which Network Rail was not funded for but which will facilitate the delivery of outputs in the current and future control periods. This includes amounts that were disclosed as Non-PR08 cost saving enhancements in previous years' Regulatory financial statements. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These aim to bring many disparate operational centres under consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority of change is expected to occur over the next ten years.

Statement 9b: GB Detailed analysis of renewals expenditure

In £m 2012/13 prices unless stated

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track						
Plain line						
Conventional	338			1,407		
High output	181			557		
Reactive	2			56		
Refurbishment	23			59		
Switches and crossings						
S&C delivered	182			679		
Refurbishment	5			13		
Drainage	20			52		
Fencing	8			41		
Other off-track	15			73		
National gauging	8			14		
Engineering improvement schemes	-			1		
Total	782	764	(18)	2,952	3,319	367
Structures						
Underbridges	116	133	17	452	579	127
Overbridges	15	56	41	52	242	190
Bridgeguard 3	1	-	(1)	18	-	(18)
Earthworks	95	91	(4)	361	396	35
Major structures	26	12	(14)	154	149	(5)
Tunnels	8	31	23	51	128	77
Culverts	6	7	1	21	31	10
Footbridges	7	-	(7)	20	14	(6)
Coast/estuary defences	1	6	5	13	24	11
Retaining walls	6	6	-	19	26	7
Other	182	16	(166)	474	63	(411)
Total	463	358	(105)	1,635	1,652	17
Signalling						
Conventional resignalling	328	225	(103)	1,144	1,016	(128)
ERTMS resignalling	15	70	55	68	213	145
Level crossings	77	46	(31)	108	195	87
Minor works/ life extensions	168	104	(64)	383	448	65
Control centres	(110)			33		
Modular signalling	56			74		
Other	73			123		
Total	607	480	(127)	1,933	2,026	93
Telecoms						
FTN/GSM-R						
Infrastructure	116			671		
Cab mobile	22			80		
Freight-only branch line	4			5		
Station information and surveillance						
CIS	1			22		
Public address	12			36		
Other	21			25		
Other operational						
Concentrators	4			25		
Driver-only operation CCTV	1			16		
Cable and cable routes	4			15		
Other	2			37		
Total	187	130	(57)	932	1,003	71

Note: This table continues on the next page

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

Note: This table starts on the previous page

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Electrification						
Overhead line						
GE project	22			101		
Rewires	1			7		
Campaign changes	6			25		
Structures	4			13		
Other	8			10		
Conductor rail	2			6		
AC distribution	11	18	7	37	122	85
DC distribution						
HV switchgear	4			24		
HV cables	3			36		
Transformer rectifiers	3			32		
LV switchgear	-			10		
LV cables (DC)	2			2		
Other	2			8		
SCADA	7	11	4	12	51	39
Other	26			60		
Total	101	113	12	383	612	229
Plant and machinery						
Fixed Plant						
Point heaters	3	9	6	12	34	22
Signalling power distribution	6	7	1	12	26	14
Signalling supply points	7	9	2	16	34	18
Other fixed plant	17	10	(7)	70	50	(20)
High output plant	7	8	1	55	149	94
Intelligent infrastructure	2	4	2	24	34	10
Fleet and machinery (NDS)	19	3	(16)	45	37	(8)
Rail fleet	-	-	-	3	5	2
Mobile plant and other	63	10	(53)	220	46	(174)
Total	124	60	(64)	457	415	(42)
Operational property						
Managed stations	56	60	4	244	385	141
Franchised stations	115	152	37	586	657	71
Light maintenance depots	10	15	5	61	62	1
Depot plant	1	-	(1)	11	-	(11)
Lineside buildings	13	-	(13)	69	-	(69)
MDU buildings	7	13	6	57	56	(1)
NDS depots	1	20	19	8	76	68
Total	203	260	57	1,036	1,236	200
Other renewals						
IT	88	85	(3)	366	372	6
Corporate offices	23	18	(5)	209	77	(132)
WCML engineering access	16	(4)	(20)	90	98	8
WC rollover from CP3	9	-	(9)	134	113	(21)
ORBIS	39	-	(39)	39	-	(39)
Other renewals	118	31	(87)	152	118	(34)
Total	293	130	(163)	990	778	(212)
Total renewals expenditure	2,760	2,295	(465)	10,318	11,041	723

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

Note:

- (1) The information in this statement is disclosed using classifications in the Delivery Plan update 2012. Comparative PR08 information is not available for all categories. Where no PR08 data is available this column, and the corresponding Difference column, have been left blank. Therefore, total for the PR08 and Difference columns may not cast.
- (2) Track – to improve transparency, an additional key cost line for Fencing has been included within the above table for the first time in these Regulatory financial statements.

Comments:

- (1) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost and is updated annually. Underspend or overspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was slightly higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Control period to date costs are 11 per cent lower than the PR08 allowance. Whilst some of this saving is due to outperformance the majority is due to re-phasing. Expenditure was 8 per cent higher than 2011/12. Plain Line track expenditure was 5 per cent higher than the previous year. This was due to higher Plain Line track unit costs compared to the prior year and a lower level of volumes delivered (refer to Statement 15). Switches & Crossings expenditure increased by 20 per cent which was due to a combination of higher unit costs (approximately 10 per cent) and additional volumes (9 per cent) (as shown in Statement 15). Non-volume costs were in line with the previous year. Total track expenditure was in line with the Delivery Plan update 2012. However, both Plain Line and Switches & Crossings unit costs were higher than expected whereas the level of volumes delivered was lower than budgeted. Plain Line volumes were affected by lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to budget is closely related to these lost volumes as there is an element of sunk costs incurred regardless of whether the volume is delivered. Typically, these costs would include mobilisation and possession costs, logistics and design costs. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.
- (3) Structures – expenditure in the year was higher than the PR08. This was due to a catch up of underspend in previous years of the control period and £74m for works accelerated from control period 5 incurred this year. The funding for this programme was announced in Coalition Government's Autumn Statement 2011 and was over and above the allowances set out in the PR08. Overall structures expenditure was approximately 20 per cent higher than the prior year due to this accelerated spend. Unit costs savings resulted in a decrease in costs of nearly £40m as Network Rail continued to reduce the cost of repeatable work items in structures. However, this was more than offset by increases in non-volume costs (those costs which do not have a repeatable work stream associated with them). This includes the impact of the accelerated work from control period 5 as noted above. Expenditure for the year was marginally lower than anticipated in the Delivery Plan update 2012, mostly due to lower spend on accelerated work from control period 5 as it took more time to identify, plan and deliver appropriate projects than expected.

Statement 9b: GB Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- (4) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up of previous years' underspends expenditure for the control period to date remains lower than the PR08 allowance due to the differences in phasing in the control period. Expenditure in the year also includes £32m of work accelerated from control period 5 which was not included in the original PR08 allowances but subsequently authorised by the Regulator. Expenditure was 33 per cent higher than 2011/12 despite savings in re-signalling unit costs (refer to Statement 15). The additional expenditure in the year was a result of increased activity in areas not covered by unit cost and volume reporting. Total costs are approximately £36m higher than the Delivery Plan update 2012. Almost half of this variance is due to work accelerated from control period 5 which was higher than planned as work was re-phased in the control period to better utilise planned possessions.
- (5) Telecoms – expenditure in the year was higher than the PR08 but the control period to date remains lower than the Regulator's target due to the different profiling assumptions in the PR08 and Network Rail's Delivery Plan. This was largely caused by the FTN project where, in earlier years of the control period, certain parts of the programme were delayed as alternative, more cost-effective solutions were sought. Telecoms expenditure is lower than the prior year by 12 per cent mainly due to lower expenditure on FTN as this programme nears completion. Overall expenditure for the year is in line with the Delivery Plan update 2012, with additional FTN expenditure (owing to re-profiling of expenditure with some work planned for 2013/14 being brought forward from control period 5) being offset by lower spend on other telecoms schemes deferred to 2013/14.
- (6) Electrification – expenditure in the year and the control period to date is significantly less than assumed in the PR08. Investment is expected to be noticeably higher next year as projects have been planned to catch up some of this underspend in 2013/14. Expenditure in the year was in consistent with 2011/12 although it was considerably less than the Delivery Plan update 2012 forecasts as certain projects, notably the Great Eastern overhead line programme, were postponed to later in the control period and beyond.
- (7) Plant & machinery – expenditure in the year was markedly higher than the PR08. This was due to the purchase of fleet vehicles and a general catch up of underspend against the PR08 experienced in the earlier years of the control period. Network Rail purchased around £43m of vehicles in the year that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Expenditure was in line with the previous year but higher than the Delivery Plan update 2012 mostly due to a higher level of fleet purchases than originally forecast.
- (8) Operational property – expenditure in the year and the control period to date is lower than the PR08 assumed. This is partly due to the different phasing of planned spend in the Delivery Plan compared to the PR08 and partly due to reductions to the original PR08 funding amounts agreed with the Regulator. These changes mostly relate to projects being reclassified within Enhancements which is reflected in the RAB workings disclosed in Statements 2b and 2c. Operational property spend was 27 per cent lower than the previous year due to a different mix of projects. Expenditure across all key cost lines were lower than the previous year. Relatively large projects such as Paddington station roof and Paisley Gilmour Street completed in 2011/12. In addition there was lower spend on schemes relating to frost heave damage this year. Expenditure was 23 per cent lower than the Delivery Plan update 2012 which is partly due to the deferral of a number of small schemes to 2013/14 and partly due to financial outperformance of the determination during the year

Statement 9b: GB Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

(9) Other – the notable differences in this category are set out below:

- a. IM – expenditure in the year and the control period to date is in line with the PR08. Expenditure in the current year is approximately 5 per cent higher than the previous year due to the mix of projects being delivered but £8m lower than expected in the Delivery Plan update 2012 as some savings have been made in the delivery of projects.
- b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of activities to enable further cost savings while also increasing organisational effectiveness. Most of the variance to the PR08 in both the year and the control period to date can be attributed to this project, funding for which was not included in the PR08. Expenditure in this category is significantly lower than the previous year as the National Centre project is substantially complete with the final cost being significantly lower than the Network Rail's budget for the scheme.
- c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would all occur in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Discretionary investment also includes some schemes over and above those that the PR08 funding set out.
- d. West Coast CP3 rollover – expenditure in the current year and the control period to date is higher than the allowances in the PR08. Network Rail planned to spend more than the funding available in order to deliver a suitable asset for the railway network.
- e. ORBIS is a programme to improve asset management information, which will enable efficiency savings in CP5 and beyond. Funding for this scheme was not included in the original PR08.
- f. Other – expenditure in the year is higher than the PR08 as it includes a number of projects for which Network Rail was not funded for but which will facilitate the delivery of outputs in the current and future control periods. This includes amounts that were disclosed as Non-PR08 cost saving enhancements in previous years' Regulatory financial statements. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These aim to bring many disparate operational centres under consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority of change is expected to occur over the next ten years.

Statement 10: GB Other information

In £m 2012/13 prices unless stated otherwise

	2012/13		
	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element			
Schedule 4			
Income	-		
Cost	(122)		
Net (cost)/ income	(122)	(150)	28
Schedule 8			
Net amount payable under NR regime	(135)		(135)
Net amount payable under TOC regime	(1)		(1)
Net cost	(136)	-	(136)
B) Net Impact of Schedule 4 & 8			
Schedule 4			
Access Charge Supplement Income	149	150	(1)
(Cost)/ income	(122)	(150)	28
Net income	27	-	27
Schedule 8			
Access Charge Supplement Income	-	-	-
Cost	(136)	-	(136)
Net cost	(136)	-	(136)
C) Opex memorandum account			
Opening balance			
Volume incentive	77		
Proposed Opex to be included in the CP5 expenditure allowance	(21)		
Total logged up items – opening balance	56		
In year			
Volume incentive	(9)		
Proposed Opex to be included in the CP5 expenditure allowance	54		
Total logged up items – in year movements	45		
Closing balance			
Volume incentive	68		
Proposed Opex to be included in the CP5 expenditure allowance	33		
Total logged up items – closing balance	101		

Statement 10: GB Other information continued

In £m 2012/13 prices unless stated otherwise

D) Compliance with licence limits

	2012/13 Actual	Limits
Licence condition		
Turnover (per annum)	9	171
Investment (cumulative)	105	256
Specific consents		
Property development	27	50
Property	159	160

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (delays and cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than a benchmark.
- (4) Schedule 8 performance regime provides benchmarks against which the performance of train operators and Network Rail are measured. Table A) above sets out the achievement against these benchmarks by both Network Rail and the train operators separately to offer an insight into what contributed to Network Rail's Schedule 8 income/ cost in the year.
- (5) No detailed PR08 numbers have been provided by the ORR for Table A).
- (6) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP in line with the requirements of the Regulatory Accounting Guidelines. The PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies when calculating expected capacity charges income. ORR has indicated that Network Rail will be funded for this shortfall in CP5 and so this is also included in the Opex memorandum account. In addition, the PR08 stated that Network Rail would be compensated for any shortfall in income relating to delays from the developments at Euston and Victoria and so this is included in the Opex memorandum account from 2012/13.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were lower than the PR08 largely due to better planning of possessions. The regulatory regime incentivises Network Rail to plan possessions early by offering discounts for early notification of disruption to the TOCs. Schedule 4 costs for the year were £42m less than anticipated in the Delivery Plan update 2012. Around one-third of this variance was due to the deferral of capex activities, notably plain line track volumes and electrification spend. Schedule 4 costs are expected to be incurred when the associated capital works are delivered.

Statement 10: GB Other information continued

In £m 2012/13 prices unless stated otherwise

- (2) Schedule 8 – there was a net cost of £136m for the year compared to the PR08 determination which assumed that that Schedule 8 costs would be neutral ie no net income or costs. Net costs were 66 per cent higher than the previous year. Passenger Performance Measure (PPM), which measures the percentage of franchised passenger trains arriving at their destination within a specified lateness margin, has deteriorated from the prior year reflecting additional passenger delay minutes attributable to Network Rail which were approximately 6 per cent higher than the previous year. The higher increase in costs compared to attributable delay minutes is partly because the performance regime benchmark gets progressively more challenging with each passing year of the control period meaning performance has to improve each year to avoid penalties. Also, the cost of Schedule 8 delay minutes varies from one operator to another. For example, delay minutes on long-distance routes tend to be more expensive than on local routes meaning that the location, rather than the total number, of delay minutes is more influential on the cost. In addition, the delay minutes per incident are higher this control period, partly due to the increasing volume of traffic on the network. External factors, such as cable theft and the effect of fatalities and trespass are also more severe than anticipated. The severe weather experienced in 2012/13 (2012 was the second wettest year on record) also contributed to a higher level of delays than planned.

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

In £m 2012/13 prices unless stated otherwise

2012/13

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost	Margin	Income
Operations	-	-	-	-	-	-	-	-	-
Maintenance	19	-	-	-	-	9	28	-	-
Renewals	-	-	-	-	-	-	-	-	-
Total	19	-	-	-	-	9	28	-	-

Cumulative

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost	Margin	Income
Operations	-	-	-	-	-	-	-	-	-
Maintenance	75	-	1	-	2	34	112	-	-
Renewals	-	-	-	-	-	-	-	-	-
Total	75	-	1	-	2	34	112	-	-

Notes:

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

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

In £m 2012/13 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2012/13				
Efficiency (£m)	(13)	38	(74)	(49)
Efficiency (%)	(1.3%)	3.6%	(3.5%)	(1.1%)
NR trajectory (£m)	38	37	142	217
NR trajectory (%)	3.8%	3.2%	2.1%	3.0%
PR08 (£m)	33	55	126	214
PR08 (%)	4.0%	4.5%	5.5%	4.9%
Cumulative				
Efficiency (£m)	90	301	358	749
Efficiency (%)	8.6%	23.2%	14.8%	15.8%
NR trajectory (£m)	78	292	689	1,059
NR trajectory (%)	7.7%	21.5%	20.8%	18.6%
PR08 (£m)	119	191	552	862
PR08 (%)	12.9%	14.1%	19.4%	16.8%

Comments:

- (1) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).
- (2) The REEM indicates the level of efficiency made in comparison to the CP3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in CP4 compared to CP3.
- (3) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent by the end of CP4.

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

In £m 2012/13 prices unless stated otherwise

- (4) This is the fourth year of the five year control period and the efficiencies achieved will be assessed against the target at the end of the control period. The position reported here indicates management's expectations with regards to the quantum of efficiencies achieved during 2012/13 and in the control period to date.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be around renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life asset cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (CP3 exit point) as set out in the below table:

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

- (7) Overall, efficiencies for the control period to date are 15.8 per cent. This is lower than the previous year, which reported efficiencies of 16.7 per cent for the control period to date, the ORR efficiency target and Network Rail's own efficiency trajectory. The decrease in efficiencies in 2012/13 compared to the previous year is mainly caused by increased renewals costs.
- (8) Controllable opex – controllable opex efficiencies in the year were negative. There were a number of contributory factors to this such as pay awards for non-managerial staff increasing at a faster rate than inflation. As disclosed in the Regulatory financial statements last year there were some one-off savings that were made in 2011/12 which contributed to the controllable opex efficiency being substantially ahead of the Network Rail trajectory, notably insurance costs. In addition, in the current year there were some one-off costs associated with the move of many operations to the new National Centre office in Milton Keynes. Despite this, controllable opex efficiencies are still ahead of the Network Rail trajectory for the control period to date reflecting the various savings made through management actions in the first three years of the control period.

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

In £m 2012/13 prices unless stated otherwise

- (9) Maintenance – efficiencies for the control period to date continue to be greater than the targets in the Regulator's determination and in Network Rail's own trajectory. Cost reductions have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. The reorganisation allowed for a significant decrease in headcount as well as implementation of standard terms & conditions and working practices which enabled better roster planning and management. Also, by better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. Finally, better procurement processing, including negotiating supplier discounts for prompt payment, have helped drive down expenses. Maintenance savings in the year were lower than PR08 target reflecting the better than planned progress made in the first three years of the control period and the higher staff costs in the year as pay awards granted to non-managerial staff were in excess of inflation. Savings in the year were, once again, higher than Network Rail's trajectory as initiatives and practices implemented in the first three years of the control period were sustained and built upon.
- (10) Renewals – 2012/13 witnessed lower renewals efficiencies as some of the gains in the first three years of the control period were reversed. The control period to date efficiencies are now lower than both the ORR's assumptions and Network Rail's own trajectory. Renewals efficiencies by category are discussed in more detail below:
- a. Track – during control period 4, improved asset management policies have allowed savings to be made through reducing volumes. As part of the revised Track Asset Policy developed in 2009/10 it was agreed with the ORR that through a reprioritisation of renewal onto the more critical route sections of the network and replacing this with refurbishment on the lower criticality sections, that this was a robust and sustainable approach to cost reductions and efficiencies on delivery for the control period. This has resulted in volume efficiencies of 14 per cent for plain line track and 21 per cent for switches & crossings for the control period to date. The more critical route sections that the new asset policy focussed on were, by their nature, the more expensive areas meaning that, ceteris paribus, unit costs would increase compared to the 2008/09 base line rate. In 2012/13 volume driven savings were partly offset by higher than expected track unit costs. The number of volumes delivered in the year was lower than expected, affected by lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). In order to create a more collaborative approach with its suppliers Network Rail has introduced framework contracts to protect suppliers against annual fluctuations in Network Rail's demand resulting in higher fixed costs inherent in the contracts. Thus, decreases in volumes do not result in linear decreases in unit costs. Despite the lower than expected efficiencies in the year, track renewals have still produced efficiencies of 14 per cent over the control period.
 - b. Signalling – during control period 4, signalling efficiencies have been nearly 19 per cent. This has been achieved through unit cost savings generated from delivering more work in-house, with Maintenance staff being particularly well suited to delivering minor works flexibility and relatively cheaply. Improved workbank planning and project management, reducing possession and subcontractor costs as well as shortening the time taken on site and the use of new technologies (such as Solid State Interlocking) have all contributed to cost savings. Enhanced layout design of signalling systems has also helped reduce the volumes delivered without impacting upon the sustainability of the asset. Efficiencies in the year were lower than planned, contributing to the decrease in overall renewal efficiencies for 2012/13. This was mostly due to increases in non-volume costs as expected costs for minor projects for the control period as a whole have increased compared to the forecast at the end of 2011/12.

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

In £m 2012/13 prices unless stated otherwise

- c. Operational property – savings in the control period have been achieved through improved workbank planning (leading to reduced late changes, abortive costs and premiums for late notice), more design work being completed in-house (reducing costs and improving flexibility), more competitive tendering (as contractors can be scheduled to work significantly in advance) and a better understanding of the cost base of projects. Improved contract negotiation has also allowed unit cost savings relative to RPI. In addition, use of standard designs concentrating on functionality has also reduced costs. Savings made in the control period to date at the end of 2012/13 were higher than 2011/12 as Network Rail reaps the benefit of these initiatives.
- d. Electrification – savings made in volumes due to an improved understanding of asset condition. Asset policy has also been amended to target renewals on those assets that require replacement based on their condition rather than their age. Also, completing more design work in-house (instead of using more expensive external contractors), improved work packaging (to reduce mobilisation costs) and organising extended possessions (to enable more work to be completed at one time) have also enabled cost reductions in this control period. Efficiencies for the control period to date at the end of 2012/13 are lower than those at the end of 2011/12 as the projects being delivered towards the end of the control period are increasingly complex.
- e. Telecoms (non-FTN) – savings in the control period have partly arisen from unit cost savings made in the provision of Customer Information Systems. Improved asset management policies have resulted in savings in the delivery of power concentrators. Control period to date savings were flat compared to 2011/12.
- f. Telecoms (FTN) – expenditure is higher than the pre-efficient baseline for this project and this gap has increased in 2012/13. Additional expenditure to achieve key milestones in the current year and increases in the scope of the project, such as additional asset testing, trespass and vandalism measures and increases in the total number of mast sites and tunnel solutions have all contributed to this.

Statement 13: GB Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	68	307.90 m	282.66 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£7,659 m	£6,004 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	25.12 m	27.2 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	28,578 m	28,438 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	68					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in CP4. Demand growth could be higher than envisaged; therefore the PR08 makes provision to incentivise Network Rail to meet unanticipated increases in demand. The above table illustrates the targets Network Rail has to achieve to trigger these rewards. In the control period to date, the passenger train miles target was achieved resulting in volume incentive amounts of £68m being earned. Under the terms of the volume incentive mechanism the cash earned by Network Rail is received during the next control period and is include in the Opex memorandum account (refer to Statement 10).

Statement 14: GB Maintenance unit costs

In £m 2012/13 prices unless stated otherwise

A) Maintenance expenditure 2012/13

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	6,758	3,512	23,734	-	23,734
MNT006	Manual Wet Bed Removal	Bay	174	32,166	5,597	-	5,597
MNT010	Replacement of S&C Bearers	Each	492	5,966	2,935	-	2,935
MNT011	S&C Arc Weld Repair	Number	593	9,019	5,348	-	5,348
MNT013	Level 1 Patrolling Track Inspection	Mile	73	674,690	49,252	-	49,252
MNT015	Weld Repair of Defective Rail	Number	450	9,755	4,390	-	4,390
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,049	1,486	3,045	-	3,045
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	2,900,734	11,603	-	11,603
MNT026	Replenishment of Ballast Train	Tonne	19	235,736	4,479	-	4,479
MNT027	Maintenance of Rail Lubricators	Lubricator	126	122,112	15,386	-	15,386
MNT029	Replacement of Pads & Insulators	Sleeper	16	474,546	7,593	-	7,593
MNT030	Maintenance of Longitudinal Timber	Timber	107	8,555	915	-	915
MNT032	CWR – Stressing	Yard	10	515,206	5,152	-	5,152
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	293	3,715	1,088	-	1,088
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	318	33,045	10,508	-	10,508
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	78	63,576	4,959	-	4,959
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	124	98,885	12,262	-	12,262
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	103	15,370	1,583	-	1,583
MNT120	S&C - Renew crossing	Crossing	17,297	604	10,447	-	10,447
MNT123	S&C Renew Half Set of Switches	H/S Switch	13,650	622	8,490	-	8,490
MNT125	Track Inspection (Other)	Mile	34	338,773	11,518	-	11,518
MNT128	Lift & Replace Level Crossing for PWAY	Location	894	3,399	3,039	-	3,039
MNT150	Signalling Cables	Various	39	169,634	6,616	-	6,616
MNT155	Point End Routine Maintenance non Powered	Point End	83	70,026	5,812	-	5,812
MNT156	Point End Routine Maintenance Powered	Point End	90	508,420	45,758	-	45,758
MNT170	Vegetation Management (Manual)	Square Yard	4	3,977,251	15,909	-	15,909
MNT207	Maintain CRE Cables	Various	116	10,115	1,173	-	1,173
MNT210	Maintain Non-Traction Power Supplies	Each	106	1,899	201	-	201
MNT211	Maintain OHL Components	Various	107	251,957	26,959	-	26,959
MNT212	Maintain Points Heating	Each	46	164,155	7,551	-	7,551
Total					313,302	-	313,302
Expenditure outside unit cost framework						685,698	685,698
Total					313,302	685,698	999,000

Statement 14: GB Maintenance unit costs continued

In £m 2012/13 prices unless stated otherwise

B) Maintenance expenditure 2011/12

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non- volume (£'000)	Total cost (£'000)
MNT001	Manual Ultrasonic Inspection of Rail	Rail Mile	253	78,567	19,877	-	19,877
MNT002	Rail Changing	Rail Yard	172	176,489	30,356	-	30,356
MNT003	Manual Spot Re-sleepering	No. of Sleepers	219	34,988	7,662	-	7,662
MNT004	Plain Line Tamping	Track Mile	5,319	3,512	18,680	-	18,680
MNT005	Stoneblowing	Track Mile	5,021	1,349	6,773	-	6,773
MNT006	Manual Wet Bed Removal	No. of Bays	175	28,363	4,964	-	4,964
MNT008	S&C Unit Renewal	No. of S&C units	15,380	1,141	17,549	-	17,549
		No. of S&C				-	
MNT010	Replacement of S&C Bearers	Bearers	503	7,202	3,623	-	3,623
MNT011	S&C Arc Weld Repair	No. of Repairs	555	7,289	4,045	-	4,045
MNT013	Level 1 Patrolling Track Inspection	Each	78	717,079	55,932	-	55,932
		No. of Repairs				-	
MNT015	Weld Repair of Defective Rail	(weld)	441	8,007	3,531	-	3,531
MNT016	Installation of Pre-Fabricated IRJs	No. of Joints	2,523	1,272	3,209	-	3,209
MNT019	Manual Correction of Plain Line	Track Yards	14	2,288,397	32,038	-	32,038
	Track Geometry					-	
MNT020	Manual Reprofiting of Ballast	Track Yards	5	3,352,441	16,762	-	16,762
MNT026	Replenishment of Ballast Train	Tonnes	19	343,608	6,529	-	6,529
MNT027	Maintenance of Rail Lubricators	Each	130	115,701	15,041	-	15,041
MNT029	Replacement of Pads & Insulators	Sleepers	16	570,971	9,136	-	9,136
MNT032	CWR – Stressing	Yard	11	608,333	6,692	-	6,692
MNT050	Point End Routine Maintenance	Services	89	566,753	50,441	-	50,441
MNT051	Signals Routine Maintenance	Services	70	251,258	17,588	-	17,588
MNT052	Track Circuit Routine Maintenance	Services	92	274,088	25,216	-	25,216
MNT073	Drainage	Drainage Yards	12	395,803	4,750	-	4,750
MNT077	Signs	Each	-	-	-	-	-
MNT122	S&C Maintenance (other)	Point Ends	46	472,530	21,736	-	21,736
MNT125	Track Inspection (other)	Track Mile	38	358,478	13,622	-	13,622
MNT211	Maintain OHL Components	Services	127	233,944	29,711	-	29,711
Total					425,463	-	425,463
Expenditure outside unit cost framework						571,537	571,537
Total					425,463	571,537	997,000

Statement 14: GB Maintenance unit costs continued

In £m 2012/13 prices unless stated otherwise

Comments:

- (1) Network Rail has been continuously improving the unit cost system architecture and process. These improvements included material changes in the measurement framework which preclude comparisons from being made with the 2011/12 reported results. The key issues affecting activity based measurement comparability (current unit costs vs. 2011/12) are:
 - a. More activities have been ring fenced into new Maintenance Unit Costs (MUCs);
 - b. Non-productive staff time is now booked to MUCs;
 - c. Additional resources are now included in MUCs to truly reflect the activity cost;
 - d. The volume unit of measure across various MUCs has been iteratively refined;
 - e. Percentage coverage of activity and cost has increased significantly;
 - f. System modifications to correct the unit of measure conversion from activity recording system into required unit of measure output;
 - g. Refinement of internal policies and practices to ensure there is consistent definition of what makes up each activity;
 - h. Accuracy of system coding has increased so more costs are being correctly booked to MUCs.
- (2) As noted above the number of MUCs has increased compared to the prior year and there is now a higher percentage of volumes captured through the MUC framework. This is reflected in the above tables where activity is now reported against 30 categories compared to 26 for the previous year. However, the average total cost attached to each category has decreased compared to the prior year resulting in a lower ratio of MUC: Total maintenance costs in the sample disclosed.

Statement 15: GB Renewals unit costs and coverage

In £m 2012/13 prices unless stated otherwise

A) Renewals unit costs 2012/13

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non-volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	302	1,726	521		521
	S&C equivalent unit renewal	503	362	182		182
	Other non-volume costs				79	79
	Total			703	79	782
Civils	701 Overbridge	1.25	6,641	8		8
	702 Underbridge	1.27	78,829	100		100
	703 Overbridge - Bridgeguard 3	1.04	824	1		1
	704 Footbridge	5.00	1,097	5		5
	705 Tunnel	0.71	6,983	5		5
	706 Culvert	4.10	661	3		3
	707 Retaining Wall	2.19	926	2		2
	708 Earthworks	0.12	477,646	57		57
	Other non-volume costs				282	282
	Total			181	282	463
Signalling	101 - Re-signalling	193	836	161		161
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	381	27	10		10
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				436	436
	Total			171	436	607
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 - DOO CCTV	27	53	1		1
	503 - PETS/Level crossing	14	47	1		1
	504 - Small signal box concentrator	203	26	5		5
	506 - Customer Info system	30	123	4		4
	507 - Long line address system	3	4,491	13		13
	Other non-volume costs				163	163
	Total			24	163	187

Statement 15: GB Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

B) Renewals unit costs 2011/12

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non-volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	258	1,914	494		494
	S&C equivalent unit renewal	457	333	152		152
	Other non-volume costs				76	76
	Total			646	76	722
Civils	701 Overbridge	1.86	7,420	14		14
	702 Underbridge	1.59	71,498	114		114
	703 Overbridge - Bridgeguard 3	2.81	8,882	25		25
	704 Footbridge	1.24	1,852	2		2
	705 Tunnel	0.69	28,998	20		20
	706 Culvert	1.98	2,130	4		4
	707 Retaining Wall	0.50	12,451	6		6
	708 Earthworks	0.15	493,323	74		74
	Other non-volume costs				127	127
	Total			259	127	386
Signalling	101 - Re-signalling	204	1,055	215		215
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	671	22	15		15
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				224	224
	Total			230	224	454
Telecoms	501 - Large concentrator	1,270	2	3		3
	502 - DOO CCTV	49	117	6		6
	503 - PETS/Level crossing	41	12	-		-
	504 - Small signal box concentrator	130	21	3		3
	506 - Customer Info system	13	384	5		5
	507 - Long line address system	n/a	n/a	n/a		n/a
	Other non-volume costs				197	197
	Total			17	197	214

Statement 15: GB Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

Notes:

- (1) The unit costs for telecoms and civils only include costs and volumes associated with projects that have completed during the year. Following the end of a project an analysis is performed to understand the costs and so create a more accurate unit cost framework when assessing future costs of similar projects. The amounts included in other non-volume costs are merely a balancing figure to reconcile total expenditure reported in this statement to the data provided in Statement 9a.

Comments:

- (1) Overall, the value of renewals activities being reported through the renewals unit cost framework has decreased by 7 percentage points. This decrease is mostly due to fewer structures projects being captured in the unit cost framework as the completion of projects has slipped into future years. Until the project is completed and the volume recognised the associated costs incurred are included within the non-volume costs. The proportion of renewals expenditure being measured through the renewals unit cost tables has decreased from 46 per cent to 39 per cent. This is partly due to an increase in the value of renewals compared to the prior year in categories which are not covered by unit cost and volume reporting, such as ORBIS and other projects over and above the PR08 funding.
- (2) Track – Plain line – volumes delivered were 10 per cent lower than the previous year mainly because of lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to 2011/12 is closely related to these lost volumes as there is an element of sunk costs incurred regardless of whether the volume is delivered. Typically, these costs would include mobilisation and possession costs, logistics and design costs. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.
- (3) Track – S&C – volumes delivered in the year were 9 per cent higher than 2011/12. This increase was planned as Network Rail intended to deliver more S&C units per year as the control period progressed (as set out in the Delivery Plan update 2012). Although volumes increased compared to the prior year they were lower than budgeted. S&C unit costs were 10 per cent higher than the previous year adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to 2011/12 is due to late changes to the workbank as routes become more autonomous in their operations and due to industrial action by key logistics supplier (necessitating late changes to designs and mobilisation costs), and additional contractor costs incurred under the terms of the framework agreements.
- (4) Civils – Overbridges – unit costs are around a third lower than the previous year mostly due to the mix of projects, there are a number of low cost/ low volume projects offset by a smaller number of larger reconstruction projects. Volumes are 10 per cent lower than the previous year. The Delivery Plan 2012 forecast a decrease in overbridges in 2012/13 compared to 2011/12.

Statement 15: GB Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

- (5) Civils – Underbridges – unit costs were 20 per cent lower than the previous year. This is largely associated with slippage of work to 2013/14, those projects that have slipped are the relatively more expensive ones. There was an increase in volumes of 10 per cent compared to the prior year but volumes delivered were expected to have increased by more than 20 per cent in the year as set out in the Delivery Plan update 2012. Volumes delivered in the year were lower than expected due to a combination of reasons including access constraints, design and development issues, adverse weather conditions, and re-scheduling to enable more cost efficient solutions
- (6) Civils – Bridgeguard 3 – unit costs decreased by nearly two thirds compared to the prior year. The level of volumes delivered in 2012/13 was evidently lower than in 2011/12 meaning that with a lower sample of projects, the unit costs are inherently likely to be more volatile. Bridgeguard 3 volumes were over 90 per cent less than the previous year. It was noted in last year's Regulatory financial statements that the volumes delivered in 2011/12 were unusually high. The Delivery Plan update 2012 predicted an 80 per cent decrease in Bridgeguard 3 volumes between 2011/12 and 2012/13.
- (7) Civils – Footbridges – unit costs have increased by over 300 per cent compared to the previous year. In last year's Regulatory financial statements it was noted that the low unit cost for Footbridges was mostly due to the types of projects being undertaken. The unit costs reported for 2012/13 are more in line with the 2010/11 unit costs illustrating the unusually low unit costs arising from activity reported in 2011/12. The majority of the jobs undertaken in the current year were replacement jobs which incur a higher unit cost. Footbridge volumes were lower than the prior year, although the Delivery Plan update 2012 predicted a perceptible increase in volumes. This is mostly due to deferral of volume activity, with volumes now forecast for 2013/14 being almost double those presented in the Delivery Plan update 2012.
- (8) Civils – Tunnels – unit costs are in line with the previous year. As noted in last year's Regulatory financial statements volumes tend to be erratic for tunnels as they are dictated by when Network Rail is able to gain access to the structures. The uneven profile of Tunnels volumes delivery is demonstrated in the Delivery Plan update 2012 which anticipated the significant decrease in tunnels volumes in 2012/13 compared to 2011/12.
- (9) Civils – culverts – unit costs were significantly lower than the previous year. This is due to management actions to generate efficiencies and also by the mix of projects this year compared to the previous year. Even within a single category, such as culverts, the cost of each unit delivered is not necessarily uniform and so the mix of projects in any given year can have a significant impact on the unit costs in that year. Volumes were nearly 70 per cent lower than 2011/12. This decrease was forecast in the Delivery Plan 2012 update which expected a significant reduction in volumes in the final two years of the control period compared to the first three years.
- (10) Civils – retaining walls – unit costs were more than four times as much in the current year compared to 2011/12, reflecting the mix of projects undertaken in the year. Retaining walls unit costs can be very different depending on the nature of individual jobs. The unit costs in 2012/13 range from £520 to £12,045. Volumes were over 90 per cent lower than 2011/12. As noted in last year's Regulatory financial statements the level of retaining walls volumes for 2011/12 were unusually high. Volumes for 2012/13 are more in line with the expectation set out in the Delivery Plan 2012 update which illustrated the erratic trend of retaining walls volumes.

Statement 15: GB Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

- (11) Civils – earthworks – unit costs have decreased by 20 per cent compared to the previous year reflecting the slippage of a number of expensive projects into 2013/14. Volumes were in line with the prior year.
- (12) Signalling – re-signalling unit costs were 5 per cent lower than the previous year. This was due to efficiencies achieved on the individual projects delivered this year compared to the projects that were delivered last year. There was a decrease in the number of volumes delivered in the year compared to the prior year. This was due to more major projects being commissioned in the previous year compared to the current year.
- (13) Telecoms – DOO CCTV – the volume delivered in the current year was less than half that in the prior year. This decrease is in line with the fall set out in the Delivery Plan update 2012. Volumes delivered were approximately 90 per cent of the plan with the difference being due to certain projects being deferred until the final year of the control period. The unit costs are noticeably different to the prior year which reflects the mix of projects undertaken in 2012/13 compared to 2011/12. The nature of the project can have a substantial impact upon the average unit cost.
- (14) Telecoms – PETS/ Level Crossing – there was a significant increase in the volumes delivered this year compared to the previous year. This was in line with the Delivery Plan update 2012 which anticipated 45 units compared to the 47 delivered. There was a significant decrease in unit cost compared to the prior year which reflects the mix of projects undertaken in 2012/13 compared to 2011/12.
- (15) Telecoms – Small signal box concentrator – volumes increased by 24 per cent compared to the previous year due to phasing of activity. Volumes delivered were approximately 40 per cent lower than planned due to re-phasing and de-scoping across a number of projects.
- (16) Telecoms – Customer info systems – volumes in the year were less than one third of those delivered in the previous year. A more pronounced decrease was expected in the Delivery Plan update 2012. Volumes delivered in the year were more than double the plan. This was due to the net impact of one project being deferred to future years and another slipping from 2011/12 into 2012/13. Unit costs were higher in the current year compared to the previous year partly due to the significantly lower level of activity in the year but also due to the expensive nature of some of the projects undertaken in the current year.
- (17) Telecoms – Long line address system – this information is reported for the first time in these Regulatory financial statements. The volumes delivered in the year were 14 per cent higher than planned due to a slippage of activity from 2011/12 into 2012/13.

DISAGGREGATED FINANCIAL INFORMATION - ENGLAND & WALES AND SCOTLAND

Statement 1: England & Wales Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference	Actual
Income	5,862	5,882	(20)	23,517	23,475	42	5,813
Expenditure							
Controllable opex	855	728	(127)	3,546	3,143	(403)	843
Non-controllable opex	450	412	(38)	1,731	1,577	(154)	401
Maintenance	910	1,050	140	4,046	4,432	386	910
Schedule 4 & 8	253	141	(112)	761	684	(77)	164
Renewals	2,465	2,015	(450)	9,176	9,696	520	2,220
Enhancements	1,941	1,598	(343)	6,449	7,502	1,053	2,021
Financing costs	1,356	1,467	111	5,189	5,144	(45)	1,362
Corporation tax	-	14	14	11	15	4	3
Rebates	3	-	(3)	152	-	(152)	41
Total expenditure	8,233	7,425	(808)	31,061	32,193	1,132	7,965

Notes:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £61m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period to date. For the avoidance of doubt, note that comments about variances in these Regulatory financial statements refer to the current year rather than the cumulative position for the control period unless otherwise stated.
- (2) Income was lower than the PR08, mainly due to lower freight income and property sales, partly offset by higher than expected stations income. This is set out in more detail in Statement 6a.
- (3) Once again, controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Non-controllable opex was higher than the PR08 largely due to additional EC4T and cumulo costs. This is set out in more detail in Statement 7a.
- (5) As in previous years, Maintenance costs were lower than the PR08. This is set out in more detail in Statement 8a(1).
- (6) Net Schedule 4 & 8 costs were higher than the PR08 mostly due to Schedule 8 performance penalties. This is set out in more detail in Statement 10.

Statement 1: England & Wales Summary regulatory financial performance continued

In £m 2012/13 prices unless stated otherwise

- (7) Renewals expenditure is set out in more detail in Statement 9a and is higher than the PR08 largely due to re-profiling of expenditure within the control period. Underspend compared to the PR08 in earlier years of the control period have been partly caught up in recent years.
- (8) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 mostly due to re-profiling of expenditure within the control period and the impact of non-PR08 enhancements projects (such as Crossrail and Electrification).
- (9) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (10) During the year rebates of £3m were paid to Train Operating Companies, Freight Operating Companies and other Open Access Operators under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This allows Network Rail's track customers to benefit from the financial outperformance achieved by Network Rail. Financial outperformance occurs when Network Rail saves even more money than expected under the regulatory settlement.

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

In £m 2012/13 prices unless stated otherwise

A) Calculation of the England & Wales RAB at 31 March 2013

	Actual	PR08	Difference
Opening RAB for the year (2006/07 prices)	32,078	34,514	(2,436)
Indexation to 2011/12 prices	5,967	6,419	(452)
Opening RAB for the year (2011/12 prices)	38,045	40,933	(2,888)
Indexation for the year	1,134	1,219	(85)
Opening RAB (2012/13 prices)	39,179	42,152	(2,973)
Adjustments for the actual capex outturn in CP3	-	-	-
Renewals	1,993	2,015	(22)
Enhancements PR08	1,385	1,597	(212)
Non-PR08 enhancements (added to the RAB)	367	-	367
Total Enhancements	1,752	1,597	155
Renewals & Enhancements funded from Ring Fenced Fund (RFF)	(580)	(580)	-
Amortisation	(1,568)	(1,568)	-
Adjustment for missed regulatory outputs	(436)	-	(436)
Closing RAB at 31 March 2013	40,340	43,616	(3,276)

RAB Regulatory financial position - cumulative

B) Calculation of the cumulative England & Wales RAB at 31 March 2013

	2009/10	2010/11	2011/12	2012/13	CP4 Total
Opening RAB (2012/13 prices)	34,873	36,351	37,429	39,179	34,873
Adjustments for the actual capex outturn in CP3	(71)	-	-	-	(71)
Renewals	2,341	2,018	2,005	1,993	8,357
Enhancements PR08	991	916	1,445	1,385	4,737
Non-PR08 enhancements (added to the RAB)	242	209	419	367	1,237
Total Enhancements	1,233	1,125	1,864	1,752	5,974
Renewals & Enhancements funded from RFF	(457)	(497)	(551)	(580)	(2,085)
Amortisation	(1,568)	(1,568)	(1,568)	(1,568)	(6,272)
Adjustment for missed regulatory outputs	-	-	-	(436)	(436)
Closing RAB	36,351	37,429	39,179	40,340	40,340

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in Part B), from the start of the control period. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and Network Rail continues to have regular discussions around the treatment of capital expenditure with the ORR.

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

In £m 2012/13 prices unless stated otherwise

- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in its Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. The variance to the Delivery Plan update 2012 is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a). Although Network Rail spent more on renewals in the current year than the PR08 assumed, not all of this variance was eligible for inclusion in the RAB. This was mostly because the Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances eligible for RAB addition to reflect the impact of input prices (measured using IOPI).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. The variance to the Delivery Plan update 2012 is mostly due to re-profiling of expenditure within the control period (refer to Statement 3). The value of enhancements added to the RAB was higher than the ORR assumed due to expenditure on non-PR08 enhancement schemes. These schemes (such as Crossrail and Electrification) were not included as part of the original PR08 settlement but have been approved in principle for RAB addition by the ORR.
- (4) In 2012/13 the RAB has been reduced to reflect missed regulatory outputs, namely failure to achieve the ORR's punctuality targets for the following railway sectors: Long Distance, London South East and Regional. The reduction represents the estimated amount of PR08 funding Network Rail has received for improving train performance that has not resulted in the required improvements. This treatment is consistent with the guidance in the Regulators' determination. The value calculated is a mechanistic figure which does not take into account the external factors preventing Network Rail from achieving the Regulator's targets such as weather (2012 was the second wettest year since records began), cable theft and network trespass. Current estimates suggest that the size of the adjustment should be reduced by at least £115m. We continue to have discussions with the ORR about this adjustment.
- (5) We have been advised by the ORR of prospective adjustments to the RAB in relation to deemed under performance in asset management, specifically on our civils assets (including bridges and earthworks), fencing and drainage. Network Rail does not agree with the principle or the basis of assessment and discussions are at an early stage. The ORR has informed us that they will assess and conclude on the quantum of the adjustments in their annual efficiency and finance assessment later this year. Whilst the adjustments could reduce the Great Britain RAB by up to £1bn, the outcome of discussions with the ORR is so uncertain that we have not reflected any reduction in these Regulatory Financial Statements.
- (6) In the recently published Draft Determination the ORR have noted that they will reduce the control period 5 opening RAB by £1.2bn to reflect a perceived tax double count in control period 3. The ORR have advised us that this adjustment will only apply from 1 April 2014 and, therefore, it not included in the RAB valuation included in these Regulatory Financial Statements.

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

In £m 2012/13 prices unless stated otherwise

	Movements in 2012/13			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/13	Actual	PR08	Difference
Renewals						
Renewals in the determination			2,017	9,656	9,656	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(60)	(11)	(71)	(280)	(206)	(74)
CP3 deferrals to CP4	-	12	12	259	219	40
Seven day railway	21	1	22	29	27	2
Other adjustments	29	1	30	50	-	50
Adjusted PR08 determination (renewals)	(10)	3	2,010	9,714	9,696	18
Adjustments for the PR08 RAB roll forward policy						
Adjustments for acceleration/ (deferrals) of expenditure within CP4	40	(46)	(6)	(973)	-	(973)
IOPI index adjustments	(150)	(25)	(175)	(609)	-	(609)
Adjustments for efficient over spend ⁽⁴⁾	210	9	219	302	-	302
25% retention of efficient over spend ⁽⁴⁾	(53)	(2)	(55)	(78)	-	(78)
Other adjustments	-	-	-	1	-	1
Total Renewals (added to the RAB)	37	(61)	1,993	8,357	9,696	(1,339)
Adjustment for inefficient overspend			347	547	-	547
Adjustment for capitalised financing			61	168	-	168
Adjustment for 25% retention of efficient over spend			53	78	-	78
Other adjustments			11	26	-	26
Total actual renewals expenditure (see Statement 9a)			2,465	9,176	9,696	(520)

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

In £m 2012/13 prices unless stated otherwise

	Movements in 2012/13			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/13	Actual	PR08	Difference
Enhancements						
Enhancements in PR08			1,703	7,483	7,339	144
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	60	11	71	280	206	74
CP3 deferrals to CP4	-	4	4	89	83	6
Change in funding arrangements	(20)	(6)	(26)	(156)	-	(156)
Other adjustments	(144)	(19)	(163)	(482)	(126)	(356)
Adjusted PR08 determination (enhancements)	(104)	(10)	1,589	7,214	7,502	(288)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for efficient under spend	(17)	-	(17)	(17)	-	(17)
25% retention of efficient under spend	4	-	4	4	-	4
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(81)	(110)	(191)	(2,464)	-	(2,464)
Other Adjustments	-	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(198)	(120)	1,385	4,737	7,502	(2,765)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing ⁽⁵⁾	233	7	240	240	-	240
Non PR08 enhancements expenditure not qualifying for capitalised financing	127	-	127	997	-	997
Total Non PR08 enhancement expenditure	360	7	367	1,237	-	1,237
Total non PR08 enhancements (added to the RAB)	360	7	367	1,237	-	1,237
Total enhancements (added to the RAB)	162	(113)	1,752	5,974	7,502	(1,528)
Adjustment for capitalised financing			113	296		296
Adjustment for 25% retention of efficient over/under spend			(4)	(4)		(4)
Other adjustments			-	(21)		(21)
Non PR08 expenditure						
Third party funded schemes			263	1,206		1,206
Other adjustments			80	204		204
Total actual enhancement expenditure (see Statement 3)			2,204	7,655	7,502	153

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

In £m 2012/13 prices unless stated otherwise

Memo item 1 - renewals over/under spend log	2009/10	2010/11	2011/12	2012/13	CP4 to date
Net volume under/over spend (efficient)	-	-	-	-	-
Net volume overspend (inefficient)	-	-	-	-	-
Net unit cost over/under spend	-	-	-	-	-
Total over/under spend renewals	-	-	-	-	-

Memo item 2 - Outstanding non-capex RAB additions (cash prices)	2009/10	2010/11	2011/12	2012/13
Brought forward balance	4,252	4,122	4,173	4,242
Indexation for the year	12	195	215	126
Amortisation	(142)	(144)	(146)	(157)
Closing balance	4,122	4,173	4,242	4,211

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancement expenditure for the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Non-delivery of regulatory outputs in the control period;
 - b. Deferrals/ acceleration of capital works within the control period and net deferral/ acceleration into/ from CP5;
 - c. Agreed changes to the original scope of capital works assumed in the determination
 - d. Changes in input prices as indicated by the IOPI index (see below);
 - e. Efficient underspend/ overspend; and
 - f. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2013. The Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances to reflect the impact of IOPI when assessing the value of renewals expenditure that can be added to the RAB. During the control period to date the IOPI index has increased by 6.4 per cent compared to the RPI equivalent figure of 14.1 per cent over the same period. This has the impact of reducing the PR08 renewals allowance eligible for RAB addition by £175m in the year and £609m for the control period to date.
- (4) Efficient Renewals overspend refers to projects where Network Rail are delivering schemes over and above those required and funded in control period 4. Many of these schemes are designed to produce long run cost savings and operational improvements, the benefits of which will not all be realised in the current control period. Examples include amounts spent on the new national centre in Milton Keynes and ORBIS, a programme to improve asset management information, both of which will enable efficiency savings in CP5 and beyond. Funding for these schemes were not included in the original PR08. Under the terms of the Regulatory Asset Guidelines Network Rail bears the first 25 per cent of the cost of each of these projects.

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

In £m 2012/13 prices unless stated otherwise

- (5) Certain non-PR08 enhancements, such as Electrification, attract capitalised financing. This is to reflect the additional borrowing costs that Network Rail has incurred as part of the cost of constructing this new asset as these financing costs would not have been included as part of the Regulator's revenue calculation. For other non-PR08 enhancements, such as Crossrail, Network Rail is compensated for borrowing costs on an on-going basis meaning that no addition to the RAB for these financing costs is required.

Statement 2c: England & Wales Summary of RAB movements

In £m 2012/13 prices unless stated otherwise

A) Renewals RAB additions

Movements	2009/10	2010/12	2011/12	2012/13
PR08 determination	2,910	2,517	2,212	2,017
Deferrals from CP3	225	26	(4)	12
Delivery plan additions/ (reductions)	2	33	(8)	52
Delivery plan re-classifications	(70)	(75)	(64)	(71)
Adjusted PR08 determination	3,067	2,501	2,136	2,010
(Deferrals to)/ acceleration from later in CP4	(650)	(468)	151	(6)
IOPI index adjustment	(79)	(39)	(316)	(175)
Other adjustments	-	1	-	-
Adjustments for efficient over/under spend	3	23	34	164
Total additions to RAB	2,341	2,018	2,005	1,993

B) Enhancements RAB additions

Movements	2009/10	2011/12	2011/12	2012/13
PR08 determination	1,673	2,270	1,837	1,703
Deferrals from CP3	81	-	4	4
Delivery plan reductions	(8)	(115)	(6)	(26)
Delivery plan re-classifications	70	70	(251)	(92)
Adjusted PR08 determination	1,816	2,225	1,584	1,589
(Deferrals to)/ acceleration from later in CP4	(821)	(1,313)	(139)	(191)
Adjustments for efficient over/ (under) spend	(4)	4	-	(13)
Other adjustments	-	-	-	-
PR08 determination additions to the RAB	991	916	1,445	1,385
Non-PR08 determination additions to the RAB	242	209	419	367
Total additions to RAB	1,233	1,125	1,864	1,752

Statement 3: England & Wales Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Thameslink	404	599	195	2,113	2,782	669
Total Schemes covered by a tailored protocol or fixed price agreement	404	599	195	2,113	2,782	669
Funds						
CP5 development fund	22	17	(5)	58	33	(25)
NRDF (Network Rail Discretionary Fund)	25	57	32	167	229	62
Access for All	39	57	18	202	216	14
NSIP (National Stations Improvement Programme)	41	25	(16)	138	91	(47)
Performance fund (HLOS)	22	24	2	163	93	(70)
SFN (Strategic Freight Network)	74	58	(16)	108	190	82
Seven day railway fund	47	63	16	79	185	106
Safety and environment fund	20	-	(20)	98	134	36
Adjustment due to change of funding from DfT	(20)	-	20	(140)	-	140
Total Funds	270	301	31	873	1,171	298
Other PR08 funded schemes						
Intercity express programme	22	106	84	37	213	176
King's Cross ⁽¹⁾	26	12	(14)	357	360	3
Birmingham New Street gateway project	33	98	65	46	121	75
East Coast Mainline overhead line enhancement	4	11	7	26	32	6
St Pancras - Sheffield line speed improvements	22	3	(19)	30	78	48
Nottingham Resignalling	6	10	4	7	13	6
North London Line capacity enhancement	1	4	3	78	76	(2)
GSM-R on freight routes	-	-	-	-	-	-
Station security	3	5	2	13	18	5
Reading	223	160	(63)	424	486	62
Platform Lengthening - Southern	79	126	47	208	349	141
Southern Capacity	14	15	1	24	33	9
ECML improvements	180	204	24	255	431	176
Power supply upgrade	39	40	1	83	117	34
Western Improvements Programme	24	7	(17)	69	104	35
WCML Committed Schemes	125	120	(5)	190	367	177
Midlands Improvement Programme	6	28	22	27	68	41
Northern Urban Centres - Leeds	6	22	16	15	101	86
Northern Urban Centres - Manchester	13	31	18	34	77	43
Trans Pennine Express linespeed improvements	1	11	10	3	28	25
Unallocated Overheads	1	-	(1)	35	-	(35)
Total Other PR08 funded schemes	828	1,013	185	1,961	3,072	1,111
CP4 Delivery Plan	1,502	1,913	411	4,947	7,025	2,078
Schemes carried over from CP3						
WCRM	-	-	-	45	45	-
ERTMS	-	-	-	20	20	-
Cab fitment	-	-	-	13	13	-
Total Schemes carried over from CP3	-	-	-	78	78	-
Re-profiled expenditure due to programme deferral						
	-	(315)	(315)	-	399	399
Total PR08 funded enhancements (see Statement 2b)	1,502	1,598	96	5,025	7,502	2,477

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

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Crossrail	119	-	(119)	299	-	(299)
Electrification	168	-	(168)	234	-	(234)
Northern Hub – Phase 1	10	-	(10)	15	-	(15)
Station Commercial Project Fund (SCPF)	13	-	(13)	13	-	(13)
Winter resilience	16	-	(16)	16	-	(16)
Nuneaton North Cord (TIF)	4	-	(4)	4	-	(4)
Mid tier accessibility	7	-	(7)	7	-	(7)
Other	4	-	(4)	54	-	(54)
Total Government sponsored schemes	341	-	(341)	642	-	(642)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	-	-	-	4	-	(4)
Victoria Place shopping centre	-	-	-	96	-	(96)
Waterloo Retail development project	6	-	(6)	24	-	(24)
Kings Cross concourse	-	-	-	11	-	(11)
London Bridge retail development	7	-	(7)	7	-	(7)
Other income generating schemes	29	-	(29)	127	-	(127)
Adjustment for income generating schemes ⁽¹⁾	(21)	-	21	(39)	-	39
Total Network Rail sponsored schemes (income generating)	21	-	(21)	230	-	(230)
Network Rail sponsored schemes (cost saving) ⁽²⁾						
York Acquisition Thrall Site	(9)	-	9	-	-	-
Three Bridges signalling centre	(6)	-	6	-	-	-
Other cost saving schemes	(11)	-	11	-	-	-
Total Network Rail sponsored schemes (cost saving)	(26)	-	26	-	-	-
Schemes promoted by third parties						
Virgin West Coast Car Parks	-	-	-	44	-	(44)
Evergreen 3	10	-	(10)	160	-	(160)
SSWT promoted schemes	8	-	(8)	35	-	(35)
Edge Hill Depot	-	-	-	9	-	(9)
Etches Park Depot	-	-	-	23	-	(23)
EMT promoted schemes	2	-	(2)	15	-	(15)
Southampton Airport Parkway Car Park	-	-	-	13	-	(13)
Chiltern Moor Street	-	-	-	14	-	(14)
SSWT ticket gates and vending machine	-	-	-	19	-	(19)
Southern promoted schemes	14	-	(14)	30	-	(30)
Nottingham hub	8	-	(8)	20	-	(20)
FGW promoted schemes	-	-	-	13	-	(13)
Virgin 11 car Pendolino on West Coast	3	-	(3)	12	-	(12)
Thameshaven Branch Re-doubling	10	-	(10)	10	-	(10)
Other schemes promoted by third parties	8	-	(8)	38	-	(38)
Adjustment for third party promoted schemes ⁽³⁾	(39)	-	39	(99)	-	99
Total Schemes promoted by third parties	24	-	(24)	356	-	(356)
Enhancement expenditure not meeting ORR criteria for RAB addition						
Outperformance expenditure	19	-	(19)	42	-	(42)
Schemes with pay back period within the control period	-	-	-	16	-	(16)
Adjustment for income generating schemes and facility fees	60	-	(60)	138	-	(138)
Total enhancement expenditure not meeting ORR criteria for RAB addition	79	-	(79)	196	-	(196)

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

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Total Network Rail funded enhancements (see Statement 1)	1,941	1,598	(343)	6,449	7,502	1,053
Third party funded (PAYG)	263	-	(263)	1,206	-	(1,206)
Total enhancements (see Statement 2b)	2,204	1,598	(606)	7,655	7,502	(153)

Notes:

- (1) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received as a direct result of completing such enhancements. For these schemes, the amount to be added to the RAB at the end of CP4 should be the capital expenditure less the total net income received from that scheme during the control period.
- (2) Following consultation with ORR, schemes previously categorised as Network Rail sponsored schemes (cost saving) undertaken in the control period to date have been removed from the above table. The above table shows negative expenditure in the current year in order to get the control period to date expenditure to £nil for these types of schemes.
- (3) Within other schemes promoted by third parties is an adjustment for revenue received from schemes promoted by third parties as a direct result of completing such enhancements. For such schemes, the amount to be added to the RAB at the end of CP4 should be the capital expenditure less the total net income received from that scheme during the control period.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's latest response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition or from Network Rail's outperformance. The current year and the control period to date figure also includes £20m and £140m respectively received from the DfT for schemes previously being funded through CP4 RAB addition.
- (5) Enhancement expenditure by Network Rail in the year was £1,941m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£2,204m) less the PAYG schemes (£263m).

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

In £m 2012/13 prices unless stated otherwise

- (6) Expenditure on PR08 enhancements was 3 per cent lower than the previous year. Thameslink expenditure was £315m lower than the previous year as higher expenditure in 2011/12 was required in order to achieve key project milestones in line with the agreed timetable for completion. Expenditure in the current year was noticeably higher on Reading (with the Key Output stage 1 completed in November 2012 and Key Output stage 2 scheduled for completion in 2013), ECML improvements (including additional spend on Capacity Relief project) and WCML committed schemes (largely due to extra work on power supply upgrade programme which commenced in March 2012), reflecting additional activity on these projects this year.
- (7) Non-PR08 RAB-funded enhancement expenditure decreased by 17 per cent compared to the previous year mostly as a result of the purchase of Victoria Place shopping centre in 2011/12 and the removal of cost-saving enhancements from this table (as noted above). Ignoring the impact of these items, Non-PR08 RAB-funded expenditure was some £56m higher than the previous year. Increased expenditure on government sponsored schemes (notably Electrification programme and Crossrail as these projects progress) was partly offset by lower expenditure on Evergreen 3 (largely complete) and higher deductions made for additional income earned by Network Rail (refer to Note above).
- (8) Outperformance expenditure was significantly higher than the previous year primarily due to expenditure on reducing the number of level crossings in operation on the network. This is part of the company's continued commitment to improving the safety of the railway network. The level crossing risk reduction programme is being funded from savings made from outperforming the Regulator's determination (as set out in Statement 5).
- (9) PAYG expenditure was more than 40 per cent higher than the previous year. This was mainly due to increased expenditure on the Birmingham Gateway project as activity on this project accelerated in the year, the change in funding from the DfT referred to above and additional projects required to facilitate the extra traffic owing to the Olympic and Paralympics games in London in summer 2012.

Statement 4: England & Wales Net debt and financial ratios

In £m cash prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt England & Wales at 31 March 2013						
Opening net debt	23,829	25,990	2,161	18,809	19,149	340
Income						
Fixed charges	(836)	(825)	11	(3,057)	(3,048)	9
Total variable charges (including EC4T)	(684)	(675)	9	(2,681)	(2,604)	77
Grant income	(3,696)	(3,703)	(7)	(14,039)	(14,110)	(71)
Total other single till income	(646)	(679)	(33)	(2,417)	(2,406)	11
Other income	-	-	-	-	-	-
Total income	(5,862)	(5,882)	(20)	(22,194)	(22,168)	26
Expenditure						
Controllable operating expenditure	855	728	(127)	3,342	2,959	(383)
Non-controllable operating expenditure	450	412	(38)	1,632	1,492	(140)
Maintenance expenditure	910	1,050	140	3,799	4,178	379
Schedule 4&8	253	141	(112)	723	643	(80)
Renewals expenditure	2,465	2,015	(450)	8,669	9,072	403
Enhancement expenditure	1,941	1,598	(343)	6,155	7,047	892
Total expenditure	6,874	5,944	(930)	24,320	25,391	1,071
Financing						
Interest expenditure on nominal debt - FIM covered	529	640	111	2,015	2,522	507
Interest expenditure on IL debt - FIM covered	189	192	3	649	602	(47)
Accretion on IL debt - FIM covered	440	299	(141)	1,822	965	(857)
Expenditure on the FIM	198	190	(8)	703	693	(10)
Total interest cost	1,356	1,321	(35)	5,189	4,782	(407)
Interest expenditure on nominal debt - unsupported	-	146	146	-	362	362
Interest expenditure on IL debt – unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	1,356	1,467	111	5,189	5,144	(45)
Corporation tax	-	14	14	18	15	(3)
Rebates	3	-	(3)	143	-	(143)
Other¹	(44)	-	44	(129)	2	131
Movement in net debt	2,327	1,543	(784)	7,347	8,384	1,037
Closing net debt	26,156	27,533	1,377	26,156	27,533	1,377

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

In £m cash prices unless stated otherwise

B) Financial Ratios

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

C) Average interest costs by category of debt

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

(1) Other

Movements in working capital	(2)	(121)	(199)	(44)
Other	238	-	-	-

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Network Rail issues debt for the company as a whole and does not raise separate debt for its operations in England & Wales. A notional split of the debt was calculated from 1 March 2005, which is updated for all subsequent income and expenditure relating to England & Wales.
- (2) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines March 2013. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (3) Controllable opex is shown in more detail in Statement 7a.
- (4) Non-controllable opex is shown in more detail in Statement 7a.
- (5) Maintenance is shown in more detail in Statement 8a.
- (6) Schedule 4 & 8 is shown in more detail in Statement 10.
- (7) Renewals expenditure is shown in more detail in Statement 9a.
- (8) Enhancements expenditure is shown in more detail in Statement 3.

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

In £m cash prices unless stated otherwise

- (9) Financing – Network Rail incurred interest expenses on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). The FIM is a facility provided to Network Rail by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. The PR08 also assumed that Network Rail would issue debt that was not supported by the FIM. However, this has not been the case.

- (10) Financing - significant variances from the prior year are as follows:

- a. Interest expenditure on nominal debt – FIM covered was approximately 4 per cent higher than the previous year. Increases in the average levels of nominal debt and financial investments were partly offset by a decrease in the interest rates associated with this level of debt.
- b. Interest expenditure on IL debt – FIM covered was 14 per cent higher than the previous year which was mostly caused by an increase in the average value of the index linked debt compared to the previous year. The average rate payable for this year also increased from 1.3 per cent to 1.4 per cent.
- c. Expenditure on the FIM – this has increased by 10 per cent compared to the previous year reflecting an increase in average net debt of approximately 10 per cent. The 0.8 per cent rate payable under the FIM to the Department for Transport remains the same as 2011/12.
- d. Accretion on IL debt – FIM covered was lower than in 2011/12 despite a higher volume of this type of debt. This was due to lower RPI at the dates used to calculate accretion compared to those in the previous year.

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

- (12) Financial ratios – ratios are defined as follows:

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines March 2013. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

In £m cash prices unless stated otherwise

- (13) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 64.8 per cent (2012: 62.6 per cent) which was higher than planned in the Delivery Plan update 2012 as the value of RAB did not increase by the amount expected. This was mostly due to a RAB adjustment of £436m to reflect missed regulatory outputs for train punctuality (refer to Statement 2a). Note that this reduction does not take into account external factors outside of Network Rail's control that contributed to missing these regulatory targets (such as extreme weather, cable theft or network trespass). Current estimates suggest that the size of the adjustment should be reduced by at least £115m. The ORR imposes regulatory limits on the debt to RAB gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utility companies face. The gearing ratio is well within the Great Britain limit in the revised Licence condition of 75.0 per cent for the current year.
- (14) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all net running costs including an assumption for steady state renewals. Network Rail's AICR for the year was 1.99 (2012: 2.15), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as business generated operational revenue is 99 per cent greater than the cash required to pay net financing costs.

Statement 5: England & Wales Financial performance statement

In £m 2012/13 prices unless stated otherwise

Cumulative

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(3,273)	(3,597)	(8,259)	(209)	(15,338)
Adjustments in DP09 in 2009/10 prices	15	118	456	17	606
Inflation adjustment from 2009/10 to nominal prices	(282)	(298)	(700)	(15)	(1,295)
Adjusted DP09 in nominal prices	(3,540)	(3,777)	(8,503)	(207)	(16,027)
Actuals in nominal prices	(3,369)	(3,753)	(8,372)	(207)	(15,701)
(Under)/ out performance in nominal prices	171	24	131	-	326

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	20,055	(6,087)	(1,598)	(4,120)	-		8,250	(7,088)
Adjustments in DP09 in 2009/10 prices	544	1,724	-	258	-		2,526	3,132
Inflation adjustment from 2009/10 to nominal prices	912	(435)	(149)	(129)	-		199	(1,096)
Adjusted DP09 in nominal prices	21,511	(4,798)	(1,747)	(3,991)	-		10,975	(5,052)
Actuals in nominal prices	21,340	(4,784)	(1,630)	(3,345)	11		11,592	(4,109)
(Under)/ out performance in nominal prices	(171)	14	117	646	11	(47)	570	896

Statement 5: England & Wales Financial performance statement continued

In £m 2012/13 prices unless stated otherwise

2012/13

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(755)	(810)	(1,721)	-	(3,286)
Adjustments in DP09 in 2009/10 prices	12	31	(335)	(5)	(297)
Inflation adjustment from 2009/10 to nominal prices	(115)	(121)	(310)	(7)	(553)
Adjusted DP09 in nominal prices	(858)	(900)	(2,366)	(12)	(4,136)
Actuals in nominal prices	(822)	(927)	(2,366)	(12)	(4,127)
(Under)/ out performance in nominal prices	36	(27)	-	-	9

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	5,022	(1,653)	(497)	(1,405)	-	-	1,467	(1,819)
Adjustments in DP09 in 2009/10 prices	147	359	-	175	-	-	681	384
Inflation adjustment from 2009/10 to nominal prices	566	(200)	(73)	59	-	-	352	(201)
Adjusted DP09 in nominal prices	5,735	(1,494)	(570)	(1,171)	-	-	2,500	(1,636)
Actuals in nominal prices	5,558	(1,494)	(502)	(815)	-	-	2,747	(1,380)
(Under)/ out performance in nominal prices	(177)	-	68	356	-	-	247	256

Notes:

(1) This statement uses the same principles as Network Rail's internal measure of financial outperformance: Financial Value Assed ("FVA"). FVA represents the amount that Network Rail has outperformed the Regulators' post efficient determination and so represents savings over and above those the Regulator expected in the control period.

Comments

- (1) FVA is reported on a 'gross' basis and excludes assessment of the impact of missing regulatory outputs.
- (2) The Other column within Pot 2 represents the total difference between the PR08 and Network Rail's original Delivery Plan. This is adjusted so that the total financial outperformance can be measured against the Regulator's original determination.
- (3) The above table shows that Network Rail have generated more net income in total than expected in the Regulator's determination both in the current year and in the control period to date.

Statement 5: England & Wales Financial performance statement continued

In £m 2012/13 prices unless stated otherwise

- (4) In the current year the FVA generated was mainly a result of savings in interest, non-controllable opex and operating costs partially offset by lower income and higher maintenance costs.
- (5) Interest savings in the year were largely a result of lower nominal interest rates than assumed at the time of the Delivery Plan 2009. At the time the Delivery Plan 2009 the turbulent macro economic situation and outlook resulted in assumed higher rates. Lower levels of debt have also contributed to lower interest expenses.
- (6) Non-controllable opex savings in the year arose largely from lower traction electricity costs. Traction electricity costs are dictated by the market price for electricity. The estimated costs for 2012/13 in the Delivery Plan 2009 were markedly different to the actual prices. Most of the traction electricity costs are passed onto the train and freight operators. Therefore, lower costs also results in lower income.
- (7) Operating costs FVA earned in the year was largely negated by higher maintenance costs. The net saving in these categories was due to tight management controls around costs, headcount reductions and limiting managerial staff pay rises to lower than inflation.
- (8) Income in 2012/13 was lower than expected mainly as a result of higher Schedule 8 costs. The Delivery Plan 2009 assumed £nil performance income/ costs compared to costs of £134m. In addition, the Delivery Plan 2009 estimated a higher level of electricity traction income. As noted above, lower traction electricity income is a result of lower non-controllable opex, so any underperformance in income is largely offset by FVA earned in non-controllable opex.

Statement 6a: England & Wales Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Fixed charges	836	825	11	3,236	3,227	9	777
Variable charges							
Variable usage charge	147	137	10	567	539	28	142
Traction electricity charges	218	210	8	879	794	85	194
Electrification asset usage charge	9	8	1	35	32	3	8
Capacity charge	171	179	(8)	676	710	(34)	169
Station usage charges	-	-	-	-	-	-	-
Schedule 4 net income	139	141	(2)	683	684	(1)	171
Schedule 8 net income	-	-	-	6	-	6	-
Total gross variable charge income	684	675	9	2,846	2,759	87	684
Total franchised track access income	1,520	1,500	20	6,082	5,986	96	1,461
Grant income	3,696	3,703	(7)	14,878	14,946	(68)	3,689
Total franchised track access and grant income	5,216	5,203	13	20,960	20,932	28	5,150
Other single till income							
Property income	137	183	(46)	510	581	(71)	127
Freight income	47	77	(30)	184	297	(113)	45
Open access income	23	22	1	98	88	10	27
Stations income	366	338	28	1,473	1,341	132	363
Depots income	58	50	8	228	201	27	59
Other	15	9	6	64	35	29	42
Total other single till income	646	679	(33)	2,557	2,543	14	663
Total income	5,862	5,882	(20)	23,517	23,475	42	5,813

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Comments:

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

Statement 6a: England & Wales Analysis of income continued

In £m 2012/13 prices unless stated otherwise

- (2) Fixed charges – these are higher than the PR08 as Network Rail has worked with train operating companies to provide additional facilities and services which generates extra revenue for Network Rail. Income is 8 per cent higher than the previous year. This is in line with the Regulator's income model which assumed a 5 per cent increase in fixed charges compared to the previous year.
- (3) Variable usage charge – this was higher than the PR08 and £5m higher than the previous year as Network Rail provided an increased number of paths to franchised train operators to run more services for the public. Better planning of capex and maintenance works also helped increase the availability of the network for operators to run trains, especially during the Olympics and Paralympics Games.
- (4) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex in the PR08. Income is £24m higher than 2011/12 due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. Electricity traction costs were £38m higher compared to the previous year.
- (5) Capacity charge – although capacity charges were slightly higher than the previous year they remain below the level assumed by the PR08. This is because the PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies. The Delivery Plan 2009 targets, Network Rail's response to the PR08, reflected these rates and so is nearly £50m lower over the course of the Control Period. ORR has indicated that Network Rail will be funded for this shortfall in CP5 through the Opex Memorandum (refer to Statement 10).
- (6) Grant income – the variance to the PR08 arises from differences in the inflation assumed in the deed of grant with the Department for Transport compared to that used to uplift the PR08 from 06/07 prices. Despite this, overall grant income was marginally higher than the previous year as planned by the Regulator's determination.
- (7) Property income – although this is £10m higher than the previous year it is £46m less than the PR08. The PR08 assumed that property sales income would arise in the final two years of the control period following developments at Victoria and Euston stations. Network Rail asserted that this was unlikely to happen. ORR has agreed to fund Network Rail for any shortfall in property income arising from the delay in the Victoria and Euston developments. This is included in the Opex memo (refer to Statement 10). Other property income is less than the PR08 due to different expectations about market conditions when the PR08 was prepared compared to the current difficult trading environment.
- (8) Freight income – income was in line with the previous year but less than the PR08 for the year and for the control period to date. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (9) Open access income – income is in line with the PR08 assumption but adverse to the prior year which included a favourable settlement of a commercial claim.
- (10) Stations income – income is higher than the PR08 and consistent with the previous year. The variance to the PR08 is due to better than expected retail income and additional investment framework income as operators pay supplementary charges for incremental facilities provided by Network Rail.

Statement 6a: England & Wales Analysis of income continued

In £m 2012/13 prices unless stated otherwise

- (11) Depots income – income is higher than the PR08 mostly due to additional investment framework income received in the year as operators pay incremental charged for additional facilities provided by Network Rail.
- (12) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). This was recognised in the Regulatory financial statements for the first time in the prior year and included a £26m catch up for the first two years of the control period. Therefore, income in the current year is significantly less than in 2011/12.
- (13) Analysis of income does not include the impact of rebates paid to stakeholders. These are disclosed separately in Statement 1.

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Property Income							
Property sales income	39	74	(35)	76	135	(59)	28
Other property income	98	109	(11)	434	446	(12)	99
Total property income	137	183	(46)	510	581	(71)	127
Freight income							
Freight variable usage charge	45	64	(19)	173	251	(78)	43
Freight EC4T	4	6	(2)	19	22	(3)	4
Freight EAU	-	-	-	-	-	-	-
Freight capacity charge	4	5	(1)	14	18	(4)	3
Freight performance payments							
net income	(13)	(7)	(6)	(43)	(27)	(16)	(10)
Coal spillage charge (incl investment charge)	(7)	3	(10)	2	11	(9)	4
Freight only line charge	11	4	7	11	14	(3)	-
Freight connection agreements and other income	3	2	1	8	8	-	1
Total Freight income	47	77	(30)	184	297	(113)	45
Open access income							
Variable usage charge income	3	5	(2)	13	21	(8)	3
Other open access charges	20	17	3	85	67	18	24
Total open access income	23	22	1	98	88	10	27
Stations income							
Managed stations income							
Retail income	76	66	10	298	256	42	71
Advertising income	21	19	2	76	82	(6)	19
Concessions income	18	13	5	71	47	24	17
Long term charge	19	20	(1)	88	80	8	19
Qualifying expenditure	39	46	(7)	166	180	(14)	41
Other	5	-	5	17	-	17	3
Total	178	164	14	716	645	71	170
Franchised stations income							
Long term charge	124	130	(6)	520	521	(1)	129
Stations lease income	43	44	(1)	182	175	7	45
Other	21	-	21	55	-	55	19
Total	188	174	14	757	696	61	193
Total stations income	366	338	28	1,473	1,341	132	363
Depots income	58	50	8	228	201	27	59
Other income	15	9	6	64	35	29	42
Total other single till income	646	679	(33)	2,557	2,543	14	663

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

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 PR08	Difference	Actual	Cumulative PR08	Difference	2011/12 Actual
Memo: Investment framework income							
Stations related	21	-	21	63	-	63	19
Depot related	5	-	5	17	-	17	5
Track related	13	-	13	19	-	19	6
Total investment framework income	39	-	39	99	-	99	30

Memo item:

	2009/10	2010/11	2011/12	2012/13	Cumulative
Hypothecated gains in year	-	25	19	-	44

Note:

- (1) In previous years' Regulatory financial statements the amounts receivable relating to Freight only line charge were included within the Coal spillage charge as these charges could not be clearly identified. This data can now be separately disclosed. The current year result includes a switch of £9m from Coal spillage charge to Freight only line charge in order to get the control period to date position correct.

Comments:

- (1) Property sales income – income is £35m less than the PR08. The Regulator's determination assumed a lower level of property sales earlier in the control period but had assumed that economic conditions would be more conducive to maximising the returns from property disposals as the control period progressed. The PR08 also assumed that property sales income would arise in the final two years of the control period from developments at Victoria and Euston stations. Network Rail asserted that this was unlikely to happen. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments. This is included in the Opex memo (refer to Statement 10). Property sales generated £11m more revenue than the previous year. This was mostly due to one-off disposals as property sales depend on the wider property market and the ability to achieve the optimum price for different disposals.
- (2) Other property income – income is less than the PR08 due to different expectations about market conditions when the PR08 was prepared compared to the current difficult trading environment. Other property income (which is largely non-station property rental and advertising income) is in line with the previous year.
- (3) Freight income – although freight income was in line with the previous year it was less than the PR08 for the year and for the control period to date. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (4) Open access income – income is in line with the PR08 assumption but adverse to the prior year which included a favourable settlement of a commercial claim.

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

In £m 2012/13 prices unless stated otherwise

- (5) Stations income – total income is higher than the PR08 and higher than the previous year. Managed station retail and concession income increased by 7 per cent per cent in real terms compared to the previous year, despite the difficult macroeconomic trading environment. This increase was largely due to the successful redevelopment of the commercial offerings at Kings Cross station. In addition, investment framework income was higher this year as operators pay incremental charges for additional facilities provided by Network Rail. This income is shown within Franchised station income - other. The PR08 did not assume any income for this. Favourable performance compared to the PR08 has been offset to a degree by lower than expected Managed station income which was partly due to Gatwick station (which transferred from being a Managed Station to a Franchised Station towards the end of 2011/12). Despite this, Franchised stations income was lower than the determination and the prior year as, following agreement with the Department for Transport, responsibility for a number of stations passed from Network Rail to the Greater Anglia franchise. This should manifest itself in lower maintenance and operating expenses connected with these stations.
- (6) Depots income – income is higher than the PR08 mostly due to additional investment framework income received in the year as operators pay incremental charges for additional facilities provided by Network Rail.
- (7) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). This was recognised in the Regulatory financial statements for the first time in the prior year and included a £26m catch up for the first two years of the control period. Therefore, income in the current year is significantly less than in 2011/12.

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

In £m 2012/13 prices unless stated otherwise

Franchised Train Operating Companies

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Arriva Trains Wales				
Variable Usage Charges	3.4	3.0	3.1	3.2
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	4.5	4.0	4.0	4.1
Fixed Charges	51.0	51.0	48.5	52.3
Station Long Term Charges	-	9.6	9.6	9.7
Station QX	-	0.4	0.3	0.4
Station Facility Charge	-	-	-	-
Other Charges	-	1.4	1.8	1.5
Total income	58.9	69.4	67.3	71.2

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
C2C				
Variable Usage Charges	2.3	1.7	1.8	1.7
Traction Electricity Charges	9.1	7.2	5.9	5.8
Electrification Asset Usage Charges	-	0.3	0.3	0.4
Capacity Charges	1.1	0.8	0.8	0.9
Fixed Charges	10.2	10.5	9.9	10.6
Station Long Term Charges	1.1	4.1	4.1	4.8
Station QX	-	0.2	0.2	0.1
Station Facility Charge	-	-	0.1	-
Other Charges	-	1.2	1.1	1.4
Total income	23.8	26.0	24.2	25.7

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Chiltern				
Variable Usage Charges	1.1	1.3	1.5	1.8
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	2.3	1.9	2.2	2.3
Fixed Charges	18.2	18.5	24.1	29.5
Station Long Term Charges	-	4.5	4.5	4.6
Station QX	-	-	-	-
Station Facility Charge	-	-	0.1	-
Other Charges	-	0.1	0.1	0.1
Total income	21.6	26.3	32.5	38.3

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Cross Country				
Variable Usage Charges	10.2	7.5	8.3	8.4
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	11.4	11.4	11.6	11.7
Fixed Charges	70.2	71.7	68.4	73.2
Station Long Term Charges	1.1	0.7	0.6	0.6
Station QX	2.3	2.3	2.6	2.6
Station Facility Charge	-	-	-	-
Other Charges	-	-	-	-
Total income	95.2	93.6	91.5	96.5

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
East Coast Main Line Rail				
Variable Usage Charges	19.2	17.0	19.2	20.4
Traction Electricity Charges	21.5	16.2	16.8	18.5
Electrification Asset Usage Charges	1.1	1.1	1.1	1.2
Capacity Charges	4.6	4.8	5.3	5.8
Fixed Charges	47.7	47.1	46.5	48.8
Station Long Term Charges	1.1	6.8	11.7	8.3
Station QX	1.2	1.8	2.0	2.4
Station Facility Charge	-	-	0.5	-
Other Charges	-	2.3	4.3	1.5
Total income	96.4	97.1	107.4	106.9

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
East Midlands				
Variable Usage Charges	6.8	6.9	7.0	7.2
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	16.0	16.1	16.1	16.2
Fixed Charges	44.1	45.3	43.1	46.2
Station Long Term Charges	-	10.1	8.9	8.2
Station QX	-	0.1	0.2	0.3
Station Facility Charge	-	0.3	0.5	1.1
Other Charges	-	6.0	4.1	6.1
Total income	66.9	84.8	79.9	85.3

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
First Capital Connect				
Variable Usage Charges	5.7	5.6	5.8	6.2
Traction Electricity Charges	30.7	24.7	20.3	23.5
Electrification Asset Usage Charges	1.1	0.9	1.0	1.1
Capacity Charges	13.7	13.7	13.9	14.3
Fixed Charges	29.4	29.0	26.8	28.3
Station Long Term Charges	2.3	12.3	29.5	11.7
Station QX	4.5	3.7	3.7	4.2
Station Facility Charge	-	0.4	0.9	0.7
Other Charges	-	1.8	9.1	2.6
Total income	87.4	92.1	111.0	92.6

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
First Great Western				
Variable Usage Charges	17.0	17.4	16.5	17.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	28.5	30.2	28.4	28.8
Fixed Charges	77.1	78.1	74.4	79.4
Station Long Term Charges	1.1	18.4	12.3	18.8
Station QX	2.3	2.5	2.2	2.2
Station Facility Charge	-	-	0.2	-
Other Charges	1.1	8.5	4.1	-
Total income	127.1	155.1	138.1	146.3

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Greater Anglia⁽⁵⁾				
Variable Usage Charges	-	-	1.7	10.7
Traction Electricity Charges	-	-	5.4	25.0
Electrification Asset Usage Charges	-	-	0.2	1.6
Capacity Charges	-	-	1.5	10.1
Fixed Charges	-	-	7.5	52.5
Station Long Term Charges	-	-	-	-
Station QX	-	-	-	-
Station Facility Charge	-	-	0.2	1.1
Other Charges	-	-	0.6	3.8
Total income	-	-	17.1	104.8

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
London Midland				
Variable Usage Charges	4.6	4.5	4.5	4.8
Traction Electricity Charges	21.5	12.8	8.7	12.3
Electrification Asset Usage Charges	1.1	0.6	0.6	0.6
Capacity Charges	14.7	13.7	13.7	14.2
Fixed Charges	33.0	33.8	32.2	34.5
Station Long Term Charges	1.1	11.2	11.0	15.6
Station QX	4.5	4.4	4.2	4.4
Station Facility Charge	-	0.2	0.2	-
Other Charges	-	3.0	1.7	2.9
Total income	80.5	84.2	76.8	89.3

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
London Overground				
Variable Usage Charges	-	0.5	0.8	1.0
Traction Electricity Charges	2.3	2.6	2.6	2.8
Electrification Asset Usage Charges	-	-	0.1	0.1
Capacity Charges	-	0.2	0.2	0.3
Fixed Charges	4.5	4.4	4.2	4.5
Station Long Term Charges	-	2.2	2.9	3.7
Station QX	-	0.2	0.3	0.4
Station Facility Charge	-	-	-	-
Other Charges	-	0.5	0.2	-
Total income	6.8	10.6	11.3	12.8

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Merseyrail				
Variable Usage Charges	1.1	0.6	0.6	0.6
Traction Electricity Charges	5.7	4.9	3.9	3.8
Electrification Asset Usage Charges	-	0.1	0.1	0.1
Capacity Charges	-	-	0.1	0.1
Fixed Charges	7.9	8.5	8.2	7.9
Station Long Term Charges	-	5.0	2.9	2.8
Station QX	-	-	-	-
Station Facility Charge	-	-	-	-
Other Charges	-	0.6	0.4	0.4
Total income	14.7	19.7	16.2	15.7

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
Northern				
Variable Usage Charges	4.5	3.9	4.0	4.1
Traction Electricity Charges	6.8	4.8	3.6	3.9
Electrification Asset Usage Charges	-	0.2	0.2	0.2
Capacity Charges	4.5	4.9	4.9	5.1
Fixed Charges	88.5	88.6	84.4	91.1
Station Long Term Charges	1.1	16.1	9.4	16.3
Station QX	2.3	2.8	2.8	2.7
Station Facility Charge	-	-	-	-
Other Charges	-	4.0	5.4	3.0
Total income	107.7	125.3	114.7	126.4

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
National Express East Anglia⁽⁵⁾				
Variable Usage Charges	10.2	9.2	8.7	-
Traction Electricity Charges	30.7	29.3	19.0	-
Electrification Asset Usage Charges	1.1	1.4	1.2	-
Capacity Charges	10.2	9.7	8.1	-
Fixed Charges	52.2	52.1	41.6	-
Station Long Term Charges	1.1	16.8	18.0	-
Station QX	2.3	2.5	2.3	-
Station Facility Charge	-	0.3	4.8	-
Other Charges	-	3.9	2.1	-
Total income	107.8	125.2	105.8	-

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
Scotrail				
Variable Usage Charges	1.1	0.1	0.6	0.6
Traction Electricity Charges	1.2	(0.2)	-	-
Electrification Asset Usage Charges	-	-	0.1	0.1
Capacity Charges	-	(0.1)	0.1	0.1
Fixed Charges	-	-	-	-
Station Long Term Charges	-	1.7	-	-
Station QX	-	0.4	-	-
Station Facility Charge	-	-	-	-
Other Charges	-	0.4	-	-
Total income	2.3	2.3	0.8	0.8

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
South Eastern				
Variable Usage Charges	7.9	7.5	8.1	8.2
Traction Electricity Charges	39.7	35.0	27.5	28.7
Electrification Asset Usage Charges	1.1	0.5	0.6	0.6
Capacity Charges	11.3	11.0	11.5	11.2
Fixed Charges	58.9	60.3	57.3	61.5
Station Long Term Charges	3.4	25.5	25.0	35.1
Station QX	5.7	4.9	5.1	5.1
Station Facility Charge	-	0.1	0.1	-
Other Charges	-	7.7	4.0	7.3
Total income	128.0	152.5	139.2	157.7

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
South West Trains				
Variable Usage Charges	13.7	13.2	12.9	12.2
Traction Electricity Charges	48.7	40.2	29.3	25.5
Electrification Asset Usage Charges	1.1	0.6	0.6	0.7
Capacity Charges	6.8	6.0	6.0	6.0
Fixed Charges	63.5	64.1	60.4	64.5
Station Long Term Charges	1.1	23.0	28.2	34.5
Station QX	3.4	3.5	3.4	3.4
Station Facility Charge	4.6	6.4	6.8	9.3
Other Charges	1.1	7.0	3.5	-
Total income	144.0	164.0	151.1	156.1

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Southern				
Variable Usage Charges	9.1	8.3	8.1	8.4
Traction Electricity Charges	36.2	35.8	25.5	26.9
Electrification Asset Usage Charges	1.1	0.5	0.5	0.6
Capacity Charges	16.0	15.0	14.8	14.9
Fixed Charges	46.4	46.9	44.2	47.1
Station Long Term Charges	2.3	16.1	18.5	23.4
Station QX	4.5	5.6	4.8	3.1
Station Facility Charge	-	0.2	-	-
Other Charges	-	1.6	1.1	1.2
Total income	115.6	130.0	117.5	125.6

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
Transpennine				
Variable Usage Charges	4.5	3.9	4.2	4.1
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	2.3	2.4	2.4	2.4
Fixed Charges	28.4	28.9	27.4	29.1
Station Long Term Charges	1.1	3.7	2.5	4.1
Station QX	2.3	1.2	1.4	1.5
Station Facility Charge	-	-	-	-
Other Charges	-	-	-	-
Total income	38.6	40.1	37.9	41.2

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
Virgin West Coast				
Variable Usage Charges	24.9	24.9	25.2	27.8
Traction Electricity Charges	36.2	32.3	28.2	35.0
Electrification Asset Usage Charges	1.1	1.8	1.8	2.0
Capacity Charges	23.8	22.2	22.2	22.3
Fixed Charges	72.6	73.2	68.9	74.6
Station Long Term Charges	2.3	9.5	6.2	10.3
Station QX	4.5	4.7	4.8	5.0
Station Facility Charge	4.5	6.4	4.2	-
Other Charges	-	0.1	-	-
Total income	169.9	175.1	161.5	177.0

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
Consolidated Non-Franchised Train Operators				
Variable Usage Charges	3.4	3.9	3.1	3.4
Traction Electricity Charges	-	3.0	2.9	3.3
Electrification Asset Usage Charges	3.4	-	-	-
Capacity Charges	-	0.7	0.7	-
Fixed Charges	18.3	16.9	21.1	17.2
Station Long Term Charges	-	-	0.7	1.8
Station QX	-	-	0.1	0.1
Station Facility Charge	-	-	-	-
Performance regime	1.3	(2.3)	(1.7)	(2.4)
Other Charges	1.1	(1.5)	0.5	-
Total income	27.5	20.7	27.4	23.4

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

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2011/12	2012/13	2012/13
Consolidated Freight Operating Companies				
Variable Usage Charges	46.4	38.0	43.0	46.1
Traction Electricity Charges	5.6	4.7	4.2	4.1
Capacity Charges	4.5	3.4	3.6	3.8
Performance Regime	(9.1)	(11.2)	(10.6)	(12.9)
Freight Only Line & Coal Spillage Charge	2.3	4.1	4.6	3.6
Freight Connection Agreements and Other Income	3.4	0.5	0.5	2.3
Total income	53.1	39.5	45.3	47.0

Notes:

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

Statement 7a: England & Wales Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Controllable operating expenditure						
Signaller staff costs	211	169	(42)	861	715	(146)
Non-signaller staff costs	587	482	(105)	2,425	2,046	(379)
Staff incentives	40	-	(40)	197	-	(197)
Other employee related costs	75	53	(22)	395	226	(169)
Pensions	65	105	40	304	448	144
Consultants/contractors/agency	126	83	(43)	436	350	(86)
Insurance and claims	72	65	(7)	209	276	67
Accommodation, office, property	92	93	1	413	394	(19)
Information management	49	39	(10)	183	164	(19)
Other	191	94	(97)	800	456	(344)
Total gross controllable operating expenditure	1,508	1,183	(325)	6,223	5,075	(1,148)
Less:						
Other operating income	(146)	(87)	59	(615)	(370)	245
Own work capitalised	(507)	(368)	139	(2,062)	(1,562)	500
Total controllable operating expenditure	855	728	(127)	3,546	3,143	(403)
Non-controllable operating expenditure						
Traction electricity costs	244	225	(19)	957	857	(100)
Cumulo rates	115	98	(17)	384	363	(21)
British Transport Police costs	65	62	(3)	283	251	(32)
Rail Safety and Standards						
Board levy	8	9	1	33	35	2
ORR fees (incl. ORR Licence fee and the railway safety levy)	18	18	-	74	71	(3)
Other (i.e. CIRAS fees)	-	-	-	-	-	-
Total non-controllable operating expenditure	450	412	(38)	1,731	1,577	(154)
Total operating expenditure	1,305	1,140	(165)	5,277	4,720	(557)

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison. These changes have resulted in a decrease in the cumulative staff incentive figures of £18m, and a decrease in pension expense of £43m. These costs are now reported within Maintenance.

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines the scope of non-controllable costs in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines March 2013.

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

In £m 2012/13 prices unless stated otherwise

- (2) Signaller staff costs – as expected these costs are in line with the previous year. Reducing signaller staff numbers is the main way to reduce the Signaller staff costs. Our recently published Strategic Business Plan sets out how we intend to make efficiencies under our National Operating Strategy to reduce the cost base going forwards. As in previous years costs are higher than the PR08.
- (3) Non-signaller staff costs – these costs are 4 per cent lower than the prior year mainly due to a 3 per cent decrease in non-signaller headcount in Great Britain as a whole within operating costs. Costs are higher than the PR08 as the assumptions regarding staff numbers and costs are different to the actual levels. This is reflected in the higher Own work capitalised figure compared to the PR08 as more capex work has been delivered in-house rather than using third parties as Network Rail seeks the most efficient way to deliver its outputs.
- (4) Staff incentives – these costs are lower than previous year as achievement against the incentive targets was lower than the prior year. Costs are higher than the PR08 which assumed no staff incentive payments.
- (5) Other employee related costs – costs were £37m lower than the previous year which was almost all due to lower redundancy and re-organisation costs. The devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all contributed to these additional costs in 2011/12.
- (6) Pensions – costs are approximately 15 per cent lower than the previous year which is mostly due to a change in the rules of the Network Rail Section of the Railway Pension Scheme that came into effect in 2012/13. Under the new rules the contributions made by the company to the scheme have decreased in order to make the scheme more affordable and sustainable. Costs are, once more, significantly lower than those assumed in the PR08.
- (7) Consultants/contractors/agency – these costs are higher than assumed in the PR08 in both the current year and the control period to date. Costs in this area are 6 per cent higher than the prior year. This is mostly due to an increase in the number of agency staff costs partly offset by a decrease in one-off legal costs compared to the previous year. One of the main reasons for the increase in agency staff costs is due to the current reorganisations occurring within the company. To facilitate the move to Network Rail's new national centre in Milton Keynes short term solutions to resourcing have been enacted.
- (8) Insurance and claims – costs are higher than the PR08 mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012 with sustained and excessive rainfall causing flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £14m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Costs are higher than the previous year which benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12.
- (9) Information management – costs in the year are £10m higher than assumed in the PR08. However, costs are in line with 2011/12.

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

In £m 2012/13 prices unless stated otherwise

- (10) Other controllable costs – costs are around 9 per cent lower than the previous year. This was mainly a result of lower Private Party Costs (less work has been completed for third parties compared to the previous year – the income relating to this is included within other operating income in the above table which has decreased as a result of this); Other Plant costs (stone blower costs are now managed within Maintenance costs by Network Operations) partly offset by higher HLOS Performance and Seven Day Railway funds (£3m - suitable projects where identified and approved for completion this year).
- (11) Other operating income – income in the year was significantly higher than the PR08, reflecting the trend of previous years in the control period. The amount earned was in line with the prior year. The decrease in private party activity, as noted above was offset by increased sales of scrap rail and ballast.
- (12) Own work capitalised – this amount is higher than the PR08. The PR08 assumed both a lower level of costs and a lower level of costs recovered through capex than the Delivery Plan. More capex work has been delivered in-house rather than using third parties as Network Rail seeks the most efficient way to deliver its outputs. The level of own work capitalised is approximately 6 per cent lower than the previous year. This is mostly due to movements in Asset Management. This area of the business is moving from being a large delivery organisation (thus incurring costs and recovering these costs through Own costs capitalised) to being a smaller, more efficient, service provider.
- (13) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs. Costs are lower than the PR08 due to different assumptions made by the ORR regarding electricity rates. Costs have increased in comparison to the prior year by £38m due to higher market electricity prices. This is reflected in Statement 6a, where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are £24m higher than the previous year.
- (14) Cumulo rates – these are 14 per cent higher than the previous year. Cumulo rates are the business rates that Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the PR08 had been published. The Regulator's determination assumed a lower level of rates than the Valuation Office Agency decided and so the expense in the year is higher than the PR08. As Cumulo rates are set by a third party and outside of Network Rail's influence they are considered to be non-controllable.
- (15) British Transport Police – although costs in the current year are only marginally more than the PR08, the control period to date expense is noticeably more than the Regulator's assumption. Achieving the PR08 targets would necessitate cost savings that could endanger the travelling public.

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

In £m 2012/13 prices unless stated otherwise

	2006/07	CP3 2007/08	2008/09	2009/10 ⁽¹⁾	CP4 2010/11	2011/12	2012/13
Controllable operating expenditure							
Human resources							
Functional support	17	22	24	22	26	25	25
Training	27	30	30	28	28	19	18
Graduates	4	4	2	2	1	2	2
Apprenticeships	6	6	10	10	8	6	6
Other	12	10	7	12	11	12	7
Total	66	72	73	74	74	64	58
Information management							
Support	4	4	12	14	9	9	6
Projects	11	7	3	7	4	4	4
Licences	61	59	54	54	60	48	45
Other	4	1	-	6	1	-	-
Total	80	71	69	81	74	61	55
Operations & customer services signalling	201	214	220	223	213	213	211
Operations & customer services non-signalling							
MOMS	31	33	33	31	30	29	28
Control	36	34	39	40	35	33	32
Performance	18	21	19	20	14	22	21
Planning	17	16	17	19	19	17	17
Managed stations	21	20	15	12	12	18	18
Other	74	61	51	102	111	82	93
Total operations & customer services costs	398	399	394	447	434	414	420
Finance	19	17	18	24	30	31	27
Contracts & procurement	5	5	-	-	-	-	9
Strategic Sourcing	-	-	44	41	45	41	-
Planning & development	6	10	10	15	13	12	13
Safety & sustainable development	4	2	2	2	3	4	10
Other corporate services	31	35	37	37	39	30	44
Commercial property	45	43	48	49	89	79	81
Infrastructure Projects	(7)	(3)	(8)	(2)	-	16	(27)
Route asset management	-	-	-	-	-	-	10
Asset management & Engineering/Asset heads	40	42	42	53	49	90	125
National delivery service	8	15	13	13	11	15	6
Group/central							
Pensions	132	131	121	4	2	2	-
Insurance	121	80	51	58	60	4	71
Redundancy/reorganisation costs	8	1	30	25	14	41	4
Staff incentives	38	60	57	4	4	3	(7)
Corporate costs capitalised	(38)	(37)	(50)	(4)	-	(2)	-
Maintenance/Opex reclassification	(23)	(39)	(65)	-	-	-	-
Wayleaves/West Coast feeder stations	27	26	25	1	-	-	-
Accommodation & Support recharges	-	-	-	-	(62)	(58)	(27)
Fleet vehicle recharges	-	-	-	-	-	(8)	(16)
Other	13	6	28	33	15	4	(1)
Total controllable operating expenditure	973	936	939	955	894	843	855

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

In £m 2012/13 prices unless stated otherwise

Notes:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the CP4 data. These changes have resulted in a decrease in the cumulative staff incentive figures of £18, and a decrease in pension expense of £43m. These costs are now reported within Maintenance.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) The variance of a number of reporting unit's costs to FY09/10 (Finance, Commercial Property, Other Corporate Services) relates to a change in treatment. Previously accommodation and support charges were recovered from these functions but are now recovered centrally. This is reflected in the 'Accommodation & Support Recharges' line.
- (3) Human Resources – until 2011/12 the Training category included costs relating to Westwood, Network Rail's central training facility. These costs are now included within Commercial property. In 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. Savings were also made by other headcount reductions and limiting pay awards to lower than inflation. Human resources expenses in the year include £2m relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (4) Information management – costs are £6m lower than the previous year. This is mostly due to a 20 per cent decrease in the average number of permanent staff compared to the prior year and limiting pay rises to less than inflation.
- (5) Finance – the £4m decrease in costs compared to the previous year is mainly due to the transfer of staff from Finance to Shared Services (included within the Other corporate services category).
- (6) Contracts & procurement/ Strategic sourcing – in 2008/09 the activities of Contracts & procurement were expanded to include management of utilities costs for the company (before this, costs were largely borne by Maintenance). To reflect the increase in activities the function was re-branded Strategic sourcing. In 2012/13 responsibility for utilities management was transferred to Asset management resulting in costs of approximately £35m being switched in the current year. Consequently, the remaining Strategic sourcing activities were re-named Contracts & procurement.
- (7) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed in the current year to reflect the additional activities undertaken by this department (such as a revamp of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.
- (8) Other corporate services – costs were higher than the previous year. This was mainly due to a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies. In addition, the current year also includes £5m of one-off costs relating to the movement of many operations to the new National Centre in Milton Keynes. These costs are not expected to recur to re-occur in 2013/14.

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

In £m 2012/13 prices unless stated otherwise

- (9) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. In 2012/13 these reorganisation costs were not present. In addition, charges for accommodation and support made by Group to Infrastructure Projects were £24m lower than in previous years. There is a corresponding £24m increase in Group costs as a result and, therefore, no net impact upon Network Rail as a whole.
- (10) Route asset management – this is reported separately for the first time in these Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies.
- (11) Asset management & Engineering/Asset heads – the variance to CP3 is due to an increased headcount in these functions as a result of reorganising the business. The additional costs in the current year compared to 2011/12 relate to the transfer of utility management from Contracts & procurement/ Strategic sourcing and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to the Route asset management category.
- (12) National Delivery Services – £7m of the decrease in cost in the year is due to a transfer in responsibility for stone blower machine activities moving to the devolved routes. This has resulted in additional costs in Maintenance.
- (13) Pensions/ Staff incentives – the variance to CP3 is due to a change in treatment. In order to drive appropriate management behaviour more of the costs of employing an individual are now borne by the function/budget holder where that individual works (previously recovered centrally). Therefore, an element of these costs from CP3 are now included within Maintenance.
- (14) Insurance – costs are higher than the prior year mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012 with sustained and excessive rainfall causing flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £14m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Also, the previous year benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12.
- (15) Redundancy/reorganisation costs – the decrease compared to the previous year was due to the devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all of which contributed to the 2011/12 costs. There were no major reorganisation programmes that resulted in significant costs during the current year.

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

In £m 2012/13 prices unless stated otherwise

- (16) Staff incentives – staff incentive costs are lower than the prior year mainly due to a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.
- (17) Corporate Costs Capitalised – in the previous control period an element of central costs were capitalised for expenses relating to staff wholly connected with the delivery of capital projects. These costs are generally charged directly to projects in CP4 as noted above.
- (18) Maintenance/Opex reclassification – in the previous control period an adjustment was made to reflect the switch of costs between Maintenance and Controllable opex to mirror the funding arrangements in CP3. No such adjustment is required in the current control period.
- (19) Wayleaves/ West Coast feeder stations – under the ACR 2003 allowances for West Coast feeder stations and Wayleaves activities were given within opex. Network Rail treated these items as capex in their Statutory financial statements and made an adjustment to opex in the Regulatory financial statements. There was no funding for such items in the PR08 and so there is no balance in CP4.
- (20) Accommodation & Support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges which has manifested itself in a £24m reduction in gross Infrastructure Projects costs and a £6m reduction in gross Asset Management costs.
- (21) Fleet vehicle recharges – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals in the control period (refer to Statement 9), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an economic benefit to the railway in future control periods. The increase in this credit in the current year reflects additional fleet purchases.

Statement 7c: England & Wales Insurance reconciliation

In £m 2012/13 prices unless stated otherwise

Risk	Market based insurance			Self insurance				Total		
	Underlying claims cost	Claims paid / outstanding	Market premiums	Underlying claims cost	Claims paid by the captive	Claims outstanding with the captive	Captive reinsurance premiums and expenses	Captive premiums and reimbursement arrangements	Other	Total cost
			A					B	C	D
Property , business interruption and public liability	45	45	13	93	-	60	-	37	-	50
Terrorism	-	-	3	-	-	-	4	5	-	8
Employer's liability	-	-	1	1	-	1	-	4	-	5
Stations & depots property damage, terrorism & public liability	-	-	3	2	-	2	-	4	-	7
Motor	-	-	1	2	1	1	-	3	-	4
Construction all risks	1	1	1	1	-	1	-	1	-	2
Other cover ⁽²⁾	-	-	2	-	-	-	-	1	-	3
Investment return	-	-	-	-	-	-	-	-	-	-
Total	46	46	24	99	1	65	4	55	-	79

Statement 7c: England & Wales Insurance reconciliation continued

In £m 2012/13 prices unless stated otherwise

Notes:

(1) Total insurance cost: $A + B + C = D$

(2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.

(3) Premiums include Insurance Premium Tax.

(4) Claims are not actuarially assessed, i.e. are latest available records of known claims paid and outstanding, not an estimate of ultimate claims incurred. The figures will therefore change as more claims are notified and settled.

(5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and claims are logged against the captive.

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

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative ⁽¹⁾		
	Gross costs	Own costs capitalised	Net costs	Gross costs	Own costs capitalised	Net costs
Controllable operating expenditure						
Human resources	61	(3)	58	275	(5)	270
Information management	82	(27)	55	370	(99)	271
Operations & customer services	483	(63)	420	1,881	(166)	1,715
Finance	27	-	27	112	-	112
Strategic Sourcing	10	(1)	9	143	(7)	136
Planning & development	21	(8)	13	96	(43)	53
Safety & sustainable development	10	-	10	19	-	19
Other corporate services	47	(3)	44	155	(5)	150
Commercial property	90	(9)	81	333	(35)	298
Infrastructure Projects	303	(330)	(27)	1,267	(1,280)	(13)
Route asset management	40	(30)	10	40	(30)	10
Asset management & Engineering/ Asset heads	153	(28)	125	585	(268)	317
National delivery service	11	(5)	6	95	(50)	45
Group/central	24	-	24	237	(74)	163
Total controllable operating expenditure	1,362	(507)	855	5,608	(2,062)	3,546

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the CP4 data. These changes have resulted in a decrease in the cumulative staff incentive figures of £17, and a decrease in pension expense of £42m. These costs are now reported within Maintenance.

Commentary:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Human resources – in 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. Savings were also made by other headcount reductions and limiting pay awards to lower than inflation. Human resources expenses in the year include £2m relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (3) Information management – net costs are £6m lower than the previous year. This is mostly due to a 20 per cent decrease in the average number of permanent staff compared to the prior year and limiting pay rises to less than inflation. The lower staff numbers resulted in lower gross costs and a lower level of capitalised costs.
- (4) Operations & customer services – net costs are in line with the prior year. Recoveries have increased by £5m this year, reflecting additional capex works delivered by Operations & customer services staff, particularly with regard to possession management activities. There was a corresponding increase in gross costs to offset this.

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

In £m 2012/13 prices unless stated otherwise

- (5) Finance – the £4m decrease in gross and net costs compared to the previous year is mainly due to the transfer of staff from Finance to Shared Services (included within the Other corporate services category).
- (6) Contracts & procurement – in the current year responsibility for utilities moved to Asset Management which greatly reduced the gross and net costs. This resulted in activities with associated costs of approx £35m being transferred. To reflect the change in responsibilities the remaining department was re-branded Contracts & procurement (formerly known as Strategic sourcing).
- (7) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed in the current year to reflect the additional activities undertaken by this department (such as a revamp of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.
- (8) Other corporate services – gross and net costs were higher than the previous year. This was mainly due to a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies. In addition, the current year also includes £5m of one-off costs relating to the movement of many operations to the new National Centre in Milton Keynes. These costs are not expected to re-occur in 2013/14.
- (9) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. In 2012/13 these reorganisation costs were not present, thus reducing gross and net costs. In addition, charges for accommodation and support made by Group to Infrastructure Projects were £24m lower than in previous years. There is a corresponding £24m increase in Group costs as a result and, therefore, no net impact upon Network Rail as a whole.
- (10) Route asset management – this is reported separately for the first time in these Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies.
- (11) Asset management & Engineering/Asset heads – the additional net costs in the current year relate to the transfer of utility management from Contracts & procurement and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to Route asset management functions. The move to Route asset management reduced the recoveries compared to the prior year by £30m. The remaining decrease in recoveries was mostly due to changes in the activities of Asset Management as it becomes more focussed on promoting assurance and driving best practice within Network Rail.
- (12) National Delivery Service – £7m of the decrease in cost in the year is due to a transfer in responsibility for stone blower machine activities moving to the devolved routes. This has resulted in additional costs in Maintenance.

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

In £m 2012/13 prices unless stated otherwise

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

- a. £67m additional insurance costs – costs are higher than the prior year mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012 with sustained and excessive rainfall causing flooding on several parts of the network and was a contributory cause to the spoil heap collapse at Hatfield Colliery. This last incident alone resulted in a £14m loss, being the excess under our insurance policy; the total costs which are covered by insurance are not yet known but will be significantly higher. Also, the previous year benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12;
- b. £31m Accommodation & Support recharges - recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on these the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges which has manifested itself in a £24m reduction in gross Infrastructure Projects costs and a £6m reduction in gross Asset Management costs.

These additional costs were partly offset by:

- a. £37m Redundancy/reorganisation reduction in costs – the decrease compared to the previous year was due to the devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all of which contributed to the 2011/12 costs. There were no major reorganisation programmes that resulted in significant costs during the current year;
- b. £10m Staff incentives reduction in cost – staff incentive costs are lower than the prior year mainly due to a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers;
- c. £8m Vehicle costs credit – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals in the control period (refer to Statement 9), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an economic benefit to the railway in future control periods. The increase in this credit in the current year reflects additional fleet purchases.

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽³⁾	PR08	Difference
Core Maintenance ⁽¹⁾						
Track	468	406	(62)	1,847	1,752	(95)
Structures	35	38	3	139	163	24
Signalling	146	124	(22)	654	525	(129)
Telecoms	25	56	31	182	254	72
Electrification	41	33	(8)	169	138	(31)
Plant & machinery	37	15	(22)	155	63	(92)
Operational property	1	-	(1)	1	-	(1)
Other	9	41	32	84	153	69
Total	762	713	(49)	3,231	3,048	(183)
Non-Core Maintenance						
Indirect costs	85	178	93	494	764	270
Other costs	63	159	96	321	620	299
Total	148	337	189	815	1,384	569
Total maintenance expenditure	910	1,050	140	4,046	4,432	386

Notes:

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

Comments:

- (1) Overall, Maintenance costs were exactly the same as the previous year.
- (2) Average maintenance function headcount was around 1.5 per cent lower than the previous year which helped offset better than RPI pay awards granted to the majority of maintenance function employees.
- (3) Recoveries of labour costs were £16m higher than the previous year as more capital programme activities were delivered by the maintenance function. The devolution of operational responsibility to the routes enables a more agile response to small scale capex works.
- (4) Responsibility for stone blower activity moved from National delivery services Opex to Network Operations Maintenance during the current year, resulting in approximately £7m of additional costs.
- (5) Once more, costs are lower than the PR08 as efficiency savings are being made at a faster rate than that assumed in the determination. This is illustrated in Statement 12 which sets out the maintenance efficiency for the year to date compared to the original ORR assumption in the determination.

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

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

Notes:

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

Comment:

- (1) Average headcount has decreased by around 1.5 per cent as Network Rail strives to organise its business to deliver the most cost-effective service. Changes between individual categories are largely due to organisational changes which affect where staff responsible for certain activities are positioned in Network Rail's organisational structure.

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

In £m 2012/13 prices unless stated otherwise

Actual spend in the year	2009/10 ⁽³⁾	2010/11	2011/12	2012/13	Total
Ashford	20	18	17	19	74
Bedford	27	24	18	18	87
Bletchley	33	28	25	25	111
Bristol	24	22	20	20	86
Brighton	26	23	21	20	90
Carlisle	22	18	20	25	85
Clapham	24	21	21	20	86
Cardiff	31	29	27	20	107
Croydon	23	21	20	18	82
Derby	20	18	21	20	79
Doncaster	17	16	22	21	76
Eastleigh	23	19	19	17	78
Hitchin	24	22	22	20	88
Ipswich ⁽⁴⁾	28	26	25	24	103
Leeds	29	25	24	23	101
Lincoln	14	13	1	-	28
Liverpool ⁽⁵⁾	24	19	15	19	77
London Bridge	22	19	18	20	79
London Euston ⁽⁶⁾	25	20	21	24	90
Manchester	31	27	27	25	110
Newcastle	25	23	23	20	91
Orpington	22	18	16	16	72
Plymouth	19	16	14	15	64
Preston	25	20	18	17	80
Reading	20	19	18	18	75
Romford	31	29	28	29	117
Saltley	25	22	21	21	89
Sandwell & Dudley	22	20	17	18	77
Sheffield	15	13	18	17	63
Shrewsbury	12	11	14	15	52
Stafford	22	20	18	20	80
Swindon	21	18	16	16	71
Tottenham	33	30	28	28	119
Warrington ⁽⁷⁾	34	28	27	20	109
Woking	25	22	21	21	89
York	20	18	16	15	69
Total MDU	858	755	717	704	3,034
Route HQ	20	20	21	32	93
Other HQ	108	111	39	36	294
Total HQ	128	131	60	68	387
Centrally managed					
Structures examinations	35	34	36	36	141
Major items of maintenance plant	12	14	12	13	51
Other	139	120	85	89	433
Total maintenance expenditure	1,172	1,054	910	910	4,046

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

In £m 2012/13 prices unless stated otherwise

Notes:

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

Comment:

- (1) The Lincoln depot closed during 2011/12 and so the costs reported for that year are significantly lower than in previous years. No costs are reported for 2012/13.

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

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

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

Notes:

- (1) The above data includes only full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The operations of the Ipswich depot were reported as Colchester depot in the 2010/11 Regulatory financial statements.
- (4) The operations of the Liverpool depot were reported as Chester depot in the 2010/11 and 2011/12 Regulatory financial statements.
- (5) The operations of the London Euston depot were reported as Stonebridge Park depot in the 2010/11 Regulatory financial statements.
- (6) The operations of the Warrington depot were reported as Crewe depot in the 2010/11 and 2011/12 Regulatory financial statements.

Comments:

- (1) The Lincoln depot closed during 2011/12 and so the average headcount reported for that year is significantly lower than in previous years. No headcount is reported for 2012/13.
- (2) Average headcount has decreased by around 1.5 per cent as Network Rail strives to organise its business to deliver the most cost-effective service. Under the move towards a more devolved structure, responsibility for certain activities were moved from national HQ centres to individual routes. This was to allow greater flexibility and accountability within the organisation. Therefore, the number of staff in the category Route HQ increased at the expense of headcount reported under Other HQ. In addition, the new devolved structure required additional Route HQ staff to manage the performance and set the strategic agenda for each route. These additional roles were partly offset by decreases in the staff working at each depot as certain responsibilities were centralised within route, particularly for the delivery of capital works.

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	713	684	(29)	2,679	2,988	309
Structures	395	290	(105)	1,325	1,305	(20)
Signalling	557	444	(113)	1,818	1,888	70
Telecoms	169	111	(58)	797	861	64
Electrification	97	104	7	372	563	191
Plant and machinery	111	55	(56)	412	379	(33)
Operational property	150	208	58	847	996	149
Other renewals						
Information management	79	77	(2)	329	337	8
Corporate offices	22	17	(5)	195	73	(122)
Discretionary investment	15	(4)	(19)	88	92	4
West Coast Rollover	9	-	(9)	134	113	(21)
ORBIS	35	-	(35)	35	-	(35)
Other	113	29	(84)	145	101	(44)
Total	273	119	(154)	926	716	(210)
Total renewals expenditure	2,465	2,015	(450)	9,176	9,696	520

Comments:

- (1) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost and is updated annually. Underspend or overspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was slightly higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Control period to date costs are 10 per cent lower than the PR08 allowance. Whilst some of this saving is due to outperformance the majority is due to re-phasing. Expenditure was 9 per cent higher than 2011/12. Plain Line track expenditure was 6 per cent higher than the previous year. This was due to higher Plain Line track unit costs compared to the prior year and a lower level of volumes delivered (refer to Statement 15). Switches & Crossings expenditure increased by 19 per cent which was due to a combination of higher unit costs (approximately 6 per cent) and additional volumes (13 per cent) (as shown in Statement 15). Non-volume costs were in line with the previous year. Total track expenditure was marginally higher than the Delivery Plan update 2012. However, both Plain Line and Switches & Crossings unit costs were higher than expected whereas the level of volumes delivered was lower than budgeted. Plain Line volumes were affected by lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to budget is closely related to these lost volumes as there is an element of sunk costs incurred regardless of whether the volume is delivered. Typically, these costs would include mobilisation and possession costs, logistics and design costs. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.

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

In £m 2012/13 prices unless stated otherwise

- (3) Structures – expenditure in the year was higher than the PR08. This was due to a catch up of underspend in previous years of the control period and £74m for works accelerated from control period 5 incurred this year. The funding for this programme was announced in Coalition Government's Autumn Statement 2011 and was over and above the allowances set out in the PR08. Overall structures expenditure was approximately 29 per cent higher than the prior year mostly due to this accelerated spend and also as Network Rail caught up underspend from previous years. Unit costs savings resulted in a decrease in costs of around £33m as Network Rail continued to reduce the cost of repeatable work items in structures. However, this was more than offset by increases in non-volume costs (those costs which do not have a repeatable work stream associated with them). This includes the impact of the accelerated work from control period 5 as noted above. Expenditure for the year was in line with the Delivery Plan update 2012.
- (4) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up of previous years' underspends expenditure for the control period to date remains lower than the PR08 allowance due to the differences in phasing in the control period. Expenditure in the year also includes £32m of work accelerated from control period 5 which was not included in the original PR08 allowances but subsequently authorised by the Regulator. Expenditure was 29 per cent higher than 2011/12 despite savings in re-signalling unit costs (refer to Statement 15). The additional expenditure in the year was a result of increased activity in areas not covered by unit cost and volume reporting. Total costs are approximately £44m higher than the Delivery Plan update 2012. Work accelerated from control period 5 was the largest contributor to this as work was re-phased in the control period to better utilise planned possessions.
- (5) Telecoms – expenditure in the year was higher than the PR08 but the control period to date remains lower than the Regulator's target due to the different profiling assumptions in the PR08 and Network Rail's Delivery Plan. This was largely caused by the FTN project where, in earlier years of the control period, certain parts of the programme were delayed as alternative, more cost-effective solutions were sought. Telecoms expenditure is lower than the prior year by 7 per cent mainly due to lower expenditure on FTN as this programme nears completion. Overall expenditure for the year is in line with the Delivery Plan update 2012, with additional FTN expenditure (owing to re-profiling of expenditure with some work planned for 2013/14 being brought forward from control period 5) being offset by lower spend on other telecoms schemes deferred to 2013/14.
- (6) Electrification – expenditure in the year and the control period to date is less than assumed in the PR08. Investment is expected to be noticeably higher next year as projects have been planned to catch up some of this underspend in 2013/14. Expenditure in the year was 5 per cent lower than the previous year and considerably less than the Delivery Plan update 2012 as certain projects, notably the Great Eastern overhead line programme, were postponed to later in the control period and beyond.
- (7) Plant & machinery – expenditure in the year was markedly higher than the PR08. This was due to the purchase of fleet vehicles and a general catch up of underspend against the PR08 experienced in the earlier years of the control period. Network Rail purchased around £39m of vehicles attributable to England & Wales in the year that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Expenditure was in line with the previous year but higher than the Delivery Plan update 2012 mostly due to a higher level of fleet purchases than originally forecast.

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

In £m 2012/13 prices unless stated otherwise

- (8) Operational property – expenditure in the year and the control period to date is lower than the PR08 assumed. This is partly due to the different phasing of planned spend in the Delivery Plan compared to the PR08 and partly due to reductions to the original PR08 funding amounts agreed with the Regulator. These changes mostly relate to projects being reclassified within Enhancements which is reflected in the RAB workings disclosed in Statements 2a and 2b. Operational property spend was 30 per cent lower than the previous year due to a different mix of projects. Expenditure across all key cost lines was lower than the previous year. Relatively large projects such as Paddington station roof completed in 2011/12. Expenditure was 30 per cent lower than the Delivery Plan update 2012 which is partly due to the deferral of a number of small schemes to 2013/14 and partly due to financial outperformance of the determination during the year.
- (9) Other – the notable differences in this category are set out below:
- a. IM – expenditure in the year and the control period to date is broadly in line with the PR08. Expenditure in the current year is approximately 5 per cent higher than the previous year due to the mix of projects being delivered but lower than expected in the Delivery Plan update 2012 as some savings have been made in the delivery of projects.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of activities to enable further cost savings while also increasing organisational effectiveness. Most of the variance to the PR08 in both the year and the control period to date can be attributed to this project, funding for which was not included in the PR08. Expenditure in this category is significantly lower than the previous year as the National Centre project is substantially complete with the final cost being significantly lower than Network Rail's budget for the scheme.
 - c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would all occur in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Discretionary investment also includes some schemes over and above those that the PR08 funding set out.
 - d. West Coast CP3 rollover – expenditure in the current year and the control period to date is higher than the allowances in the PR08. Network Rail planned to spend more than the funding available in order to deliver a suitable asset for the railway network.
 - e. ORBIS is a programme to improve asset management information, which will enable efficiency savings in CP5 and beyond. Funding for this scheme was not included in the original PR08.
 - f. Other – expenditure in the year is higher than the PR08 as it includes a number of projects for which Network Rail was not funded for but which will facilitate the delivery of outputs in the current and future control periods. This includes amounts that were disclosed as Non-PR08 cost saving enhancements in previous years' Regulatory financial statements. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These aim to bring many disparate operational centres under consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority of change is expected to occur over the next ten years.

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

In £m 2012/13 prices unless stated

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track						
Plain line						
Conventional	300			1,242		
High output	181			557		
Reactive	2			50		
Refurbishment	15			46		
Switches and crossings						
S&C delivered	164			607		
Refurbishment	5			13		
Drainage	17			44		
Fencing	7			37		
Other off-track	14			68		
National gauging	8			14		
Engineering improvement schemes	-			1		
Total	713	684	(29)	2,679	2,988	309
Structures						
Underbridges	84	111	27	355	484	129
Overbridges	14	48	34	50	203	153
Bridgeguard 3	1	-	(1)	16	-	(16)
Earthworks	79	70	(9)	287	307	20
Major structures	26	4	(22)	80	64	(16)
Tunnels	8	28	20	47	118	71
Culverts	6	5	(1)	17	23	6
Footbridges	6	-	(6)	19	13	(6)
Coast/estuary defences	1	6	5	11	21	10
Retaining walls	6	5	(1)	19	22	3
Other	164	13	(151)	424	50	(374)
Total	395	290	(105)	1,325	1,305	(20)
Signalling						
Conventional resignalling	294	207	(87)	1,091	966	(125)
ERTMS resignalling	14	68	54	67	204	137
Level crossings	76	46	(30)	103	192	89
Minor works/ life extensions	157	92	(65)	344	386	42
Control centres	(110)			19		
Modular signalling	56			74		
Other	70			120		
Total	557	444	(113)	1,818	1,888	70
Telecoms						
FTN/GSM-R						
Infrastructure	105			563		
Cab mobile	20			74		
Freight-only branch line	3			4		
Station information and surveillance						
CIS	1			21		
Public address	10			25		
Other	19			23		
Other operational						
Concentrators	4			23		
Driver-only operation CCTV	1			16		
Cable and cable routes	4			13		
Other	2			35		
Total	169	111	(58)	797	861	64

Note: This table continues on the next page

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

Note: This table starts on the previous page

In £m 2012/13 prices unless stated

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Electrification						
Overhead line						
GE project	22			101		
Rewires	1			7		
Campaign changes	5			21		
Structures	4			13		
Other	7			9		
Conductor rail	2			6		
AC distribution	11	16	5	36	107	71
DC distribution						
HV switchgear	4			24		
HV cables	3			36		
Transformer rectifiers	3			32		
LV switchgear	-			10		
LV cables (DC)	2			2		
Other	2			8		
SCADA	7	10	3	12	46	34
Other	24			55		
Total	97	104	7	372	563	191
Plant and machinery						
Fixed Plant						
Point heaters	3	8	5	12	31	19
Signalling power distribution	4	7	3	5	24	19
Signalling supply points	7	8	1	16	31	15
Other fixed plant	16	9	(7)	62	47	(15)
High output plant	6	7	1	52	136	84
Intelligent infrastructure	2	3	1	23	30	7
Fleet and machinery (NDS)	17	3	(14)	40	34	(6)
Rail fleet	-	-	-	3	5	2
Mobile plant and other	56	10	(46)	199	41	(158)
Total	111	55	(56)	412	379	(33)
Operational property						
Managed stations	19	29	10	145	231	86
Franchised stations	103	136	33	519	590	71
Light maintenance depots	8	13	5	51	53	2
Depot plant	1	-	(1)	10	-	(10)
Lineside buildings	12	-	(12)	64	-	(64)
MDU buildings	6	11	5	51	50	(1)
NDS depots	1	19	18	7	72	65
Total	150	208	58	847	996	149
Other renewals						
IT	79	77	(2)	329	337	8
Corporate offices	22	17	(5)	195	73	(122)
WCML engineering access	15	(4)	(19)	88	92	4
WC rollover from CP3	9	-	(9)	134	113	(21)
ORBIS	35	-	(35)	35	-	(35)
Other renewals	113	29	(84)	145	101	(44)
Total	273	119	(154)	926	716	(210)
Total renewals expenditure	2,465	2,015	(450)	9,176	9,696	520

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

In £m 2012/13 prices unless stated otherwise

Note:

- (1) The information in this statement is disclosed using classifications in the Delivery Plan update 2012. Comparative PR08 information is not available for all categories. Where no PR08 data is available this column, and the corresponding Difference column, have been left blank. Therefore, total for the PR08 and Difference may not cast.
- (2) Track – to improve transparency, an additional key cost line for Fencing has been included within the above table for the first time in these Regulatory financial statements.

Comments:

- (1) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost and is updated annually. Underspend or overspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was slightly higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Control period to date costs are 10 per cent lower than the PR08 allowance. Whilst some of this saving is due to outperformance the majority is due to re-phasing. Expenditure was 9 per cent higher than 2011/12. Plain Line track expenditure was 6 per cent higher than the previous year. This was due to higher Plain Line track unit costs compared to the prior year and a lower level of volumes delivered (refer to Statement 15). Switches & Crossings expenditure increased by 19 per cent which was due to a combination of higher unit costs (approximately 6 per cent) and additional volumes (13 per cent) (as shown in Statement 15). Non-volume costs were in line with the previous year. Total track expenditure was marginally higher than the Delivery Plan update 2012. However, both Plain Line and Switches & Crossings unit costs were higher than expected whereas the level of volumes delivered was lower than budgeted. Plain Line volumes were affected by lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to budget is closely related to these lost volumes as there is an element of sunk costs incurred regardless of whether the volume is delivered. Typically, these costs would include mobilisation and possession costs, logistics and design costs. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.
- (3) Structures – expenditure in the year was higher than the PR08. This was due to a catch up of underspend in previous years of the control period and £74m for works accelerated from control period 5 incurred this year. The funding for this programme was announced in Coalition Government's Autumn Statement 2011 and was over and above the allowances set out in the PR08. Overall structures expenditure was approximately 29 per cent higher than the prior year mostly due to this accelerated spend and also as Network Rail caught up underspend from previous years. Unit costs savings resulted in a decrease in costs of around £33m as Network Rail continued to reduce the cost of repeatable work items in structures. However, this was more than offset by increases in non-volume costs (those costs which do not have a repeatable work stream associated with them). This includes the impact of the accelerated work from control period 5 as noted above. Expenditure for the year was in line with the Delivery Plan update 2012.

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

In £m 2012/13 prices unless stated otherwise

- (4) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up of previous years' underspends expenditure for the control period to date remains lower than the PR08 allowance due to the differences in phasing in the control period. Expenditure in the year also includes £32m of work accelerated from control period 5 which was not included in the original PR08 allowances but subsequently authorised by the Regulator. Expenditure was 29 per cent higher than 2011/12 despite savings in re-signalling unit costs (refer to Statement 15). The additional expenditure in the year was a result of increased activity in areas not covered by unit cost and volume reporting. Total costs are approximately £44m higher than the Delivery Plan update 2012. Work accelerated from control period 5 was the largest contributor to this as work was re-phased in the control period to better utilise planned possessions.
- (5) Telecoms – expenditure in the year was higher than the PR08 but the control period to date remains lower than the Regulator's targets due to the different profiling assumptions in the PR08 and Network Rail's Delivery Plan. This was largely caused by the FTN project where, in earlier years of the control period, certain parts of the programme were delayed as alternative, more cost-effective solutions were sought. Telecoms expenditure is lower than the prior year by 7 per cent mainly due to lower expenditure on FTN as this programme nears completion. Overall expenditure for the year is in line with the Delivery Plan update 2012, with additional FTN expenditure (owing to re-profiling of expenditure with some work planned for 2013/14 being brought forward from control period 5) being offset by lower spend on other telecoms schemes deferred to 2013/14.
- (6) Electrification – expenditure in the year and the control period to date is less than assumed in the PR08. Investment is expected to be noticeably higher next year as projects have been planned to catch up some of this underspend in 2013/14. Expenditure in the year was 5 per cent lower than the previous year and considerably less than the Delivery Plan update 2012 as certain projects, notably the Great Eastern overhead line programme, were postponed to later in the control period and beyond.
- (7) Plant & machinery – expenditure in the year was markedly higher than the PR08. This was due to the purchase of fleet vehicles and a general catch up of underspend against the PR08 experienced in the earlier years of the control period. Network Rail purchased around £39m of vehicles attributable to England & Wales in the year that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Expenditure was in line with the previous year but higher than the Delivery Plan update 2012 mostly due to a higher level of fleet purchases than originally forecast.
- (8) Operational property – expenditure in the year and the control period to date is lower than the PR08 assumed. This is partly due to the different phasing of planned spend in the Delivery Plan compared to the PR08 and partly due to reductions to the original PR08 funding amounts agreed with the Regulator. These changes mostly relate to projects being reclassified within Enhancements which is reflected in the RAB workings disclosed in Statements 2a and 2b. Operational property spend was 30 per cent lower than the previous year due to a different mix of projects. Expenditure across all key cost lines was lower than the previous year. Relatively large projects such as Paddington station roof completed in 2011/12. Expenditure was 30 per cent lower than the Delivery Plan update 2012 which is partly due to the deferral of a number of small schemes to 2013/14 and partly due to financial outperformance of the determination during the year.

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

In £m 2012/13 prices unless stated otherwise

(9) Other – the notable differences in this category are set out below:

- a. IM – expenditure in the year and the control period to date is broadly in line with the PR08. Expenditure in the current year is approximately 5 per cent higher than the previous year due to the mix of projects being delivered but lower than expected in the Delivery Plan update 2012 as some savings have been made in the delivery of projects.
- b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of activities to enable further cost savings while also increasing organisational effectiveness. Most of the variance to the PR08 in both the year and the control period to date can be attributed to this project, funding for which was not included in the PR08. Expenditure in this category is significantly lower than the previous year as the National Centre project is substantially complete with the final cost being significantly lower than Network Rail's budget for the scheme.
- c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would all occur in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Discretionary investment also includes some schemes over and above those that the PR08 funding set out.
- d. West Coast CP3 rollover – expenditure in the current year and the control period to date is higher than the allowances in the PR08. Network Rail planned to spend more than the funding available in order to deliver a suitable asset for the railway network.
- e. ORBIS is a programme to improve asset management information, which will enable efficiency savings in CP5 and beyond. Funding for this scheme was not included in the original PR08.
- f. Other – expenditure in the year is higher than the PR08 as it includes a number of projects for which Network Rail was not funded for but which will facilitate the delivery of outputs in the current and future control periods. This includes amounts that were disclosed as Non-PR08 cost saving enhancements in previous years' Regulatory financial statements. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These aim to bring many disparate operational centres under consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority of change is expected to occur over the next ten years.

Statement 10: England & Wales Other Information

In £m 2012/13 prices unless stated otherwise

	2012/13		
	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element			
Schedule 4			
Income	-		
Cost	(117)		
Net cost	(117)	(141)	24
Schedule 8			
Net amount payable under NR regime	(135)		(135)
Net amount payable under TOC regime	(1)		(1)
Net cost	(136)	-	(136)
B) Net Impact of Schedule 4 & 8			
Schedule 4			
Access Charge Supplement Income	139	141	(2)
Cost	(117)	(141)	24
Net income	22	-	22
Schedule 8			
Access Charge Supplement Income	-	-	-
Cost	(136)	-	(136)
Net cost	(136)	-	(136)
C) Opex memorandum account			
Opening balance			
Volume incentive	67		
Proposed Opex to be included in the CP5 expenditure allowance	(12)		
Total logged up items – opening balance	55		
In year			
Volume incentive	(11)		
Proposed Opex to be included in the CP5 expenditure allowance	51		
Total logged up items – in year movements	40		
Closing balance			
Volume incentive	56		
Proposed Opex to be included in the CP5 expenditure allowance	39		
Total logged up items – closing balance	95		

Statement 10: England & Wales Other Information continued

In £m 2012/13 prices unless stated otherwise

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (delays and cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than a benchmark.
- (4) Schedule 8 performance regime provides benchmarks against which the performance of train operators and Network Rail are measured. Table A) above sets out the achievement against these benchmarks by both Network Rail and the train operators separately to offer an insight into what contributed to Network Rail's Schedule 8 income/ cost in the year.
- (5) No detailed PR08 numbers have been provided by the ORR for Table A).
- (6) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP in line with the requirements of the Regulatory Accounting Guidelines. The PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies when calculating expected capacity charges income. ORR has indicated that Network Rail will be funded for this shortfall in CP5 and so this is also included in the Opex memorandum account. In addition, the PR08 stated that Network Rail would be compensated for any shortfall in income relating to delays from the developments at Euston and Victoria and so this is included in the Opex memorandum account from 2012/13.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were lower than the PR08 largely due to better planning of possessions. The regulatory regime incentivises Network Rail to plan possessions early by offering discounts for early notification of disruption to the TOCs. Schedule 4 costs for the year were £40m less than anticipated in the Delivery Plan update 2012. Around one-third of this variance was due to the deferral of capex activities, notably plain line track volumes and electrification spend. Schedule 4 costs are expected to be incurred when the associated capital works are delivered.

Statement 10: England & Wales Other Information continued

In £m 2012/13 prices unless stated otherwise

- (2) Schedule 8 – there was a net cost of £134m for the year compared to the PR08 determination which assumed that that Schedule 8 costs would be neutral i.e. no net income or costs. Net costs were 72 per cent higher than the previous year. Passenger Performance Measure (PPM), which measures the percentage of franchised passenger trains arriving at their destination within a specified lateness margin, has deteriorated from the prior year reflecting additional passenger delay minutes attributable to Network Rail which were approximately 6 per cent higher than the previous year. The higher increase in costs compared to attributable delay minutes is partly because the performance regime benchmark gets progressively more challenging with each passing year of the control period meaning performance has to improve each year to avoid penalties. Also, the cost of Schedule 8 delay minutes varies from one operator to another. For example, delay minutes on long-distance routes tend to be more expensive than on local routes meaning that the location, rather than the total number, of delay minutes is more influential on the cost. In addition, the delay minutes per incident are higher this control period, partly due to the increasing volume of traffic on the network. External factors, such as cable theft and the effect of fatalities and trespass are also more severe than anticipated. The severe weather experienced in 2012/13 (2012 was the second wettest year on record) also contributed to a higher level of delays than planned.

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

In £m 2012/13 prices unless stated otherwise

2012/13

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost	Margin	Income
Operations	-	-	-	-	-	-	-	-	-
Maintenance	19	-	-	-	-	9	28	-	-
Renewals	-	-	-	-	-	-	-	-	-
Total	19	-	-	-	-	9	28	-	-

Cumulative

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost	Margin	Income
Operations	-	-	-	-	-	-	-	-	-
Maintenance	75	-	1	-	2	34	112	-	-
Renewals	-	-	-	-	-	-	-	-	-
Total	75	-	1	-	2	34	112	-	-

Notes:

(1) The balance on the outstanding loan from Network Rail Infrastructure Limited to Network Rail (High Speed) Limited is £nil.

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

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

In £m 2012/13 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2012/13				
Efficiency (£m)	(16)	40	(72)	(48)
Efficiency (%)	(1.8%)	4.2%	(3.7%)	(1.1%)
NR trajectory (£m)	37	36	122	195
NR trajectory (%)	4.3%	3.3%	1.7%	2.9%
PR08 (£m)	30	50	114	194
PR08 (%)	4.0%	4.5%	5.5%	4.9%
Cumulative				
Efficiency (£m)	81	280	305	666
Efficiency (%)	8.5%	23.6%	14.3%	15.6%
NR trajectory (£m)	73	269	614	956
NR trajectory (%)	7.9%	21.6%	17.5%	18.9%
PR08 (£m)	108	173	485	766
PR08 (%)	12.9%	14.1%	19.4%	16.8%

Comments:

- (1) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).
- (2) The REEM indicates the level of efficiency made in comparison to the CP3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in CP4 compared to CP3.
- (3) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent by the end of CP4.

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

In £m 2012/13 prices unless stated otherwise

- (4) This is the fourth year of the five year control period and the efficiencies achieved will be assessed against the target at the end of the control period. The position reported here indicates management's expectations with regards to the quantum of efficiencies achieved during 2012/13 and in the control period to date.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be around renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life asset cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (CP3 exit point) as set out in the below table:

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

- (7) Overall, efficiencies for the control period to date are 15.6 per cent. This is lower than the previous year, which reported efficiencies of 16.5 per cent for the control period to date, the ORR efficiency target and Network Rail's own efficiency trajectory. The decrease in efficiencies in 2012/13 compared to the previous year is mainly caused by increased renewals costs.
- (8) Controllable opex – controllable opex efficiencies in the year were negative. There were a number of contributory factors to this such as pay awards for non-managerial staff increasing at a faster rate than inflation. As disclosed in the Regulatory financial statements last year there were some one-off savings that were made in 2011/12 which contributed to the controllable opex efficiency being substantially ahead of the Network Rail trajectory, notably insurance costs. In addition, in the current year there were some one-off costs associated with the move of many operations to the new National Centre office in Milton Keynes. Despite this, controllable opex efficiencies are still ahead of the Network Rail trajectory for the control period to date reflecting the various savings made through management actions in the first three years of the control period.

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

In £m 2012/13 prices unless stated otherwise

- (9) Maintenance – efficiencies for the control period to date continue to be greater than the targets in the Regulator's determination and in Network Rail's own trajectory. Cost reductions have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. The reorganisation allowed for a significant decrease in headcount as well as implementation of standard terms & conditions and working practices which enabled better roster planning and management. Also, by better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. Finally, better procurement processing, including negotiating supplier discounts for prompt payment, have helped drive down expenses. Maintenance savings in the year were lower than PR08 target reflecting the better than planned progress made in the first three years of the control period and the higher staff costs in the year as pay awards granted to non-managerial staff were in excess of inflation. Savings in the year were, once again, higher than Network Rail's trajectory as initiatives and practices implemented in the first three years of the control period were sustained and built upon.
- (10) Renewals – 2012/13 witnessed lower renewals efficiencies as some of the gains in the first three years of the control period were reversed. The control period to date efficiencies are now lower than both the ORR's assumptions and Network Rail's own trajectory. Renewals efficiencies by category are discussed in more detail below:
- a. Track – during control period 4, improved asset management policies have allowed savings to be made through reducing volumes. As part of the revised Track Asset Policy developed in 2009/10 it was agreed with the ORR that through a reprioritisation of renewal onto the more critical route sections of the network and replacing this with refurbishment on the lower criticality sections, that this was a robust and sustainable approach to cost reductions and efficiencies on delivery for the control period. This has resulted in volume efficiencies of 14 per cent for plain line track and 21 per cent for switches & crossings for the control period to date. The more critical route sections that the new asset policy focussed on were, by their nature, the more expensive areas meaning that, ceteris paribus, unit costs would increase compared to the 2008/09 base line rate. In 2012/13 volume driven savings were partly offset by higher than expected track unit costs. The number of volumes delivered in the year was lower than expected, affected by lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). In order to create a more collaborative approach with its suppliers Network Rail has introduced framework contracts to protect suppliers against annual fluctuations in Network Rail's demand resulting in higher fixed costs inherent in the contracts. Thus, decreases in volumes do not result in linear decreases in unit costs. Despite the lower than expected efficiencies in the year, track renewals have still produced efficiencies of 13 per cent over the control period.
 - b. Signalling – during control period 4, signalling efficiencies have been over 18 per cent. This has been achieved through unit cost savings generated from delivering more work in-house, with Maintenance staff being particularly well suited to delivering minor works flexibility and relatively cheaply. Improved workbank planning and project management, reducing possession and subcontractor costs as well as shortening the time taken on site and the use of new technologies (such as Solid State Interlocking) have all contributed to cost savings. Enhanced layout design of signalling systems has also helped reduce the volumes delivered without impacting upon the sustainability of the asset. Efficiencies in the year were lower than planned, contributing to the decrease in overall renewal efficiencies for 2012/13. This was mostly due to increases in non-volume costs as expected costs for minor projects for the control period as a whole have increased compared to the forecast at the end of 2011/12.

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

In £m 2012/13 prices unless stated otherwise

- c. Operational property – savings in the control period have been achieved through improved workbank planning (leading to reduced late changes, abortive costs and premiums for late notice), more design work being completed in-house (reducing costs and improving flexibility), more competitive tendering (as contractors can be scheduled to work significantly in advance) and a better understanding of the cost base of projects. Improved contract negotiation has also allowed unit cost savings relative to RPI. In addition, use of standard designs concentrating on functionality has also reduced costs. Savings made in the control period to date at the end of 2012/13 were higher than 2011/12 as Network Rail reaps the benefit of these initiatives.
- d. Electrification – savings made in volumes due to an improved understanding of asset condition. Asset policy has also been amended to target renewals on those assets that require replacement based on their condition rather than their age. Also completing more design work in-house (instead of using more expensive external contractors), improved work packaging (to reduce mobilisation costs) and organising extended possessions (to enable more work to be completed at one time) have also enabled cost reductions in this control period. Efficiencies for the control period to date at the end of 2012/13 are lower than those at the end of 2011/12 as the projects being delivered towards the end of the control period are increasingly complex.
- e. Telecoms (non-FTN) – savings in the control period have partly arisen from unit cost savings made in the provision of Customer Information Systems. Improved asset management policies have resulted in savings in the delivery of power concentrators. Control period to date savings were lower than at 2011/12 due to the some more costly projects in the current year.
- f. Telecoms (FTN) – expenditure is higher than the pre-efficient baseline for this project and this gap has increased in 2012/13. Additional expenditure to achieve key milestones in the current year and increases in the scope of the project, such as additional asset testing, trespass and vandalism measures and increases in the total number of mast sites and tunnel solutions have all contributed to this.

Statement 13: England & Wales Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	56	280.69 m	259.06 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£7,362 m	£5,771 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	22.72 m	24.51 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	25,984 m	25,623 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	56					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in CP4. Demand growth could be higher than envisaged; therefore the PR08 makes provision to incentivise Network Rail to meet unanticipated increases in demand. The above table illustrates the targets Network Rail has to achieve to trigger these rewards. In the control period to date, the passenger train miles target was achieved resulting in volume incentive amounts of £56m being earned. Under the terms of the volume incentive mechanism the cash earned by Network Rail is received during the next control period and is included in the Opex memorandum account (refer to Statement 10).

Statement 14: England & Wales Maintenance unit costs

In £m 2012/13 prices unless stated otherwise

A) Maintenance expenditure 2012/13

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	6,975	3,229	22,523	-	22,523
MNT006	Manual Wet Bed Removal	Bay	178	29,749	5,285	-	5,285
MNT010	Replacement of S&C Bearers	Each	492	5,502	2,705	-	2,705
MNT011	S&C Arc Weld Repair	Number	588	8,494	4,992	-	4,992
MNT013	Level 1 Patrolling Track Inspection	Mile	75	584,203	43,642	-	43,642
MNT015	Weld Repair of Defective Rail	Number	444	8,699	3,863	-	3,863
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,022	1,356	2,742	-	2,742
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	2,807,998	11,232	-	11,232
MNT026	Replenishment of Ballast Train	Tonne	20	217,017	4,236	-	4,236
MNT027	Maintenance of Rail Lubricators	Lubricator	127	111,915	14,162	-	14,162
MNT029	Replacement of Pads & Insulators	Sleeper	16	440,523	7,015	-	7,015
MNT030	Maintenance of Longitudinal Timber	Timber	110	8,068	888	-	888
MNT032	CWR – Stressing	Yard	10	477,145	4,771	-	4,771
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	296	3,414	1,012	-	1,012
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	311	29,826	9,265	-	9,265
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	78	58,815	4,573	-	4,573
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	123	85,535	10,526	-	10,526
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	113	11,145	1,258	-	1,258
MNT120	S&C - Renew crossing	Crossing	17,331	550	9,532	-	9,532
MNT123	S&C Renew Half Set of Switches	H/S Switch	13,575	565	7,670	-	7,670
MNT125	Track Inspection (Other)	Mile	35	295,734	10,313	-	10,313
MNT128	Lift & Replace Level Crossing for PWAY	Location	900	3,266	2,940	-	2,940
MNT150	Signalling Cables	Various	38	141,692	5,359	-	5,359
MNT155	Point End Routine Maintenance non Powered	Point End	86	61,842	5,329	-	5,329
MNT156	Point End Routine Maintenance Powered	Point End	93	440,510	41,004	-	41,004
MNT170	Vegetation Management (Manual)	Square Yard	4	3,795,430	15,182	-	15,182
MNT207	Maintain CRE Cables	Various	116	10,114	1,173	-	1,173
MNT210	Maintain Non-Traction Power Supplies	Each	108	1,807	196	-	196
MNT211	Maintain OHL Components	Various	118	209,695	24,761	-	24,761
MNT212	Maintain Points Heating	Each	47	156,883	7,384	-	7,384
Total					285,533	-	285,533
Expenditure outside unit cost framework						624,467	624,467
Total					285,533	624,467	910,000

Statement 14: England & Wales Maintenance unit costs continued

In £m 2012/13 prices unless stated otherwise

B) Maintenance expenditure 2011/12

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT001	Manual Ultrasonic Inspection of Rail	Rail Mile	246	73,150	18,008	-	18,008
MNT002	Rail Changing	Rail Yard	176	150,306	26,376	-	26,376
MNT003	Manual Spot Re-sleeping	No. of Sleepers	226	30,985	6,973	-	6,973
MNT004	Plain Line Tamping	Track Mile	5,447	3,267	17,793	-	17,793
MNT005	Stoneblowing	Track Mile	5,098	1,259	6,422	-	6,422
MNT006	Manual Wet Bed Removal	No. of Bays	176	26,183	4,633	-	4,633
MNT008	S&C Unit Renewal	No. of S&C units	15553	1,023	15,911	-	15,911
MNT010	Replacement of S&C Bearers	No. of S&C Bearers	508	6,398	3,246	-	3,246
MNT011	S&C Arc Weld Repair	No. of Repairs	549	6,980	3,833	-	3,833
MNT013	Level 1 Patrolling Track Inspection	Each	80	623,806	50,056	-	50,056
MNT015	Weld Repair of Defective Rail	No. of Repairs (weld)	444	7,072	3,142	-	3,142
MNT016	Installation of Pre-Fabricated IRJs	No. of Joints	2513	1,184	2,974	-	2,974
MNT019	Manual Correction of Plain Line Track Geometry	Track Yards	14	2,103,637	29,636	-	29,636
MNT020	Manual Reprofilng of Ballast	Track Yards	5	3,256,049	16,376	-	16,376
MNT026	Replenishment of Ballast Train	Tonnes	19	328,713	6,231	-	6,231
MNT027	Maintenance of Rail Lubricators	Each	130	107,325	13,935	-	13,935
MNT029	Replacement of Pads & Insulators	Sleepers	16	529,148	8,509	-	8,509
MNT032	CWR – Stressing	Yard	11	564,344	6,340	-	6,340
MNT050	Point End Routine Maintenance	Services	92	489,315	45,020	-	45,020
MNT051	Signals Routine Maintenance	Services	72	223,640	16,041	-	16,041
MNT052	Track Circuit Routine Maintenance	Services	94	241,365	22,696	-	22,696
MNT073	Drainage	Drainage Yards	12	328,792	4,080	-	4,080
MNT077	Signs	Each	-	-	-	-	-
MNT122	S&C Maintenance (other)	Point Ends	48	400,892	19,229	-	19,229
MNT125	Track Inspection (other)	Track Mile	39	311,695	12,219	-	12,219
MNT211	Maintain OHL Components	Services	137	200,159	27,346	-	27,346
Total					387,025	-	387,025
Expenditure outside unit cost framework						522,975	522,975
Total					387,025	522,975	910,000

Statement 14: England & Wales Maintenance unit costs continued

In £m 2012/13 prices unless stated otherwise

Comments:

- (1) Network Rail has been continuously improving the unit cost system architecture and process. These improvements included material changes in the measurement framework which preclude comparisons from being made with the 2011/12 reported results. The key issues affecting activity based measurement comparability (current unit costs vs. 2011/12) are:
 - a. More activities have been ring fenced into new Maintenance Unit Costs (MUCs);
 - b. Non-productive staff time is now booked to MUCs;
 - c. Additional resources are now included in MUCs to truly reflect the activity cost;
 - d. The volume unit of measure across various MUCs has been iteratively refined;
 - e. Percentage coverage of activity and cost has increased significantly;
 - f. System modifications to correct the unit of measure conversion from activity recording system into required unit of measure output;
 - g. Refinement of internal policies and practices to ensure there is consistent definition of what makes up each activity;
 - h. Accuracy of system coding has increased so more costs are being correctly booked to MUCs.
- (2) As noted above the number of MUCs has increased compared to the prior year and there is now a higher percentage of volumes captured through the MUC framework. This is reflected in the above tables where activity is now reported against 30 categories compared to 26 for the previous year. However, the average total cost attached to each category has decreased compared to the prior year resulting in a lower ratio of MUC: Total maintenance costs in the sample disclosed.

Statement 15: England & Wales Renewals unit costs and coverage

In £m 2012/13 prices unless stated otherwise

A) Renewals unit costs 2012/13

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non- volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	306	1,579	483		483
	S&C equivalent unit renewal	502	328	164		164
	Other non-volume costs				66	66
	Total			647	66	713
Civils	701 Overbridge	1.71	4,278	7		7
	702 Underbridge	1.21	66,315	80		80
	703 Overbridge - Bridgeguard 3	1.04	824	1		1
	704 Footbridge	5.20	1,055	5		5
	705 Tunnel	0.68	6,738	5		5
	706 Culvert	3.91	452	2		2
	707 Retaining Wall	2.13	901	2		2
	708 Earthworks	0.14	278,809	35		35
	Other non-volume costs				258	258
	Total			137	258	395
Signalling	101 - Re-signalling	193	725	140		140
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 – Interlocking renewal	n/a	n/a	n/a		n/a
	108 – Level crossing renewals – MCB Type	381	27	10		10
	108 – Level crossing renewals – MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				407	407
	Total			150	407	557
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 – DOO CCTV	27	53	1		1
	503 – PETS/Level crossing	14	40	1		1
	504 – Small signal box concentrator	203	26	5		5
	506 – Customer Info system	30	123	4		4
	507 – Long line address system	3	3,299	11		11
	Other non-volume costs				147	147
	Total			22	147	169

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

In £m 2012/13 prices unless stated otherwise

B) Renewals unit costs 2011/12

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non-volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	261	1,729	450		450
	S&C equivalent unit renewal	473	289	136		136
	Other non-volume costs				68	68
	Total			586	68	654
Civils	701 Overbridge	1.86	7,420	14		14
	702 Underbridge	1.63	57,453	94		94
	703 Overbridge - Bridgeguard 3	2.01	7,562	15		15
	704 Footbridge	0.99	1,548	1		1
	705 Tunnel	0.66	27,848	19		19
	706 Culvert	1.78	1,976	3		3
	707 Retaining Wall	0.49	12,281	6		6
	708 Earthworks	0.18	298,786	51		51
	Other non-volume costs				103	103
	Total			203	103	306
Signalling	101 - Re-signalling	204	1,055	215		215
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	671	21	14		14
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				199	199
	Total			229	199	428
Telecoms	501 - Large concentrator	1,270	1	2		2
	502 - DOO CCTV	49	117	6		6
	503 - PETS/Level crossing	41	12	-		-
	504 - Small signal box concentrator	130	21	3		3
	506 - Customer Info system	13	384	5		5
	507 - Long line address system	n/a	n/a	n/a		n/a
	Other non-volume costs				166	166
	Total			16	166	182

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

In £m 2012/13 prices unless stated otherwise

Notes:

- (1) The unit costs for telecoms and civils only include costs and volumes associated with projects that have completed during the year. Following the end of a project an analysis is performed to understand the costs and so create a more accurate unit cost framework when assessing future costs of similar projects. The amounts included in other non-volume costs are merely a balancing figure to reconcile total expenditure reported in this statement to the data provided in Statement 9a.

Comments:

- (1) Overall, the value of renewals activities being reported through the renewals unit cost framework has decreased by 8 percentage points. This decrease is mostly due to fewer structures projects being captured in the unit cost framework as the completion of projects has slipped into future years. Until the project is completed and the volume recognised the associated costs incurred are included within the non-volume costs. The proportion of renewals expenditure being measured through the renewals unit cost tables has decreased from 47 per cent to 39 per cent. This is partly due to an increase in the value of renewals compared to the prior year in categories which are not covered by unit cost and volume reporting, such as ORBIS and other projects over and above the PR08 funding.
- (2) Track – Plain line – volumes delivered were 9 per cent lower than the previous year mainly because of lower high output volumes (ground conditions, learning curve associated with this new working practice designed to facilitate a more efficient method of renewals delivery), adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to 2011/12 is closely related to these lost volumes as there is an element of sunk costs incurred regardless of whether the volume is delivered. Typically, these costs would include mobilisation and possession costs, logistics and design costs. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel) were higher than planned.
- (3) Track – S&C – volumes delivered in the year were 13 per cent higher than 2011/12. This increase was planned as Network Rail intended to deliver more S&C units per year as the control period progressed (as set out in the Delivery Plan update 2012). Although volumes increased compared to the prior year they were lower than budgeted. S&C unit costs were 6 per cent higher than the previous year adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). Adverse unit cost performance compared to 2011/12 is due to late changes to the workbank as routes become more autonomous in their operations and due to industrial action by key logistics supplier (necessitating late changes to designs and mobilisation costs), and additional contractor costs incurred under the terms of the framework agreements.
- (4) Civils – Overbridges – unit costs were 8 per cent lower than the previous year mostly due to the mix of projects, there are a number of low cost/ low volume projects offset by a smaller number of larger reconstruction projects. Volumes are 42 per cent lower than the previous year. The budget for 2012/13 was lower than the volumes delivered in 2011/12.

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

In £m 2012/13 prices unless stated otherwise

- (5) Civils – Underbridges – unit costs were around 25 per cent lower than the previous year. This is largely associated with slippage of work to 2013/14, those projects that have slipped are the relatively more expensive ones. There was an increase in volumes of 15 per cent compared to the prior year but volumes delivered were expected to have increased by more than 20 per cent in the year as set out in the budget for the year. Volumes delivered in the year were lower than expected due to a combination of reasons including access constraints, design and development issues, adverse weather conditions, and re-scheduling to enable more cost efficient solutions
- (6) Civils – Bridgeguard 3 – unit costs were about half that of the prior year. The level of volumes delivered in 2012/13 was evidently lower than in 2011/12 meaning that with a lower sample of projects, the unit costs are inherently likely to be more volatile. Bridgeguard 3 volumes were around 90 per cent less than the previous year. It was noted in last year's Regulatory financial statements that the volumes delivered in 2011/12 were unusually high. The company planned a 75 per cent decrease in Bridgeguard 3 volumes between 2011/12 and 2012/13.
- (7) Civils – Footbridges – unit costs have increased by over 400 per cent compared to the previous year. In last year's Regulatory financial statements it was noted that the low unit cost for Footbridges was mostly due to the types of projects being undertaken. The unit costs reported for 2012/13 are more in line with the 2010/11 unit costs illustrating the unusually low unit costs arising from activity reported in 2011/12. The majority of the jobs undertaken in the current year were replacement jobs which incur a higher unit cost. Footbridge volumes were lower than the prior year, although a perceptible increase in volumes was planned. This is mostly due to deferral of volume activity.
- (8) Civils – Tunnels – unit costs are in line with the previous year. As noted in last year's Regulatory financial statements volumes tend to be erratic for tunnels as they are dictated by when Network Rail is able to gain access to the structures. The uneven profile of Tunnels volumes delivery for Great Britain as a whole is demonstrated in the Delivery Plan update 2012 which anticipated the significant decrease in tunnels volumes in 2012/13 compared to 2011/12.
- (9) Civils – culverts – unit costs were significantly per cent lower than the previous year. This is due to management actions to generate efficiencies and also by the mix of projects this year compared to the previous year. Even within a single category, such as culverts, the cost of each unit delivered is not necessarily uniform and so the mix of projects in any given year can have a significant impact on the unit costs in that year. Volumes were approximately 77 per cent lower than 2011/12. This decrease was planned in Network Rail's budget which expected a significant reduction in volumes in the final two years of the control period compared to the first three years.
- (10) Civils – retaining walls – unit costs were more than four times as much in the current year compared to 2011/12, reflecting the mix of projects undertaken in the year. Retaining walls unit costs can be very different depending on the nature of individual jobs. The unit costs in 2012/13 range from £520 to £12,045. Volumes were over 90 per cent lower than 2011/12. As noted in last year's Regulatory financial statements the level of retaining walls volumes for 2011/12 were unusually high. Volumes for 2012/13 are more in line with the budget for England & Wales.

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

In £m 2012/13 prices unless stated otherwise

- (11) Civils – earthworks – unit costs have decreased by over 20 per cent compared to the previous year reflecting the slippage of a number of expensive projects into 2013/14. Volumes were generally in line with the prior year.
- (12) Signalling – re-signalling unit costs were 5 per cent lower than the previous year. This was due to efficiencies achieved on the individual projects delivered this year compared to the projects that were delivered last year. There was a decrease in the number of volumes delivered in the year compared to the prior year. This was due to more major projects being commissioned in the previous year compared to the current year.
- (13) Telecoms – DOO CCTV – the volume delivered in the current year was almost half that in the prior year. This decrease is in line with Network Rail's budget for 2012/13. Volumes delivered were approximately 90 per cent of the plan with the difference being due to certain projects being deferred until the final year of the control period. The unit costs are noticeably different to the prior year which reflects the mix of projects undertaken in 2012/13 compared to 2011/12. The nature of the project can have a substantial impact upon the average unit cost.
- (14) Telecoms – PETS/ Level Crossing – there was a significant increase in the volumes delivered this year compared to the previous year. This was in line with the Network Rail's budget which anticipated 38 units compared to the 40 delivered. There was a significant decrease in cost compared to the prior year which reflects the mix of projects undertaken in 2012/13 compared to 2011/12.
- (15) Telecoms – Small signal box concentrator – volumes increased by 24 per cent compared to the previous year due to phasing of activity. Volumes delivered were approximately 40 per cent lower than planned due to re-phasing and de-scoping across a number of projects.
- (16) Telecoms – Customer info systems – volumes in the year were less than one third of those delivered in the previous year. A more pronounced decrease was expected in Network Rail's budget. Volumes delivered in the year were more than double the plan. This was due to the net impact of one project being deferred to future years and another slipping from 2011/12 into 2012/13. Unit costs were higher in the current year compared to the previous year partly due to the significantly lower level of activity in the year but also due to the expensive nature of some of the projects undertaken in the current year.
- (17) Telecoms – Long line address system – this information is reported for the first time in these Regulatory financial statements. The volumes delivered in the year were approximately 10 per cent higher than planned due to a slippage of activity from 2011/12 into 2012/13.

Statement 1: Scotland Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference	Actual
Income	678	684	(6)	2,603	2,613	(10)	651
Expenditure							
Controllable opex	84	72	(12)	367	314	(53)	90
Non-controllable opex	47	37	(10)	146	141	(5)	32
Maintenance	89	112	23	387	468	81	87
Schedule 4 & 8	5	9	4	43	44	1	13
Renewals	295	280	(15)	1,142	1,345	203	308
Enhancements	105	9	(96)	625	465	(160)	118
Financing costs	140	152	12	564	555	(9)	152
Corporation tax	-	-	-	1	1	-	-
Rebates	32	-	(32)	46	-	(46)	-
Total expenditure	797	671	(126)	3,321	3,333	12	800

Notes:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased cumulative Maintenance costs by £7m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period to date. For the avoidance of doubt, note that comments about variances in these Regulatory financial statements refer to the current year rather than the cumulative position for the control period unless otherwise stated.
- (2) Income was in line with the PR08. More detailed variances are set out in Statement 6a.
- (3) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Non-controllable opex was higher than the PR08 mainly due to additional EC4T and Cumulo costs. This is set out in more detail in Statement 7a.
- (5) Maintenance was lower than the PR08. This is set out in more detail in Statement 8a (1).
- (6) Net Schedule 4 & 8 costs were lower than the PR08. This is set out in more detail in Statement 10.
- (7) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 largely due to re-profiling of expenditure within the control period. Underspend compared to the PR08 in earlier years of the control period have been partly caught up this year

Statement 1: Scotland Summary regulatory financial performance continued

In £m 2012/13 prices unless stated otherwise

- (8) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 mostly due to re-profiling of expenditure within the control period and the impact of non-PR08 enhancements projects (such as Edinburgh-Glasgow Improvements (EGIP) and Borders Railway).
- (9) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (10) A rebate of £18m was paid to Transport Scotland during the year to allow them to share in Network Rail's outperformance of the regulatory determination. Financial outperformance occurs when Network Rail saves even more money than expected under the regulatory settlement. Rebates also includes £14m payable to Train Operating Companies and Freight Operating Companies under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This allows Network Rail's track customers to benefit from the financial outperformance achieved by Network Rail.

Statement 2a: Scotland RAB - regulatory financial position

In £m 2012/13 prices unless stated otherwise

A) Calculation of the Scotland RAB at 31 March 2013

	Actual	PR08	Difference
Opening RAB for the year (2006/07 prices)	3,648	3,844	(196)
Indexation to 2011/12 prices	678	715	(37)
Opening RAB for the year (2011/12 prices)	4,326	4,559	(233)
Indexation for the year	129	136	(7)
Opening RAB (2012/13 prices)	4,455	4,695	(240)
Adjustments for the actual capex outturn in CP3	-	-	-
Renewals	324	280	44
Enhancements PR08	12	10	2
Non-PR08 enhancements (added to RAB)	89	-	89
Total enhancements	101	10	91
Renewals & Enhancements funded from Ring Fenced Fund (RFF)	(69)	(69)	-
Amortisation	(213)	(213)	-
Adjustment for missed regulatory outputs	-	-	-
Closing RAB at 31 March 2013	4,598	4,703	(105)

RAB regulatory financial position - cumulative

B) Calculation of the cumulative Scotland RAB at 31 March 2013

	2009/10	2010/11	2011/12	2012/13	CP4 Total
Opening RAB (2012/13 prices)	3,976	4,163	4,365	4,455	3,976
Adjustments for the actual capex outturn in CP3	7	-	-	-	7
Renewals (added to the RAB)	254	272	247	324	1,097
Enhancements PR08	189	154	80	12	435
Non-PR08 enhancements (added to RAB)	-	46	39	89	174
Total enhancements	189	200	119	101	609
Renewals & Enhancements funded from RFF	(51)	(58)	(64)	(69)	(242)
Amortisation	(212)	(212)	(212)	(213)	(849)
Adjustment for missed regulatory outputs	-	-	-	-	-
Closing RAB	4,163	4,365	4,455	4,598	4,598

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in Part B), from the start of the control period. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and Network Rail continues to have regular discussions around the treatment of capital expenditure with the ORR.

Statement 2a: Scotland RAB - regulatory financial position continued

In £m 2012/13 prices unless stated otherwise

- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in its Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. The variance to the Delivery Plan update 2012 is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a). Although Network Rail spent more on renewals in the current year than the PR08 assumed, not all of this variance was eligible for inclusion in the RAB. This was mostly because the Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances eligible for RAB addition to reflect the impact of input prices (measured using IOPI).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. The variance to the Delivery Plan update 2012 is mostly due to re-profiling of expenditure within the control period (refer to Statement 3). The value of enhancements added to the RAB was higher than the ORR assumed due to expenditure on non-PR08 enhancement schemes. These schemes (such as Edinburgh-Glasgow Improvements (EGIP) and Borders Railway) were not included as part of the original PR08 settlement but have been approved in principle for RAB addition by the ORR.
- (4) We have been advised by the ORR of prospective adjustments to the RAB in relation to deemed under performance in asset management, specifically on our civils assets (including bridges and earthworks), fencing and drainage. Network Rail does not agree with the principle or the basis of assessment and discussions are at an early stage. The ORR has informed us that they will assess and conclude on the quantum of the adjustments in their annual efficiency and finance assessment later this year. Whilst the adjustments could reduce the Great Britain RAB by up to £1bn, the outcome of discussions with the ORR is so uncertain that we have not reflected any reduction in these Regulatory Financial Statements.
- (5) In the recently published Draft Determination the ORR have noted that they will reduce the control period 5 opening RAB by £134m to reflect a perceived tax double count in control period 3. The ORR have advised us that this adjustment will only apply from 1 April 2014 and, therefore, it not included in the RAB valuation included in these Regulatory Financial Statements.

Statement 2b: Scotland RAB - reconciliation of expenditure

In £m 2012/13 prices unless stated otherwise

	Movements in 2012/13		Total as at 31/03/13	Cumulative		
	Adjustment	Capitalised financing		Actual	PR08	Difference
Renewals						
Renewals in the determination			278	1,338	1,338	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	20	-	20	22	3	19
CP3 deferrals to CP4	-	-	-	4	4	-
Seven day railway	-	-	-	-	-	-
Other adjustments	(3)	-	(3)	(23)	-	(23)
Adjusted PR08 determination (renewals)	17	-	295	1,341	1,345	(4)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for deferrals of expenditure within CP4	30	(10)	20	(207)	-	(207)
IOPI index adjustments	(2)	(2)	(4)	(55)	-	(55)
Adjustments for efficient over spend ⁽⁴⁾	16	1	17	26	-	26
25% retention of efficient under spend ⁽⁴⁾	(4)	-	(4)	(4)	-	(4)
Other adjustments	-	-	-	(4)	-	(4)
Total Renewals (added to the RAB)	57	(11)	324	1,097	1,345	(248)
Adjustment for inefficient overspend			(43)	4		4
Adjustment for capitalised financing			11	32		32
Adjustment for 25% retention of efficient over spend			4	4		4
Other adjustments			(1)	5		5
Total actual renewals expenditure (see Statement 9a)			295	1,142	1,345	(203)

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2012/13 prices unless stated otherwise

	Movements in 2012/13			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/13	Actual	PR08	Difference
Enhancements						
Enhancements in PR08			10	469	468	1
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(20)	-	(20)	(22)	(3)	(19)
CP3 deferrals to CP4	-	-	-	5	-	5
Change in funding arrangements	-	-	-	-	-	-
Other adjustments	26	-	26	9	-	9
Adjusted PR08 determination (enhancements)	6	-	16	461	465	(4)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for efficient over/under spend	-	-	-	-	-	-
25% retention of efficient over/under spend	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for acceleration/ (deferral) of expenditure within CP4	(3)	(1)	(4)	(26)	-	(26)
Other Adjustments	-	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	3	(1)	12	435	465	(30)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	89	-	89	174	-	174
Total Non PR08 enhancement expenditure	89	-	89	174	-	174
Total non PR08 enhancements (added to the RAB)	89	-	89	174	-	174
Total enhancements (added to the RAB)	92	(1)	101	609	465	144
Adjustment for inefficient overspend			-	9		9
Adjustment for capitalised financing			1	1		1
Adjustment for 25% retention of efficient over/under spend			-	-		-
Other adjustments			-	2		2
Non PR08 expenditure						
Third party funded schemes			9	41		41
Other adjustments			3	4		4
Total actual enhancement expenditure (see Statement 3)			114	666	465	201

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2012/13 prices unless stated otherwise

Memo item 1 - renewals over/under spend log	2009/10	2010/11	2011/12	2012/13	CP4 to date
Net volume under/over spend (efficient)	-	-	-	-	-
Net volume overspend (inefficient)	-	-	-	-	-
Net unit cost over/under spend	-	-	-	-	-
Total over/under spend renewals	-	-	-	-	-

Memo item 2 - Outstanding non-capex RAB additions (cash prices)	2009/10	2010/11	2011/12	2012/13
Brought forward balance	498	483	489	497
Indexation for the year	1	22	26	15
Amortisation	(16)	(16)	(18)	(18)
Closing balance	483	489	497	494

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancement expenditure for the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Non-delivery of regulatory outputs;
 - b. Deferrals/ acceleration of capital works within the control period and net deferral / acceleration into/ from CP5;
 - c. Agreed changes to the original scope of capital works assumed in the determination;
 - d. Changes in input prices as indicated by the IOPI index (see below);
 - e. Efficient underspend/ overspend; and
 - f. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2013. The Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances to reflect the impact of IOPI when assessing the value of renewals expenditure that can be added to the RAB. During the control period to date the IOPI index has increased by 6.4 per cent compared to the RPI equivalent figure of 14.1 per cent over the same period. This has the impact of reducing the PR08 renewals allowance eligible for RAB addition by £4m in the year and £55m for the control period to date.
- (4) Efficient Renewals overspend refers to projects where Network Rail are delivering schemes over and above those required and funded in control period 4. Many of these schemes are designed to produce long run cost savings and operational improvements, the benefits of which will not all be realised in the current control period. Examples include amounts spent on the new national centre in Milton Keynes and ORBIS, a programme to improve asset management information, both of which will enable efficiency savings in CP5 and beyond. Funding for these schemes were not included in the original PR08. Under the terms of the Regulatory Accounting Guidelines Network Rail bears the first 25 per cent of the cost of each of these projects.

Statement 2c: Scotland Summary of RAB movements

A) Renewals RAB additions

Movements

	2009/10	2010/11	2011/12	2012/13
PR08 determination	377	362	321	278
Deferrals from CP3	4	-	-	-
Delivery plan additions/reductions	-	-	(20)	(3)
Delivery plan re-classifications	1	1	-	20
Adjusted PR08 determination	382	363	301	295
(Deferrals to)/ acceleration from later in CP4	(117)	(83)	(27)	20
IOPI index adjustment	(9)	(6)	(36)	(4)
Other adjustments	-	(4)	-	-
Adjustments for efficient over/(under) spend	(2)	2	9	13
Total additions to RAB	254	272	247	324

B) Enhancements RAB additions

Movements

	2009/10	2010/11	2011/12	2012/13
PR08 determination	202	147	109	10
Deferrals from CP3	4	-	-	-
Delivery plan additions/reductions	-	-	-	-
Delivery plan re-classifications	(1)	14	(31)	6
Adjusted PR08 determination	205	161	78	16
(Deferrals to)/ acceleration from later in CP4	(16)	(7)	2	(4)
Adjustments for efficient over/under spend	-	-	-	-
Other adjustments	-	-	-	-
PR08 determination additions to the RAB	189	154	80	12
Non-PR08 determination additions to the RAB	-	46	39	89
Total additions to RAB	189	200	119	101

Statement 3: Scotland Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Airdrie to Bathgate	-	-	-	247	233	(14)
Total Schemes covered by a tailored protocol or fixed price agreement	-	-	-	247	233	(14)
Funds						
Tier 3 project development	1	2	1	7	13	6
Small projects fund	5	5	-	12	19	7
Total Funds	6	7	1	19	32	13
Other PR08 funded schemes						
Paisley Corridor Improvements	7	16	9	157	179	22
Borders railway	-	1	1	-	2	2
Glasgow to Kilmarnock	-	-	-	18	17	(1)
Unallocated Overheads	-	-	-	2	-	(2)
Total Other PR08 funded schemes	7	17	10	177	198	21
CP4 Delivery Plan	13	24	11	443	463	20
Schemes carried over from CP3						
WCRM	-	-	-	-	-	-
ERTMS	-	-	-	3	3	-
Cab fitment	-	-	-	1	1	-
Total Schemes carried over from CP3	-	-	-	4	4	-
Re-profiled expenditure due to programme deferral	-	(15)	(15)	-	(2)	(2)
Total PR08 funded enhancements (see Statement 2b)	13	9	(4)	447	465	18

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

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Edinburgh - Glasgow Improvements (EGIP)	53	-	(53)	99	-	(99)
Ayrshire Inverclyde	-	-	-	20	-	(20)
Edinburgh Waverley steps	3	-	(3)	11	-	(11)
Borders Railway	27	-	(27)	29	-	(29)
Paisley Canal line electrification	9	-	(9)	9	-	(9)
Total Government sponsored schemes	92	-	(92)	168	-	(168)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	-	-	-	1	-	(1)
Other income generating schemes ⁽¹⁾	-	-	-	1	-	(1)
Total Network Rail sponsored schemes (income generating)	-	-	-	2	-	(2)
Network Rail sponsored schemes (cost saving) ⁽²⁾						
Other cost saving schemes	(2)	-	2	-	-	-
Total Network Rail sponsored schemes (cost saving)	(2)	-	2	-	-	-
Schemes promoted by third parties						
FSR ticket gates	-	-	-	5	-	(5)
Adjustment for income generating schemes ⁽³⁾	(1)	-	1	(1)	-	1
Total Schemes promoted by third parties	(1)	-	1	4	-	(4)
Enhancement expenditure not meeting ORR criteria for RAB addition						
Outperformance expenditure	2	-	(2)	3	-	(3)
Schemes with pay back period within the control period	-	-	-	-	-	-
Schemes with facility fees	1	-	(1)	1	-	(1)
Total enhancement expenditure not meeting ORR criteria for RAB addition	3	-	(3)	4	-	(4)
Total Network Rail funded enhancements (see Statement 1)	105	9	(96)	625	465	(160)
Third party funded (PAYG)	9	-	(9)	41	-	(41)
Total enhancements (see Statement 2b)	114	9	(105)	666	465	(201)

Notes:

- (1) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received as a direct result of completing such enhancements. For these schemes, the amount to be added to the RAB at the end of CP4 should be the capital expenditure less the total net income received from that scheme during the control period.

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

In £m 2012/13 prices unless stated otherwise

- (2) Following consultation with ORR, schemes previously categorised as Network Rail sponsored schemes (cost saving) undertaken in the control period to date have been removed from the above table. The above table shows negative expenditure in the current year in order to get the control period to date expenditure to £nil for these types of schemes.
- (3) Within schemes promoted by third parties is an adjustment for revenue received from third parties as a direct result of completing such enhancements. For such schemes, the amount to be added to the RAB at the end of CP4 should be the capital expenditure less the total net income received from that scheme during the control period.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan update 2012 is Network Rail's latest response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition or from Network Rail's outperformance.
- (5) Enhancement expenditure by Network Rail in the year was £105m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£114m) less the PAYG schemes (£9m).
- (6) Expenditure on PR08 enhancements was 84 per cent lower than the previous year. The previous year included £71m of expenditure on the Paisley Corridor Improvements programme compared to £7m this year as this project has substantially completed.
- (7) Non-PR08 RAB-funded enhancement expenditure was more than double that in the previous year mostly as a result of additional expenditure on EGIP and Borders Railway schemes.
- (8) Outperformance expenditure was £2m this year compared to £nil in the previous year primarily due to expenditure on reducing the number of level crossings in operation on the network. This is part of the company's continued commitment to improving the safety of the railway network. The level crossing risk reduction programme is being funded from savings made from outperforming the Regulator's determination (as set out in Statement 5).
- (9) PAYG expenditure was in line with the previous year.

Statement 4: Scotland Net debt and financial ratios

In £m cash unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt Scotland at 31 March 2013						
Opening net debt	2,660	2,814	154	2,081	2,118	37
Income						
Fixed charges	(273)	(274)	(1)	(633)	(636)	(3)
Total variable charges (including EC4T)	(48)	(40)	8	(167)	(154)	13
Grant income	(303)	(313)	(10)	(1,458)	(1,468)	(10)
Total other single till income	(54)	(57)	(3)	(202)	(214)	(12)
Other income	-	-	-	-	-	-
Total income	(678)	(684)	(6)	(2,460)	(2,472)	(12)
Expenditure						
Controllable operating expenditure	84	72	(12)	343	295	(48)
Non-controllable operating expenditure	47	37	(10)	138	133	(5)
Maintenance expenditure	89	112	23	367	441	74
Schedule 4&8	5	9	4	40	41	1
Renewals expenditure	295	280	(15)	1,084	1,263	179
Enhancement expenditure	105	9	(96)	584	427	(157)
Total expenditure	625	519	(106)	2,556	2,600	44
Financing						
Interest expenditure on nominal debt - FIM covered	55	69	14	222	277	55
Interest expenditure on IL debt - FIM covered	20	21	1	71	67	(4)
Accretion on IL debt - FIM covered	45	33	(12)	196	106	(90)
Expenditure on the FIM	20	20	-	75	76	1
Interest costs	140	143	3	564	526	(38)
Interest expenditure on nominal debt - unsupported	-	9	9	-	29	29
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	140	152	12	564	555	(9)
Corporation tax	-	-	-	1	1	-
Rebates	32	-	(32)	44	-	(44)
Other¹	(5)	1	6	(12)	-	12
Movement in net debt	114	(12)	(126)	693	684	(9)
Closing net debt	2,774	2,802	28	2,774	2,802	28

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Financial Ratios

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

C) Average interest costs by category of debt

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

⁽¹⁾ Other

Movements in working capital	-	(13)	(21)	(5)
Other	27	-	-	-

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Network Rail issues debt for the company as a whole and does not raise separate debt for its operations in Scotland. A notional split of the debt was calculated from 1 March 2005, which is updated for all subsequent income and expenditure relating to Scotland.
- (2) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines March 2013. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (3) Controllable opex is shown in more detail in Statement 7a.
- (4) Non-controllable opex is shown in more detail in Statement 7a.
- (5) Maintenance is shown in more detail in Statement 8a.
- (6) Schedule 4 & 8 is shown in more detail in Statement 10.
- (7) Renewals expenditure is shown in more detail in Statement 9a.
- (8) Enhancements expenditure is shown in more detail in Statement 3.

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (9) Financing – Network Rail incurred interest expenses on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). The FIM is a facility provided to Network Rail by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. The PR08 also assumed that Network Rail would issue debt that was not supported by the FIM. However, this has not been the case.
- (10) Financing – Costs for the year were slightly lower than the previous year despite an increase of approximately 6 per cent in average net debt. The lower expense was due to lower accretion on index linked debt, arising from lower RPI at the dates used to calculate accretion compared to those in the previous year and lower interest rates on nominal debt.
- (11) Other – the value in 2009/10 includes a £27m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.
- (12) Financial ratios – ratios are defined as follows:

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines March 2013. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (13) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 60.3 per cent (2012: 61.5 per cent) which was lower than planned in the Delivery Plan update 2012 as the value of debt did not increase by the amount expected. This was mostly due to the re-phasing of capital expenditure, lower than expected capital accretion on index-linked debt and lower interest rates on nominal debt. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utility companies face. The gearing ratio is well within the Great Britain limit in the revised Licence condition of 75.0 per cent for the current year.
- (14) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all net running costs including as assumption for steady state renewals. Network Rail's AICR for the year was 2.53 (2012: 2.20), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as the business generated operational revenue 153 per cent greater than the cash required to pay net financing costs.

Statement 5: Scotland Financial performance statement

In £m 2012/13 prices unless stated otherwise

Cumulative

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(341)	(352)	(1,125)	(2)	(1,820)
Adjustments in DP09 in 2009/10 prices	(1)	-	119	-	118
Inflation adjustment from 2009/10 to nominal prices	(30)	(31)	(92)	-	(153)
Adjusted DP09 in nominal prices	(372)	(383)	(1,098)	(2)	(1,855)
Actuals in nominal prices	(347)	(361)	(1,079)	(2)	(1,789)
(Under)/ out performance in nominal prices	25	22	19	-	66

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	2,271	(442)	(135)	(447)	-		1,247	(573)
Adjustments in DP09 in 2009/10 prices	54	66	-	24	-		144	262
Inflation adjustment from 2009/10 to nominal prices	101	(22)	(12)	(12)	-		55	(98)
Adjusted DP09 in nominal prices	2,426	(398)	(147)	(435)	-		1,446	(409)
Actuals in nominal prices	2,413	(412)	(139)	(379)	1		1,484	(305)
(Under)/ out performance in nominal prices	(13)	(14)	8	56	1	(5)	33	99

Statement 5: Scotland Financial performance statement continued

In £m 2012/13 prices unless stated otherwise

2012/13

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(81)	(84)	(290)	-	(455)
Adjustments in DP09 in 2009/10 prices	(1)	-	34	-	33
Inflation adjustment from 2009/10 to nominal prices	(13)	(13)	(39)	-	(65)
Adjusted DP09 in nominal prices	(95)	(97)	(295)	-	(487)
Actuals in nominal prices	(84)	(89)	(295)	-	(468)
(Under)/ out performance in nominal prices	11	8	-	-	19

Pot 2	Income	Enhancements	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	564	(21)	(44)	(140)	-	-	359	(96)
Adjustments in DP09 in 2009/10 prices	39	10	-	15	-	-	64	97
Inflation adjustment from 2009/10 to nominal prices	65	(2)	(6)	9	-	-	66	1
Adjusted DP09 in nominal prices	668	(13)	(50)	(116)	-	-	489	2
Actuals in nominal prices	669	(13)	(52)	(93)	-	-	511	43
(Under)/ out performance in nominal prices	1	-	(2)	23	-	-	22	41

Notes:

- (1) This statement uses the same principles as Network Rail's internal measure of financial outperformance: Financial Value Assesed ("FVA"). FVA represents the amount that Network Rail has outperformed the Regulators' post efficient determination and so represents savings over and above those the Regulator expected in the control period.

Comments

- (1) The Other column within Pot 2 represents the total difference between the PR08 and Network Rail's original Delivery Plan. This is adjusted so that the total financial outperformance can be measured against the Regulator's original determination.
- (2) The above table shows that Network Rail have generated more net income in total than expected in the Regulator's determination both in the year and in the control period to date.
- (3) In the current year the FVA generated was mainly a result of savings in interest, operating costs and maintenance.
- (4) Interest savings in the year were largely a result of lower nominal interest rates than assumed at the time of the Delivery Plan 2009. At the time the Delivery Plan 2009 the turbulent macro economic situation and outlook resulted in assumed higher rates. Lower levels of debt have also contributed to lower interest expenses.

Statement 5: Scotland Financial performance statement continued

In £m 2012/13 prices unless stated otherwise

- (5) Operating costs and maintenance costs FVA earned in the year was higher than planned due to tight management controls around costs, headcount reductions and limiting managerial staff pay rises to lower than inflation.

Statement 6a: Scotland Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Fixed charges	273	274	(1)	661	664	(3)	136
Variable charges							
Variable usage charge	13	11	2	50	44	6	13
Traction electricity charges	18	13	5	57	52	5	12
Electrification asset usage charge	1	1	-	3	2	1	1
Capacity charge	6	6	-	23	22	1	5
Station usage charges	-	-	-	-	-	-	-
Schedule 4 net income	10	9	1	44	44	-	12
Schedule 8 net income	-	-	-	-	-	-	-
Total gross variable charge income	48	40	8	177	164	13	43
Total franchised track access income	321	314	7	838	828	10	179
Grant income	303	313	(10)	1,550	1,558	(8)	419
Total franchised track access and grant income	624	627	(3)	2,388	2,386	2	598
Other single till income							
Property income	7	8	(1)	33	30	3	7
Freight income	7	11	(4)	28	44	(16)	8
Open access income	-	-	-	-	-	-	-
Stations income	32	32	-	124	127	(3)	31
Depots income	8	6	2	30	25	5	7
Other	-	-	-	-	1	(1)	-
Total other single till income	54	57	(3)	215	227	(12)	53
Total income	678	684	(6)	2,603	2,613	(10)	651

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Comments:

- (1) This Statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely predetermined. The remaining income types are variable.
- (2) Fixed charges – these are marginally lower than the PR08 due to different assumptions about inflation. Income is double that recognised in the previous year which was a planned increase in the Regulator's income model. This was partly offset by a decrease in the level of Grant income received in 2012/13 compared to the previous year as Transport Scotland altered the mix of funding away from government to train operator in line with their funding plans.

Statement 6a: Scotland Analysis of income continued

In £m 2012/13 prices unless stated otherwise

- (3) Variable usage charge – this was higher than the PR08 as Network Rail provided an increased number of paths to franchised train operators to run more services for the public than the determination assumed.
- (4) Grant income – the variance to the PR08 target arises from the grant re-profiling agreed between Network Rail and Transport Scotland which resulted in more grant income being received in 2010/11 but less in future years of the control period. Grant income is significantly lower than the previous year as the mix of funding between grant income and fixed train operator charges changed in line with the Regulator's determination.
- (5) Freight income – income was less than the PR08 for the year and for the control period to date. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (6) Analysis of income does not include the impact of rebates paid to stakeholders. These are disclosed separately in Statement 1.

Statement 6b: Scotland Analysis of other single till income

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Property Income							
Property sales income	-	2	(2)	5	4	1	1
Other property income	7	6	1	28	26	2	6
Total property income	7	8	(1)	33	30	3	7
Freight income							
Freight variable usage charge	6	8	(2)	25	31	(6)	7
Freight EC4T	1	1	-	4	2	2	1
Freight EAU	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	2	2	-	1
Freight performance payments net income	(1)	(1)	-	(6)	(3)	(3)	(2)
Coal spillage charge (incl investment charge)	(2)	-	(2)	-	1	(1)	1
Freight only line charge	3	2	1	3	7	(4)	-
Freight connection agreements and other income	-	1	(1)	-	4	(4)	-
Total Freight income	7	11	(4)	28	44	(16)	8
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Other open access charges	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Retail income	5	7	(2)	25	27	(2)	5
Advertising income	1	-	1	4	-	4	1
Concessions income	2	1	1	2	4	(2)	-
Long term charge	2	3	(1)	10	10	-	3
Qualifying expenditure	5	4	1	17	18	(1)	4
Other	-	-	-	-	-	-	-
Total	15	15	-	58	59	(1)	13
Franchised stations income							
Long term charge	14	15	(1)	56	59	(3)	16
Stations lease income	2	2	-	9	9	-	2
Other	1	-	1	1	-	1	-
Total	17	17	-	66	68	(2)	18
Total stations income	32	32	-	124	127	(3)	31
Depots income	8	6	2	30	25	5	7
Other income	-	-	-	-	1	(1)	-
Total other single till income	54	57	(3)	215	227	(12)	53

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative			2011/12
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Memo:							
Investment framework income							
Stations related	1	-	1	1	-	1	-
Depot related	-	-	-	-	-	-	-
Track related	-	-	-	-	-	-	-
Total investment framework income	1	-	1	1	-	1	-

Memo item:

	2009/10	2010/11	2011/12	2012/13	Cumulative
Hypothecated gains in year	-	-	-	-	-

Note:

- (1) In previous years' Regulatory financial statements the amounts receivable relating to Freight only line charge were included within the Coal spillage charge as these charges could not be clearly identified. This data can now be separately disclosed. The current year result includes a switch of £2m from Coal spillage charge to Freight only line charge in order to get the control period to date position correct.

Comments:

- (1) Freight income was less than the PR08 for the year and for the control period to date. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.

Statement 6c: Scotland Analysis of income by operator

In £m 2012/13 prices unless stated otherwise

Franchised Train Operating Companies

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Cross Country				
Variable Usage Charges	-	0.6	0.8	0.7
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	1.1	0.6	0.8	0.8
Fixed Charges	-	-	-	-
Station Long Term Charges	-	-	-	-
Station QX	-	0.2	-	-
Station Facility Charge	-	-	-	-
Other Charges	-	-	-	-
Total income	1.1	1.4	1.6	1.5

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
East Coast Main Line Rail				
Variable Usage Charges	2.3	2.5	1.6	1.0
Traction Electricity Charges	2.3	1.8	-	-
Electrification Asset Usage Charges	-	0.1	0.1	-
Capacity Charges	1.1	0.6	0.5	0.3
Fixed Charges	-	-	-	-
Station Long Term Charges	-	1.1	-	-
Station QX	1.1	0.3	-	-
Station Facility Charge	-	-	-	-
Other Charges	-	0.3	1.4	1.3
Total income	6.8	6.7	3.6	2.6

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Scotrail				
Variable Usage Charges	6.8	6.4	7.0	7.5
Traction Electricity Charges	11.2	9.8	11.1	11.7
Electrification Asset Usage Charges	-	0.4	0.4	0.5
Capacity Charges	2.3	2.5	2.6	2.7
Fixed Charges	127.1	126.1	135.6	273.3
Station Long Term Charges	2.3	16.8	10.7	18.9
Station QX	3.4	3.0	3.4	3.4
Station Facility Charge	-	-	-	-
Other Charges	-	4.3	2.5	5.7
Total income	153.1	169.3	173.3	323.7

Statement 6c: Scotland Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Transpennine				
Variable Usage Charges	-	0.3	0.3	0.3
Traction Electricity Charges	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-
Capacity Charges	-	0.3	0.3	0.3
Fixed Charges	-	-	-	-
Station Long Term Charges	-	0.3	-	-
Station QX	-	0.1	-	-
Station Facility Charge	-	-	-	-
Other Charges	-	-	-	-
Total income	-	1.0	0.6	0.6

	Actual income in year			
	2009/10	2010/11	2011/12	2012/13
Virgin West Coast				
Variable Usage Charges	2.3	1.9	2.0	2.2
Traction Electricity Charges	2.3	1.8	-	-
Electrification Asset Usage Charges	1.1	0.1	0.1	0.1
Capacity Charges	-	1.3	1.3	1.4
Fixed Charges	-	-	-	-
Station Long Term Charges	-	0.6	-	-
Station QX	-	0.3	-	-
Station Facility Charge	-	0.4	-	-
Other Charges	-	-	-	-
Total income	5.7	6.4	3.4	3.7

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

Statement 6c: Scotland Analysis of income by operator continued

In £m 2012/13 prices unless stated otherwise

	2009/10	2010/11	2011/12	2012/13
Consolidated Freight Operating Companies				
Variable Usage Charges	5.7	6.8	6.8	5.4
Traction Electricity Charges	1.1	0.9	0.7	0.5
Capacity Charges	-	0.5	0.5	0.4
Performance Regime	(1.1)	(2.1)	(1.6)	(1.4)
Freight Only Line & Coal Spillage Charge	-	0.7	0.9	1.5
Freight Connection Agreements and Other Income	-	0.1	0.1	0.4
Total income	5.7	6.9	7.4	6.8

Notes:

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

Statement 7a: Scotland Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Controllable operating expenditure						
Signaller staff costs	22	17	(5)	89	72	(17)
Non-signaller staff costs	63	49	(14)	256	206	(50)
Staff incentives	5	-	(5)	23	-	(23)
Other employee related costs	8	5	(3)	43	23	(20)
Pensions	7	11	4	34	45	11
Consultants/contractors/agency	13	8	(5)	43	35	(8)
Insurance and claims	8	6	(2)	30	27	(3)
Accommodation, office, property	7	9	2	34	40	6
Information management	6	4	(2)	19	17	(2)
Other	22	9	(13)	76	43	(33)
Total gross controllable operating expenditure	161	118	(43)	647	508	(139)
Less:						
Other operating income	(16)	(9)	7	(65)	(37)	28
Own work capitalised	(61)	(37)	24	(215)	(157)	58
Total controllable operating expenditure	84	72	(12)	367	314	(53)
Non-controllable operating expenditure						
Traction electricity costs	20	14	(6)	61	53	(8)
Cumulo rates	17	13	(4)	43	50	7
British Transport Police costs	7	7	-	30	27	(3)
Rail Safety and Standards						
Board levy	1	1	-	4	4	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	2	2	-	8	7	(1)
Other (i.e. CIRAS fees)	-	-	-	-	-	-
Total non-controllable operating expenditure	47	37	(10)	146	141	(5)
Total operating expenditure	131	109	(22)	513	455	(58)

Note:

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

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines the scope of non-controllable costs in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines March 2013.

Statement 7a: Scotland Analysis of operating expenditure continued

In £m 2012/13 prices unless stated otherwise

- (2) Signaller staff costs – as expected these costs are in line with the previous year. Reducing signaller staff numbers is the main way to reduce the Signaller staff costs. Our recently published Strategic Business Plan sets out how we intend to make efficiencies under our National Operating Strategy to reduce the cost base going forwards. As in previous years costs are higher than the PR08.
- (3) Non-signaller staff costs – these costs are 4 per cent lower than the prior year mainly due to a 3 per cent decrease in non-signaller headcount in Great Britain as a whole within operating costs. Costs are higher than the PR08 as the assumptions regarding staff numbers and costs are different to the actual levels. This is reflected in the higher Own work capitalised figure compared to the PR08 as more capex work has been delivered in-house rather than using third parties as Network Rail seeks the most efficient way to deliver its outputs.
- (4) Staff incentives – these costs are lower than previous year as achievement against the incentive targets was lower than the prior year. Costs are higher than the PR08 which assumed no staff incentive payments.
- (5) Other employee related costs – costs were £3m lower than the previous year which was almost all due to lower redundancy and re-organisation costs. The devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all contributed to these additional costs in 2011/12.
- (6) Pensions – costs are approximately 15 per cent lower than the previous year which is mostly due to a change in the rules of the Network Rail Section of the Railway Pension Scheme that came into effect in 2012/13. Under the new rules the contributions made by the company to the scheme have decreased in order to make the scheme more affordable and sustainable. Costs are, once more, significantly lower than those assumed in the PR08.
- (7) Consultants/contractors/agency – these costs are higher than assumed in the PR08 in both the current year and the control period to date. Costs in this area are slightly higher than the prior year. This is mostly due to an increase in the number of agency staff costs partly offset by a decrease in one-off legal costs compared to the previous year. One of the main reasons for the increase in agency staff costs is due to the current reorganisations occurring within the company. To facilitate the move to Network Rail's new national centre in Milton Keynes short term solutions to resourcing have been enacted.
- (8) Insurance and claims – costs are higher than the PR08 mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012. Costs are higher than the previous year which benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12.
- (9) Information management – costs in the year are £2m higher than assumed in the PR08. However, costs are in line with 2011/12.
- (10) Other controllable costs – costs in line with the previous year.
- (11) Other operating income – income in the year was significantly higher than the PR08, reflecting the trend of previous years in the control period. The amount earned was in line with the prior year.

Statement 7a: Scotland Analysis of operating expenditure continued

In £m 2012/13 prices unless stated otherwise

- (12) Own work capitalised – this amount is higher than the PR08. The PR08 assumed both a lower level of costs and a lower level of costs recovered through capex than the Delivery Plan. More capex work has been delivered in-house rather than using third parties as Network Rail seeks the most efficient way to deliver its outputs. The level of own work capitalised is slightly lower than the previous year. This is mostly due to movements in Asset Management. This area of the business is moving from being a large delivery organisation (thus incurring costs and recovering these costs through Own costs capitalised) to being a smaller, more efficient, service provider.
- (13) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs. Costs are lower than the PR08 due to different assumptions made by the ORR regarding electricity rates. Costs have increased in comparison to the prior year by £6m due to higher market electricity prices. This is reflected in Statement 6a, where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are £6m higher than the previous year.
- (14) Cumulo rates – these are 65 per cent higher than the previous year. Cumulo rates are the business rates that Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the PR08 had been published. The Regulator's determination assumed a lower level of rates than the Valuation Office Agency decided and so the expense in the year is higher than the PR08. As Cumulo rates are set by a third party and outside of Network Rail's influence they are considered to be non-controllable.
- (15) British Transport Police – although costs in the current year are in line with the PR08, the control period to date expense is approximately 10 per cent more than the Regulator's assumption. Achieving the PR08 targets would necessitate cost savings that could endanger the travelling public.

Statement 7b: Scotland Analysis of operating expenditure by activity

In £m 2012/13 prices unless stated otherwise

	CP3			CP4			
	2006/07	2007/08	2008/09	2009/10 ⁽¹⁾	2010/11	2011/12	2012/13
Controllable operating expenditure							
Human resources							
Functional support	2	2	2	2	2	3	2
Training	3	3	3	3	3	2	2
Graduates	-	-	-	-	-	-	-
Apprenticeships	1	1	1	1	1	1	1
Other	-	-	1	1	1	1	1
Total	6	6	7	7	7	7	6
Information management							
Support	-	-	1	1	1	1	1
Projects	1	1	-	1	1	1	-
Business Operations	6	5	5	5	6	5	5
Other	-	-	-	1	-	-	-
Total	7	6	6	8	8	7	6
Operations & customer services signalling	21	22	23	23	22	23	22
Operations & customer services non-signalling							
MOMS Staff Costs	2	2	2	3	2	2	2
Control staff costs	2	1	1	-	3	3	3
Planning & Performance Staff Costs	1	1	1	-	1	2	2
Managed Stations Staff Costs	1	1	1	1	2	2	2
Operations Management Staff Costs	1	1	1	1	1	1	1
Other	9	9	8	16	11	9	8
Total operations & customer services costs	37	37	37	44	42	42	40
Finance	2	2	2	2	3	3	3
Contracts & procurement	1	1	-	-	-	-	1
Strategic Sourcing	-	-	4	5	5	4	-
Planning & development	1	1	1	1	1	1	1
Safety & sustainable development	-	-	-	-	-	-	1
Other corporate services	3	3	3	4	4	3	5
Commercial property	4	4	7	5	5	8	5
Infrastructure Projects	(1)	-	(1)	-	-	2	(3)
Route asset management	-	-	-	-	-	-	1
Asset management & Engineering/Asset heads	4	4	4	8	6	11	14
National delivery service	1	1	1	1	1	1	1
Group/central							
Pensions	15	15	14	1	-	-	-
Insurance	14	10	7	11	8	-	8
Redundancy/reorganisation costs	1	-	3	2	1	5	1
Staff incentives	3	5	5	1	1	-	(1)
Corporate costs capitalised	(3)	(3)	(5)	(3)	-	-	-
Maintenance/Opex reclassification	(2)	(3)	(5)	-	-	-	-
Wayleaves/West Coast feeder stations	1	1	1	-	-	-	-
Accommodation & Support recharges	-	-	-	-	(6)	(6)	(3)
Fleet vehicle recharges	-	-	-	-	-	-	(2)
Other	5	3	3	4	4	2	-
Total controllable operating expenditure	99	93	94	101	90	90	84

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

In £m 2012/13 prices unless stated otherwise

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the CP4 data. These changes have resulted in a decrease in the cumulative staff incentives figures of £2m and a decrease in pension expense of £5m. These costs are now included within Maintenance.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) The variance of a number of reporting unit's costs to FY09/10 (Finance, Commercial Property, Other Corporate Services) relates to a change in treatment. Previously accommodation and support charges were recovered from these functions but are now recovered centrally. This is reflected in the 'Accommodation & Support Recharges' line.
- (3) Human resources – until 2011/12 the Training category included costs relating to Westwood, Network Rail's central training facility. These costs are now included within Commercial property. In 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. Savings were also made by other headcount reductions and limiting pay awards to lower than inflation.
- (4) Information management – costs are £1m lower than the previous year. This is mostly due to a 20 per cent decrease in the average number of permanent staff compared to the prior year and limiting pay rises to less than inflation.
- (5) Contracts & procurement/ Strategic sourcing – in 2008/09 the activities of Contracts & procurement were expanded to include management of utilities costs for the company (before this, costs were largely borne by Maintenance). To reflect the increase in activities the function was re-branded Strategic sourcing. In 2012/13 responsibility for utilities management was transferred to Asset management resulting in costs of approximately £4m being switched in the current year. Consequently, the remaining Strategic sourcing activities were re-named Contracts & procurement.
- (6) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed in the current year to reflect the additional activities undertaken by this department (such as a revamp of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.
- (7) Other corporate services – costs were higher than the previous year. This was mainly due to a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies.

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

In £m 2012/13 prices unless stated otherwise

- (8) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. In 2012/13 these reorganisation costs were not present. In addition, charges for accommodation and support made by Group to Infrastructure Projects were £3m lower than in previous years. There is a corresponding £3m increase in Group costs as a result and, therefore, no net impact upon Network Rail as a whole.

- (9) Route asset management – this is reported separately for the first time in these Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies.

- (10) Asset management & Engineering/Asset heads – the variance to CP3 is due to an increased headcount in these functions as a result of reorganising the business. The additional costs in the current year compared to 2011/12 relate to the transfer of utility management from Contracts & procurement/ Strategic sourcing and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to the Route asset management category.

- (11) Pensions/ Staff incentives – the variance to CP3 is due to a change in treatment. In order to drive appropriate management behaviour most of the costs of employing an individual are now borne by the function/budget holder where that individual works (previously recovered centrally). Therefore, an element of these costs from CP3 are now included within Maintenance.

- (12) Insurance – costs are higher than the prior year mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012. Also, the previous year benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12.

- (13) Redundancy/reorganisation costs – the decrease compared to the previous year was due to the devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all of which contributed to the 2011/12 costs. There were no major reorganisation programmes that resulted in significant costs during the current year.

- (14) Staff incentives – staff incentive costs are lower than the prior year mainly due to a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.

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

In £m 2012/13 prices unless stated otherwise

- (15) Corporate Costs Capitalised – in the previous control period an element of central costs were capitalised for expenses relating to staff wholly connected with the delivery of capital projects. These costs are generally charged directly to projects in CP4 as noted above.
- (16) Maintenance/Opex reclassification – in the previous control period an adjustment was made to reflect the switch of costs between Maintenance and Controllable opex to mirror the funding arrangements in CP3. No such adjustment is required in the current control period.
- (17) Wayleaves/ West Coast feeder stations – under the ACR 2003 allowances for West Coast feeder stations and Wayleaves activities were given within opex. Network Rail treated these items as capex in their Statutory financial statements and made an adjustment to opex in the Regulatory financial statements. There was no funding for such items in the PR08 and so there is no balance in CP4.
- (18) Accommodation & Support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges which has manifested itself in a £3m reduction in gross Infrastructure Projects costs and a £1m reduction in gross Asset Management costs.
- (19) Fleet vehicle recharges – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals in the control period (refer to Statement 9), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an economic benefit to the railway in future control periods. The increase in this credit in the current year reflects additional fleet purchases.

Statement 7c: Scotland Insurance reconciliation

In £m 2012/13 prices unless stated otherwise

Risk	Market based insurance			Self insurance				Total		
	Underlying claims cost	Claims paid / outstanding	Market premiums	Underlying claims cost	Claims paid by the captive	Claims outstanding with the captive	Captive reinsurance premiums and expenses	Captive premiums and reimbursement arrangements	Other	Total cost
			A					B	C	D
Property , business interruption and public liability	5	5	1	10	-	6	-	4	-	5
Terrorism	-	-	1	-	-	-	1	1	-	2
Employer's liability	-	-	-	-	-	-	-	1	-	1
Stations & depots property damage, terrorism & public liability	-	-	-	-	-	-	-	1	-	1
Motor	-	-	-	-	-	-	-	-	-	-
Construction all risks	-	-	-	-	-	-	-	-	-	-
Other cover ⁽²⁾	-	-	-	-	-	-	-	-	-	-
Investment return	-	-	-	-	-	-	-	-	-	-
Total	5	5	2	10	-	6	1	7	-	9

Statement 7c: Scotland Insurance reconciliation continued

In £m 2012/13 prices unless stated otherwise

Notes:

(1) Total insurance cost: $A + B + C = D$

(2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.

(3) Premiums include Insurance Premium Tax.

(4) Claims are not actuarially assessed, i.e. are latest available records of known claims paid and outstanding, not an estimate of ultimate claims incurred. The figures will therefore change as more claims are notified and settled.

(5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and claims are logged against the captive.

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

Statement 7d: Scotland Cost of own work capitalised

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Gross costs	Own costs capitalised	Net costs	Gross costs	Own costs capitalised	Net costs
Controllable operating expenditure						
Human resources	6	-	6	27	-	27
Information management	9	(3)	6	41	(12)	29
Operations & customer services	50	(10)	40	187	(19)	168
Finance	3	-	3	13	(2)	11
Contracts & procurement	1	-	1	15	-	15
Planning & development	2	(1)	1	8	(4)	4
Safety & sustainable development	1	-	1	1	-	1
Other corporate services	5	-	5	17	(1)	16
Commercial property	6	(1)	5	26	(3)	23
Infrastructure Projects	36	(39)	(3)	136	(137)	(1)
Route asset management	4	(3)	1	4	(3)	1
Asset management & Engineering/ Asset heads	17	(3)	14	62	(23)	39
National delivery service	2	(1)	1	9	(5)	4
Group/central	3	-	3	36	(6)	30
Total controllable operating expenditure	145	(61)	84	582	(215)	367

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Human resources – in 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. Savings were also made by other headcount reductions and limiting pay awards to lower than inflation.
- (3) Information management – net costs are £1m lower than the previous year. This is mostly due to a 20 per cent decrease in the average number of permanent staff compared to the prior year and limiting pay rises to less than inflation. The lower staff numbers resulted in lower gross costs and a lower level of capitalised costs.
- (4) Operations & customer services – net costs are in line with the prior year. Recoveries have increased by £4m this year, reflecting additional capex works delivered by Operations & customer services staff, particularly with regard to possession management activities. There was a corresponding increase in gross costs to offset this.

Statement 7d: Scotland Cost of own work capitalised continued

In £m 2012/13 prices unless stated otherwise

- (5) Contracts & procurement – in the current year responsibility for utilities moved to Asset Management which greatly reduced the gross and net costs. This resulted in activities with associated costs of approx £4m being transferred. To reflect the change in responsibilities the remaining department was re-branded Contracts & procurement (formerly known as Strategic sourcing).
- (6) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed in the current year to reflect the additional activities undertaken by this department (such as a revamp of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.
- (7) Other corporate services – gross and net costs were higher than the previous year. This was mainly due to a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies.
- (8) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. In 2012/13 these reorganisation costs were not present, thus reducing gross and net costs. In addition, charges for accommodation and support made by Group to Infrastructure Projects were £23m lower than in previous years. There is a corresponding £3m increase in Group costs as a result and, therefore, no net impact upon Network Rail as a whole.
- (9) Route asset management – this is reported separately for the first time in these Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies.
- (10) Asset management & Engineering/Asset heads – the additional net costs in the current year relate to the transfer of utility management from Contracts & procurement and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to Route asset management functions. The move to Route asset management reduced the recoveries compared to the prior year by £3m. The remaining decrease in recoveries was mostly due to changes in the activities of Asset Management as it becomes more focussed on promoting assurance and driving best practice within Network Rail.

Statement 7d: Scotland Cost of own work capitalised continued

In £m 2012/13 prices unless stated otherwise

(11) Group – net costs are higher than the previous year. This is due to:

- a. £8m additional insurance costs – costs are higher than the prior year mainly due to a number of high value incidents which resulted in Network Rail Insurance Limited, the group's captive self-insurance company, making a loss in 2012/13. Many of these incidents were weather related as Great Britain faced the second wettest year on record in 2012. Also, the previous year benefitted from strong profits made by Network Rail Insurance Limited, owing to the actuarial reassessment of expected future liabilities performed by third parties, and a reassessment of claims provisions which enabled further savings in 2011/12;
- b. £3m Accommodation & Support recharges - recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on these the delivery of these schemes. The credit for these recharges is recorded in Group.

These additional costs were partly offset by:

- a. £4m Redundancy/reorganisation reduction in costs – the decrease compared to the previous year was due to the devolution of accountability to Network Rail's operating routes, development of alliances with train operators and the movement of numerous jobs to the new national centre in Milton Keynes all of which contributed to the 2011/12 costs. There were no major reorganisation programmes that resulted in significant costs during the current year;
- b. £1m Staff incentives reduction in cost – staff incentive costs are lower than the prior year mainly due to a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers;
- c. £2m Vehicle costs credit – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals in the control period (refer to Statement 9), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an economic benefit to the railway in future control periods. The increase in this credit in the current year reflects additional fleet purchases.

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

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual ⁽³⁾	PR08	Difference
Core Maintenance ⁽¹⁾						
Track	43	44	1	178	189	11
Structures	4	4	-	15	17	2
Signalling	14	12	(2)	65	54	(11)
Telecoms	3	7	4	19	32	13
Electrification	6	5	(1)	17	23	6
Plant & machinery	4	2	(2)	11	6	(5)
Operational property	-	-	-	-	-	-
Other	-	4	4	9	16	7
Total	74	78	4	314	337	23
Non-Core Maintenance						
Indirect costs	8	20	12	38	81	43
Other costs	7	14	7	35	50	15
Total	15	34	19	73	131	58
Total maintenance expenditure	89	112	23	387	468	81

Notes:

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

Comments:

- (1) Overall, maintenance costs were higher in the current year than the previous year. This was mainly due to a deliberate increase in maintenance activity in certain areas to improve track quality and enhance performance. Additional expenditure was undertaken in areas such as de-vegetation, tampers and wet-bed removal. These additional works helped drive the improvement in performance which manifested itself in lower net Schedule 8 costs in the current year compared to 2011/12.
- (2) Despite the increase in costs compared to the prior year, costs were once again lower than the PR08 assumed. This reflects the efficiencies made in the control period to date compared to the ORR's targets (refer to Statement 12).

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

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

Notes:

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

Comment:

- (1) Headcount has decreased by more than 3 per cent as Network Rail strives to organise its business to deliver the most cost-effective service. There has been a switch of headcount from Non-core to Core activities during the year mainly attributable to the continued devolution of accountability to Network Rail's operating routes. A greater proportion of staff have become directly accountable to individual operating routes rather than providing a service at a national-level to allow operating routes greater control and discretion over staff activities.

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

In £m 2012/13 prices unless stated otherwise

	2009/10 ⁽³⁾	2010/11	2011/12	2012/13	Total
Edinburgh	23	22	20	18	83
Glasgow	17	15	14	13	59
Motherwell	26	24	22	20	92
Perth	14	13	12	12	51
Total MDU	80	74	68	63	285
Route HQ	1	2	2	8	13
Other HQ	11	10	3	3	27
Total HQ	12	12	5	11	40
Centrally managed					
Structures examinations	3	3	4	4	14
Major items of maintenance plant	1	2	1	2	6
Other	13	11	9	9	42
Total maintenance expenditure	109	102	87	89	387

Notes:

- (1) These costs only include direct costs.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.
- (4) Maintenance costs were higher in the current year than the previous year. This was mainly due to a deliberate increase in maintenance activity in certain areas to improve track quality and enhance performance. Additional expenditure was undertaken in areas such as de-vegetation, tampers and wet-bed removal. These additional works helped drive the improvement in performance which manifested itself in lower net Schedule 8 costs in the current year compared to 2011/12.

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

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

Notes:

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

Comment:

- (1) Headcount has decreased by more than 3 per cent as Network Rail strives to organise its business to deliver the most cost-effective service. Under the move towards a more devolved structure, responsibility for certain activities were moved from national HQ centres to individual routes. This was to allow greater flexibility and accountability within the organisation leading to a decrease in the category Other HQ in the current year.

Statement 9a: Scotland Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	69	80	11	273	331	58
Structures	68	68	-	310	347	37
Signalling	50	36	(14)	115	138	23
Telecoms	18	19	1	135	142	7
Electrification	4	9	5	11	49	38
Plant and machinery	13	5	(8)	45	36	(9)
Operational property	53	52	(1)	189	240	51
Other renewals						
Information management	9	8	(1)	37	35	(2)
Corporate offices	1	1	-	14	4	(10)
Discretionary investment	1	-	(1)	2	6	4
ORBIS	4	-	(4)	4	-	(4)
Other	5	2	(3)	7	17	10
Total	20	11	(9)	64	62	(2)
Total renewals expenditure	295	280	(15)	1,142	1,345	203

Comments:

- (1) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost and is updated annually. Underspend or overspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was lower than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Control period to date costs are 18 per cent lower than the PR08 allowance. Whilst some of this saving is due to outperformance the majority is due to re-phasing. Expenditure was in line with 2011/12. Plain Line track expenditure was slightly lower than the previous year. This was due to higher Plain Line track unit costs compared to the prior year and a lower level of volumes delivered (refer to Statement 15). Switches & Crossings expenditure was slightly higher due to lower volumes (23 per cent) partly offset by higher unit costs (approximately 47 per cent) (as shown in Statement 15). Total track expenditure was higher than the Delivery Plan update 2012. Both Plain Line and Switches & Crossings unit costs were higher than expected whereas the level of volumes delivered was higher than budgeted for Plain Line and lower than planned for Switches & Crossings. Plain Line volumes benefitted from work re-phased within the control period. Adverse unit cost performance compared to budget is mainly due to additional subcontractor costs incurred and additional costs arising from industrial action at key logistics provider. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.
- (3) Structures – expenditure in the year was in line with the PR08 but remains lower than the PR08 for the control period to date. Structures expenditure was approximately 15 per cent lower than the prior year mainly due to lower volumes. About half of this decrease was anticipated in the Delivery Plan update 2012 with most of the remainder was due to re-phasing of work.

Statement 9a: Scotland Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- (4) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up of previous years' underspend expenditure for the control period to date remains lower than the PR08 allowance due to the differences in phasing in the control period. Expenditure was almost twice as much as the previous year. Almost all of this was due to the Cathcart re-signalling project where activity was greater in the current year than the previous year. Total costs are approximately £8m lower than the Delivery Plan update 2012 with slippage across a number of projects.
- (5) Telecoms – expenditure in the year was in line with the PR08 but the control period to date remains lower than the Regulator's target due to the different profiling assumptions in the PR08 and Network Rail's Delivery Plan. This was largely caused by the FTN project where, in earlier years of the control period, certain parts of the programme were delayed as alternative, more cost-effective solutions were sought. Telecoms expenditure is lower than the prior year by £14m which is all due to lower expenditure on FTN as this programme nears completion. Overall expenditure for the year is in line with the Delivery Plan update 2012.
- (6) Electrification – expenditure in the year and the control period to date is significantly less than assumed in the PR08. Investment is expected to be higher next year as projects have been planned to catch up some of this underspend in 2013/14. Expenditure in the year was consistent with the previous year but slightly lower than the Delivery Plan update 2012 forecast as certain projects were postponed to later in the control period.
- (7) Plant & machinery – expenditure in the year was markedly higher than the PR08. This was due to the purchase of fleet vehicles and a general catch up of underspend against the PR08 experienced in the earlier years of the control period. Network Rail purchased around £4m of vehicles in the year attributable to Scotland that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Expenditure was in line with the previous year but higher than the Delivery Plan update 2012 mostly due to a higher level of fleet purchases than originally forecast.
- (8) Operational property – expenditure in the year is in line with the PR08 assumed but remains lower for the control period to date. This is due to the different phasing of planned spend in the Delivery Plan compared to the PR08. Operational property spend was 20 per cent lower than the previous year due to a different mix of projects. Expenditure across most key cost lines were lower than the previous year. Relatively large projects such as Paisley Gilmour Street completed in 2011/12. In addition there was lower spend on schemes relating to frost heave damage this year. Expenditure was in line with the Delivery Plan update 2012.
- (9) Other – the notable differences in this category are set out below:
 - a. IM – expenditure in the year and the control period to date is marginally higher than the PR08. Expenditure in the current year is in line with the prior year and Delivery Plan update 2012.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of activities to enable further cost savings while also increasing organisational effectiveness. Most of the variance to the PR08 in both the year and the control period to date can be attributed to this project, funding for which was not included in the PR08. Expenditure in this category is significantly lower than the previous year as the National Centre project is substantially complete with the final cost being significantly lower than Network Rail's budget for the scheme.

Statement 9a: Scotland Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would all occur in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Discretionary investment also includes some schemes over and above those that the PR08 funding set out.
- d. ORBIS is a programme to improve asset management information, which will enable efficiency savings in CP5 and beyond. Funding for this scheme was not included in the original PR08.
- e. Other – expenditure in the year is higher than the PR08 as it includes a number of projects for which Network Rail was not funded for but which will facilitate the delivery of outputs in the current and future control periods. This includes amounts that were disclosed as Non-PR08 cost saving enhancements in previous years' Regulatory financial statements.

Statement 9b: Scotland Detailed analysis of renewals expenditure

In £m 2012/13 prices unless stated

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track						
Plain line						
Conventional	38			165		
High output	-			-		
Reactive	-			6		
Refurbishment	8			13		
Switches and crossings						
S&C delivered	18			72		
Refurbishment	-			-		
Drainage	3			8		
Fencing	1			4		
Other off-track	1			5		
National gauging	-			-		
Engineering improvement schemes	-			-		
Total	69	80	11	273	331	58
Structures						
Underbridges	32	22	(10)	97	95	(2)
Overbridges	1	8	7	2	39	37
Bridgeguard 3	-	-	-	2	-	(2)
Earthworks	16	21	5	74	89	15
Major structures	-	8	8	74	85	11
Tunnels	-	3	3	4	10	6
Culverts	-	2	2	4	8	4
Footbridges	1	-	(1)	1	1	-
Coast/estuary defences	-	-	-	2	3	1
Retaining walls	-	1	1	-	4	4
Other	18	3	(15)	50	13	(37)
Total	68	68	-	310	347	37
Signalling						
Conventional resignalling	34	18	(16)	53	50	(3)
ERTMS resignalling	1	2	1	1	9	8
Level crossings	1	-	(1)	5	3	(2)
Minor works/ life extensions	11	12	1	39	62	23
Control centres	-			14		
Modular signalling	-			-		
Other	3			3		
Total	50	36	(14)	115	138	23
Telecoms						
FTN/GSM-R						
Infrastructure	11			108		
Cab mobile	2			6		
Freight-only branch line	1			1		
Station information and surveillance						
CIS	-			1		
Public address	2			11		
Other	2			2		
Other operational						
Concentrators	-			2		
Driver-only operation CCTV	-			-		
Cable and cable routes	-			2		
Other	-			2		
Total	18	19	1	135	142	7

Note: This table continues on the next page

Statement 9b: Scotland Detailed analysis of renewals expenditure continued

Note: This table starts on the previous page

In £m 2012/13 prices unless stated

	2012/13			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Electrification						
Overhead line						
GE project	-			-		
Rewires	-			-		
Campaign changes	1			4		
Structures	-			-		
Other	1			1		
Conductor rail	-			-		
AC distribution	-	2	2	1	15	14
DC distribution						
HV switchgear	-			-		
HV cables	-			-		
Transformer rectifiers	-			-		
LV switchgear	-			-		
LV cables (DC)	-			-		
Other	-			-		
SCADA	-	1	1	-	5	5
Other	2			5		
Total	4	9	5	11	49	38
Plant and machinery						
Fixed Plant						
Point heaters	-	1	1	-	3	3
Signalling power distribution	2	-	(2)	7	2	(5)
Signalling supply points	-	1	1	-	3	3
Other fixed plant	1	1	-	8	3	(5)
High output plant	1	1	-	3	13	10
Intelligent infrastructure	-	1	1	1	4	3
Fleet and machinery (NDS)	2	-	(2)	5	3	(2)
Rail fleet	-	-	-	-	-	-
Mobile plant and other	7	-	(7)	21	5	(16)
Total	13	5	(8)	45	36	(9)
Operational property						
Managed stations	37	31	(6)	99	154	55
Franchised stations	12	16	4	67	67	-
Light maintenance depots	2	2	-	10	9	(1)
Depot plant	-	-	-	1	-	(1)
Lineside buildings	1	-	(1)	5	-	(5)
MDU buildings	1	2	1	6	6	-
NDS depots	-	1	1	1	4	3
Total	53	52	(1)	189	240	51
Other renewals						
IT	9	8	(1)	37	35	(2)
Corporate offices	1	1	-	14	4	(10)
WCML engineering access	1	-	(1)	2	6	4
WC rollover from CP3	-	-	-	-	-	-
ORBIS	4	-	(4)	4	-	(4)
Other renewals	5	2	(3)	7	17	10
Total	20	11	(9)	64	62	(2)
Total renewals expenditure	295	280	(15)	1,142	1,345	203

Statement 9b: Scotland Detailed analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

Note:

- (1) The information in this statement is disclosed using classifications in the Delivery Plan update 2012. Comparative PR08 information is not available for all categories. Where no PR08 data is available this column, and the corresponding Difference column, have been left blank. Therefore, total for the PR08 and Difference columns may not cast.
- (2) Track – to improve transparency, an additional key cost line for Fencing has been included within the above table for the first time in these Regulatory financial statements.

Comments:

- (1) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2012. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the quinquennial regulatory period at the appropriate cost and is updated annually. Underspend or overspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was lower than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Control period to date costs are 18 per cent lower than the PR08 allowance. Whilst some of this saving is due to outperformance the majority is due to re-phasing. Expenditure was in line with 2011/12. Plain Line track expenditure was slightly lower than the previous year. This was due to higher Plain Line track unit costs compared to the prior year and a lower level of volumes delivered (refer to Statement 15). Switches & Crossings expenditure was slightly higher due to lower volumes (23 per cent) partly offset by higher unit costs (approximately 47 per cent) (as shown in Statement 15). Total track expenditure was higher than the Delivery Plan update 2012. Both Plain Line and Switches & Crossings unit costs were higher than expected whereas the level of volumes delivered was higher than budgeted for Plain Line and lower than planned for Switches & Crossings. Plain Line volumes benefitted from work re-phased within the control period. Adverse unit cost performance compared to budget is mainly due to additional subcontractor costs incurred and additional costs arising from industrial action at key logistics provider. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.
- (3) Structures – expenditure in the year was in line with the PR08 but remains lower than the PR08 for the control period to date. Structures expenditure was approximately 15 per cent lower than the prior year mainly due to lower volumes. About half of this decrease was anticipated in the Delivery Plan update 2012 with most of the remainder was due to re-phasing of work.
- (4) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up of previous years' underspends expenditure for the control period to date remains lower than the PR08 allowance due to the differences in phasing in the control period. Expenditure was almost twice as much as the previous year. Almost all of this was due to the Cathcart re-signalling project where activity was greater in the current year than the previous year. Total costs are approximately £8m lower than the Delivery Plan update 2012 with slippage across a number of projects.

Statement 9b: Scotland Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- (5) Telecoms – expenditure in the year was in line with the PR08 but the control period to date remains lower than the Regulator's target due to the different profiling assumptions in the PR08 and Network Rail's Delivery Plan. This was largely caused by the FTN project where, in earlier years of the control period, certain parts of the programme were delayed as alternative, more cost-effective solutions were sought. Telecoms expenditure is lower than the prior year by £14m which is all due to lower expenditure on FTN as this programme nears completion. Overall expenditure for the year is in line with the Delivery Plan update 2012.
- (6) Electrification – expenditure in the year and the control period to date is significantly less than assumed in the PR08. Investment is expected to be higher next year as projects have been planned to catch up some of this underspend in 2013/14. Expenditure in the year was in line the previous year but slightly lower than the Delivery Plan update 2012 as certain projects were postponed to later in the control period.
- (7) Plant & machinery – expenditure in the year was markedly higher than the PR08. This was due to the purchase of fleet vehicles and a general catch up of underspend against the PR08 experienced in the earlier years of the control period. Network Rail purchased around £4m of vehicles in the year attributable to Scotland that were not included in the PR08 renewals allowance. These items are expected to deliver opex savings throughout the remainder of the control period and beyond as Network Rail finds ways to reduce the cost of running the network. Expenditure was in line with the previous year but higher than the Delivery Plan update 2012 mostly due to a higher level of fleet purchases than originally forecast.
- (8) Operational property – expenditure in the year is in line with the PR08 assumed but remains lower for the control period to date. This is due to the different phasing of planned spend in the Delivery Plan compared to the PR08. Operational property spend was 20 per cent lower than the previous year due to a different mix of projects. Expenditure across most key cost lines were lower than the previous year. Relatively large projects such as Paisley Gilmour Street completed in 2011/12. In addition there was lower spend on schemes relating to frost heave damage this year. Expenditure was in line with the Delivery Plan update 2012.
- (9) Other – the notable differences in this category are set out below:
 - a. IM – expenditure in the year and the control period to date is marginally higher than the PR08. Expenditure in the current year is in line with the prior year and Delivery Plan update 2012.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of activities to enable further cost savings while also increasing organisational effectiveness. Most of the variance to the PR08 in both the year and the control period to date can be attributed to this project, funding for which was not included in the PR08. Expenditure in this category is significantly lower than the previous year as the National Centre project is substantially complete with the final cost being significantly lower than Network Rail's budget for the scheme.
 - c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would all occur in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Discretionary investment also includes some schemes over and above those that the PR08 funding set out.
 - d. ORBIS is a programme to improve asset management information, which will enable efficiency savings in CP5 and beyond. Funding for this scheme was not included in the original PR08.

Statement 9b: Scotland Summary analysis of renewals expenditure continued

In £m 2012/13 prices unless stated otherwise

- e. Other – expenditure in the year is higher than the PR08 as it includes a number of projects for which Network Rail was not funded for but which will facilitate the delivery of outputs in the current and future control periods. This includes amounts that were disclosed as Non-PR08 cost saving enhancements in previous years' Regulatory financial statements.

Statement 10: Scotland Other Information

In £m 2012/13 prices unless stated otherwise

	Actual	2012/13 PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost)			
- performance element			
Schedule 4			
Income	-		
Cost	(5)		
Net cost	(5)	(9)	4
Schedule 8			
Net amount payable under NR regime	-		-
Net amount payable under TOC regime	-		-
Net cost	-	-	-
B) Net Impact of Schedule 4 & 8			
Schedule 4			
Access Charge Supplement Income	10	9	1
Cost	(5)	(9)	4
Net income	5	-	5
Schedule 8			
Access Charge Supplement Income	-	-	-
Cost	-	-	-
Net cost	-	-	-
C) Opex memorandum account			
Opening balance			
Volume incentive	10		
Proposed opex to be included in the CP5 expenditure allowance	(9)		
Total logged up items - opening balance	1		
In year			
Volume incentive	2		
Proposed Opex to be included in the CP5 expenditure allowance	3		
Total logged up items – in year movements	5		
Closing balance			
Volume incentive	12		
Proposed Opex to be included in the CP5 expenditure allowance	(6)		
Total logged up items - cumulative	6		

Statement 10: Scotland Other Information continued

In £m 2012/13 prices unless stated otherwise

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (delays and cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than a benchmark.
- (4) Schedule 8 performance regime provides benchmarks against which the performance of train operators and Network Rail are measured. Table A) above sets out the achievement against these benchmarks by both Network Rail and the train operators separately to offer an insight into what contributed to Network Rail's Schedule 8 income/ cost in the year.
- (5) No detailed PR08 numbers have been provided by the ORR for Table A).
- (6) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP in line with the requirements of the Regulatory Accounting Guidelines. The PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies when calculating expected capacity charges income. ORR has indicated that Network Rail will be funded for this shortfall in CP5 and so this is also included in the Opex memorandum account.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were lower than the PR08 largely due to better planning of possessions. The regulatory regime incentivises Network Rail to plan possessions early by offering discounts for early notification of disruption to the TOCs. Schedule 4 costs for the year were £3m less than anticipated in the Delivery Plan update 2012. Around one-third of this variance was due to the deferral of capex activities, notably plain line track volumes and electrification spend. Schedule 4 costs are expected to be incurred when the associated capital works are delivered.
- (2) Schedule 8 – Passenger Performance Measure (PPM), which measures the percentage of franchised passenger trains arriving at their destination within a specified lateness margin, has improved on the prior year. In addition, passenger delay minutes attributable to Network Rail were lower than the previous year. This improved performance contributed to the decrease in net Schedule 8 costs from £4m in 2011/12 to £nil this year, which was in line with the Regulator's determination.

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

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

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

In £m 2012/13 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2012/13				
Efficiency (£m)	3	(2)	(2)	(1)
Efficiency (%)	3.3%	(2.6%)	(2.0%)	(0.9%)
NR trajectory (£m)	1	1	20	22
NR trajectory (%)	0.1%	1.2%	5.0%	3.5%
PR08 (£m)	3	5	12	20
PR08 (%)	4.0%	4.5%	5.5%	4.9%
Cumulative				
Efficiency (£m)	9	21	53	83
Efficiency (%)	9.9%	19.0%	19.1%	17.3%
NR trajectory (£m)	5	23	75	103
NR trajectory (%)	5.6%	20.0%	18.6%	16.8%
PR08 (£m)	11	18	67	96
PR08 (%)	12.9%	14.1%	19.4%	16.8%

Comments:

- (1) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).
- (2) The REEM indicates the level of efficiency made in comparison to the CP3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in CP4 compared to CP3.
- (3) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent by the end of CP4.

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

In £m 2012/13 prices unless stated otherwise

- (4) This is the fourth year of the five year control period and the efficiencies achieved will be assessed against the target at the end of the control period. The position reported here indicates management's expectations with regards to the quantum of efficiencies achieved during 2012/13 and in the control period to date.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be around renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life asset cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (CP3 exit point) as set out in the below table:

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

- (7) Overall, efficiencies for the control period to date are 17.3 per cent. This is lower than the previous year, which reported efficiencies of 18.0 per cent for the control period to date, and is ahead of the ORR efficiency target and Network Rail's own efficiency trajectory. The increase in efficiencies in 2012/13 compared to the previous year is mainly caused by increased renewals and opex efficiencies partly offset by lower maintenance savings.
- (8) Controllable opex – controllable opex efficiencies in the year were positive reflecting the decrease in controllable opex costs reported for the year compared to 2011/12. Savings in operations & customer services and property were the main drivers behind this. These savings more than offset the negative impact of pay awards for non-managerial staff increasing at a faster rate than inflation, one-off benefits in 2011/12 and ad hoc costs in the current year associated with the move of many operations to the new National Centre office in Milton Keynes. Controllable opex efficiencies are still ahead of the Network Rail trajectory for the control period to date reflecting the various savings made over the course of the control period through tight management control of costs, headcount rationalisation and re-organisation and limiting managerial staff pay rises to less than inflation.

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

In £m 2012/13 prices unless stated otherwise

- (9) Maintenance – efficiencies for the control period to date continue to be greater than the targets in the Regulator's determination but are now lower than Network Rail's own trajectory. Cost reductions in the control period have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. The reorganisation allowed for a significant decrease in headcount as well as implementation of standard terms & conditions and working practices which enabled better roster planning and management. Also, by better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. Finally, better procurement processing, including negotiating supplier discounts for prompt payment, have helped drive down expenses. In the year, some of the maintenance cost savings made in the first three years of the control period were eroded partly due to above-inflation pay awards granted in the year to non-managerial staff. In addition, Scotland route made a conscious decision to invest in additional maintenance activities (such as de-vegetation, wet bed removal and tampers) to improve track quality and performance. This decision helped reduce net schedule 8 costs in the year compared to the previous year.
- (10) Renewals – efficiencies were achieved in the year although these were lower than both the ORR's assumptions and Network Rail's own trajectory. However, efficiencies for the control period to date remain ahead of these internal targets. Renewals efficiencies by category are discussed in more detail below:
- a. Track – during control period 4, improved asset management policies have allowed savings to be made through reducing volumes. As part of the revised Track Asset Policy developed in 2009/10 it was agreed with the ORR that through a reprioritisation of renewal onto the more critical route sections of the network and replacing this with refurbishment on the lower criticality sections, that this was a robust and sustainable approach to cost reductions and efficiencies on delivery for the control period. This has resulted in volume efficiencies of 14 per cent for plain line track and 21 per cent for switches & crossings for the control period to date. The more critical route sections that the new asset policy focussed on were, by their nature, the more expensive areas meaning that, ceteris paribus, unit costs would increase compared to the 2008/09 base line rate. In 2012/13 volume driven savings were partly offset by higher than expected track unit costs. The number of volumes delivered in the year was lower than expected, affected by adverse weather and industrial action by key logistics supplier (thus preventing materials being transported to the required location). In order to create a more collaborative approach with its suppliers Network Rail has introduced framework contracts to protect suppliers against annual fluctuations in Network Rail's demand resulting in higher fixed costs inherent in the contracts. Thus, decreases in volumes do not result in linear decreases in unit costs. Despite the lower than expected efficiencies in the year, track renewals have still produced efficiencies of 33 per cent over the control period.
 - b. Signalling – during control period 4, signalling efficiencies have been over 23 per cent. This has been achieved through unit cost savings generated from delivering more work in-house, with Maintenance staff being particularly well suited to delivering minor works flexibility and relatively cheaply. Improved workbank planning and project management, reducing possession and subcontractor costs as well as shortening the time taken on site and the use of new technologies (such as Solid State Interlocking) have all contributed to cost savings. Enhanced layout design of signalling systems has also helped reduce the volumes delivered without impacting upon the sustainability of the asset. Efficiencies in the year were flat compared to the prior year.

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

In £m 2012/13 prices unless stated otherwise

- c. Operational property – savings in the control period have been achieved through improved workbank planning (leading to reduced late changes, abortive costs and premiums for late notice), more design work being completed in-house (reducing costs and improving flexibility), more competitive tendering (as contractors can be scheduled to work significantly in advance) and a better understanding of the cost base of projects. Improved contract negotiation has also allowed unit cost savings relative to RPI. In addition, use of standard designs concentrating on functionality has also reduced costs. Savings made in the year were flat compared to the prior year.
- d. Electrification – savings made in volumes due to an improved understanding of asset condition. Asset policy has also been amended to target renewals on those assets that require replacement based on their condition rather than their age. Also, completing more design work in-house (instead of using more expensive external contractors), improved work packaging (to reduce mobilisation costs) and organising extended possessions (to enable more work to be completed at one time) have also enabled cost reductions in this control period. Efficiencies for the control period to date at the end of 2012/13 are lower than those at the end of 2011/12 as the projects being delivered towards the end of the control period are increasingly complex.
- e. Telecoms (non-FTN) – savings in the control period have partly arisen from unit cost savings made in the provision of Customer Information Systems. Improved asset management policies have resulted in savings in the delivery of power concentrators. Efficiencies for the control period to date increased in the year owing to some expensive one-off projects which impacted upon the 2011/12 result.
- f. Telecoms (FTN) – expenditure is higher than the pre-efficient baseline for this project and this gap has increased in 2012/13. Additional expenditure to achieve key milestones in the current year and increases in the scope of the project, such as additional asset testing, trespass and vandalism measures and increases in the total number of mast sites and tunnel solutions have all contributed to this.

Statement 13: Scotland Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	12	27.21 m	23.60 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£297 m	£233 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.40 m	2.69 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,594 m	2,815 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	12					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in CP4. Demand growth could be higher than envisaged; therefore the PR08 makes provision to incentivise Network Rail to meet unanticipated increases in demand. The above table illustrates the targets Network Rail has to achieve to trigger these rewards. In the control period to date, the passenger train miles target was achieved resulting in volume incentive amounts of £12m being earned. Under the terms of the volume incentive mechanism the cash earned by Network Rail is received during the next control period and is included in the Opex memorandum account (refer to Statement 10).

Statement 14: Scotland Maintenance unit costs

In £m 2012/13 prices unless stated otherwise

A) Maintenance expenditure 2012/13

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	4,279	283	1,211	-	1,211
MNT006	Manual Wet Bed Removal	Bay	129	2,417	312	-	312
MNT010	Replacement of S&C Bearers	Each	496	464	230	-	230
MNT011	S&C Arc Weld Repair	Number	679	525	356	-	356
MNT013	Level 1 Patrolling Track Inspection	Mile	62	90,487	5,610	-	5,610
MNT015	Weld Repair of Defective Rail	Number	499	1,056	527	-	527
MNT016	Installation of Pre-Fabricated IRJs	Joint	2330	130	303	-	303
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	92,736	371	-	371
MNT026	Replenishment of Ballast Train	Tonne	13	18,719	243	-	243
MNT027	Maintenance of Rail Lubricators	Lubricator	120	10,197	1,224	-	1,224
MNT029	Replacement of Pads & Insulators	Sleeper	17	34,023	578	-	578
MNT030	Maintenance of Longitudinal Timber	Timber	55	487	27	-	27
MNT032	CWR – Stressing	Yard	10	38,061	381	-	381
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	252	301	76	-	76
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	386	3,219	1,243	-	1,243
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	81	4,761	386	-	386
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	130	13,350	1,736	-	1,736
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	77	4,225	325	-	325
MNT120	S&C - Renew crossing	Crossing	16,951	54	915	-	915
MNT123	S&C Renew Half Set of Switches	H/S Switch	14,387	57	820	-	820
MNT125	Track Inspection (Other)	Mile	28	43,039	1,205	-	1,205
MNT128	Lift & Replace Level Crossing for PWAY	Location	742	133	99	-	99
MNT150	Signalling Cables	Various	45	27,942	1,257	-	1,257
MNT155	Point End Routine Maintenance non Powered	Point End	59	8,184	483	-	483
MNT156	Point End Routine Maintenance Powered	Point End	70	67,910	4,754	-	4,754
MNT170	Vegetation Management (Manual)	Square Yard	4	181,821	727	-	727
MNT207	Maintain CRE Cables	Various	226	1	-	-	-
MNT210	Maintain Non-Traction Power Supplies	Each	56	92	5	-	5
MNT211	Maintain OHL Components	Various	52	42,262	2,198	-	2,198
MNT212	Maintain Points Heating	Each	23	7,272	167	-	167
Total					27,769	-	27,769
Expenditure outside unit cost framework						61,231	61,231
Total					27,769	61,231	89,000

Statement 14: Scotland Maintenance unit costs continued

In £m 2012/13 prices unless stated otherwise

B) Maintenance expenditure 2011/12

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non- volume (£'000)	Total cost (£'000)
MNT001	Manual Ultrasonic Inspection of Rail	Rail Mile	345	5,417	1,869	-	1,869
MNT002	Rail Changing	Rail Yard	152	26,183	3,980	-	3,980
MNT003	Manual Spot Re-sleeping	No. of Sleepers	172	4,003	689	-	689
MNT004	Plain Line Tamping	Track Mile	3,622	245	887	-	887
MNT005	Stoneblowing	Track Mile	3,896	90	351	-	351
MNT006	Manual Wet Bed Removal	No. of Bays	152	2,180	331	-	331
MNT008	S&C Unit Renewal	No. of S&C units	13,884	118	1,638	-	1,638
MNT010	Replacement of S&C Bearers	No. of S&C Bearers	469	804	377	-	377
MNT011	S&C Arc Weld Repair	No. of Repairs	685	309	212	-	212
MNT013	Level 1 Patrolling Track Inspection	Each	63	93,273	5,876	-	5,876
MNT015	Weld Repair of Defective Rail	No. of Repairs (weld)	416	935	389	-	389
MNT016	Installation of Pre-Fabricated IRJs	No. of Joints	2,670	88	235	-	235
MNT019	Manual Correction of Plain Line Track Geometry	Track Yards	13	184,760	2,402	-	2,402
MNT020	Manual Reprofilng of Ballast	Track Yards	4	96,392	386	-	386
MNT026	Replenishment of Ballast Train	Tonnes	20	14,895	298	-	298
MNT027	Maintenance of Rail Lubricators	Each	132	8,376	1,106	-	1,106
MNT029	Replacement of Pads & Insulators	Sleepers	15	41,823	627	-	627
MNT032	CWR – Stressing	Yard	8	43,989	352	-	352
MNT050	Point End Routine Maintenance	Services	70	77,438	5,421	-	5,421
MNT051	Signals Routine Maintenance	Services	56	27,618	1,547	-	1,547
MNT052	Track Circuit Routine Maintenance	Services	77	32,723	2,520	-	2,520
MNT073	Drainage	Drainage Yards	10	67,011	670	-	670
MNT077	Signs	Each	-	-	-	-	-
MNT122	S&C Maintenance (other)	Point Ends	35	71,638	2,507	-	2,507
MNT125	Track Inspection (other)	Track Mile	30	46,783	1,403	-	1,403
MNT211	Maintain OHL Components	Services	70	33,785	2,365	-	2,365
Total					38,438	-	38,438
Expenditure outside unit cost framework						48,562	48,562
Total					38,438	48,562	87,000

Statement 14: Scotland Maintenance unit costs continued

In £m 2012/13 prices unless stated otherwise

Comments:

- (1) Network Rail has been continuously improving the unit cost system architecture and process. These improvements included material changes in the measurement framework which preclude comparisons from being made with the 2011/12 reported results. The key issues affecting activity based measurement comparability (current unit costs vs. 2011/12) are:
 - a. More activities have been ring fenced into new Maintenance Unit Costs (MUCs);
 - b. Non-productive staff time is now booked to MUCs;
 - c. Additional resources are now included in MUCs to truly reflect the activity cost;
 - d. The volume unit of measure across various MUCs has been iteratively refined;
 - e. Percentage coverage of activity and cost has increased significantly;
 - f. System modifications to correct the unit of measure conversion from the activity recording system into required unit of measure output;
 - g. Refinement of internal policies and practices to ensure there is consistent definition of what makes up each activity;
 - h. Accuracy of system coding has increased so more costs are being correctly booked to MUCs.
- (2) As noted above the number of MUCs has increased compared to the prior year and there is now a higher percentage of volumes captured through the MUC framework. This is reflected in the above tables where activity is now reported against 30 categories compared to 26 for the previous year. However, the average total cost attached to each category has decreased compared to the prior year resulting in a lower ratio of MUC: Total maintenance costs in the sample disclosed.

Statement 15: Scotland Renewals unit costs and coverage

In £m 2012/13 prices unless stated otherwise

A) Renewals unit costs 2012/13

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non- volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	259	147	38		38
	S&C equivalent unit renewal	521	34	18		18
	Other non-volume costs				13	13
	Total			56	13	69
Civils	701 Overbridge	0.41	2,363	1		1
	702 Underbridge	1.59	12,514	20		20
	703 Overbridge - Bridgeguard 3	n/a	n/a	n/a		n/a
	704 Footbridge	0.00	42	-		-
	705 Tunnel	1.55	245	-		-
	706 Culvert	4.51	209	1		1
	707 Retaining Wall	4.40	25	-		-
	708 Earthworks	0.10	198,837	22		22
	Other non-volume costs				24	24
	Total			44	24	68
Signalling	101 - Re-signalling	190	111	21		21
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				29	29
	Total			21	29	50
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 - DOO CCTV	n/a	n/a	n/a		n/a
	503 - PETS/Level crossing	14	7	-		-
	504 - Small signal box concentrator	n/a	n/a	n/a		n/a
	506 - Customer Info system	n/a	n/a	n/a		n/a
	507 - Long line address system	2	1,192	2		2
	Other non-volume costs				16	16
	Total			2	16	18

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

B) Renewals unit costs 2011/12

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non- volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	237	185	44		44
	S&C equivalent unit renewal	355	44	16		16
	Other non-volume costs				8	8
	Total			60	8	68
Civils	701 Overbridge	n/a	n/a	n/a		n/a
	702 Underbridge	1.42	14,045	20		20
	703 Overbridge - Bridgeguard 3	7.41	1,320	10		10
	704 Footbridge	2.52	304	1		1
	705 Tunnel	1.23	1,150	1		1
	706 Culvert	4.50	154	1		1
	707 Retaining Wall	1.62	170	-		-
	708 Earthworks	0.12	194,537	23		23
	Other non-volume costs				24	24
	Total			56	24	80
Signalling	101 - Re-signalling	n/a	n/a	n/a		n/a
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	671	1	1		1
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				25	25
	Total			1	25	26
Telecoms	501 - Large concentrator	1,270	1	1		1
	502 - DOO CCTV	n/a	n/a	n/a		n/a
	503 - PETS/Level crossing	n/a	n/a	n/a		n/a
	504 - Small signal box concentrator	n/a	n/a	n/a		n/a
	506 - Customer Info system	n/a	n/a	n/a		n/a
	507 - Long line address system	n/a	n/a	n/a		n/a
	Other non-volume costs				31	31
	Total			1	31	32

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

Notes:

- (1) The unit costs for telecoms and civils only include costs and volumes associated with projects that have completed during the year. Following the end of a project an analysis is performed to understand the costs and so create a more accurate unit cost framework when assessing future costs of similar projects. The amounts included in other non-volume costs are merely a balancing figure to reconcile total expenditure reported in this statement to the data provided in Statement 9a.

Comments:

- (1) Overall, the value of renewals activities being reported through the renewals unit cost framework has increased by 4 percentage points. The proportion of renewals expenditure being measured through the renewals unit cost tables has increased from 38 per cent to 42 per cent. This is mostly due to re-signalling volumes being reported on projects in Scotland for the first time in these Regulatory financial statements as volume related work has now been completed in this area.
- (2) Intuitively, fewer capital projects occur in Scotland than England & Wales. Therefore, depending upon the location of certain projects undertaken in different years, there may not always be comparable data in the prior or current year to compare renewals volumes and unit costs to for Scotland. In addition, as there are fewer projects delivered in Scotland the unit rates are inherently more volatile as there are fewer projects to neutralise the potentially distorting impact that an unusual project may have on the results.
- (3) Track – Plain line – volumes delivered were 21 per cent lower than the previous year. Network Rail's budget planned a slightly higher decrease in volumes but work was bought forward from future years to utilise available possessions. Adverse unit cost performance compared to 2011/12 is partly due to industrial action in the supply chain. In addition, to produce improved business partnering with suppliers, under the terms of some subcontractor agreements, minimum payments are due regardless of volumes delivered. Finally, subcontractor expenses, driven by increased input costs (such as steel), were higher than planned.
- (4) Track – S&C – volumes delivered in the year were 23 per cent lower than 2011/12 but in line with Network Rail's budget. S&C unit costs were nearly 50 per cent higher than the previous year. This adverse unit cost performance is also partly due to late changes to the workbank as routes become more autonomous in their operations and due to industrial action by key logistics supplier (necessitating late changes to designs and mobilisation costs), and additional contractor costs incurred under the terms of the framework agreements. As noted above, the lower level of projects completed in Scotland can also mean that certain more expensive projects undertaken in the year can distort underlying unit cost trends.
- (5) Civils – Overbridges – there were no volumes or unit cost information reported for 2011/12 to compare the current year result to. No volumes were planned for the current year but the Edinburgh Waverley bridge repainting project was brought forward into 2012/13 to deliver it in conjunction with the main station refurbishment works for efficiency and to reduce disruption to customers.

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

- (6) Civils – Underbridges – unit costs were around 12 per cent higher than the previous year. There was an 11 per cent decrease in volumes compared to the prior year. Volumes were lower than planned as some projects were deferred until 2013/14 due to a combination of reasons including access constraints, design and development issues, adverse weather conditions, and re-scheduling to enable more cost efficient solutions
- (7) Civils – Bridgeguard 3 – there were no volumes or unit cost information reported for 2012/13 to compare the previous year to. No volume related Bridgeguard 3 activity was included in Network Rail's budget for the year.
- (8) Civils – Footbridges – Footbridge volumes were lower than the prior year and less than planned as some projects were deferred until 2013/14. The very small sample of jobs resulted in a very low unit cost sample with minimal costs being associated with the few volumes delivered.
- (9) Civils – Tunnels – unit costs are more than 25 per cent higher than the previous year. As noted in last year's Regulatory financial statements volumes tend to be erratic for tunnels as they are dictated by when Network Rail is able to gain access to the structures. The uneven profile of Tunnels volumes delivery for Great Britain as a whole is demonstrated in the Delivery Plan update 2012 which anticipated the significant decrease in tunnels volumes in 2012/13 compared to 2011/12.
- (10) Civils – culverts – unit costs were in line with the previous year. Volumes were approximately 36 per cent higher than 2011/12. Network Rail's budget expected a large reduction in volumes in 2012/13 compared to 2011/12 but actual volumes delivered significantly exceeded the budget. Delivery of volumes in excess of the plan reflected the level of volumes that were deferred from 2011/12 to 2012/13 after the plan for 2012/13 had been finalised.
- (11) Civils - retaining walls – unit costs were more than three times as much in the current year compared to 2011/12, reflecting the mix of projects undertaken in the year. Retaining walls unit costs can be very different depending on the nature of individual jobs. Volumes were approximately 85 per cent lower than 2011/12. As noted in last year's Regulatory financial statements the level of retaining walls volumes for 2011/12 were unusually high. Volumes for 2012/13 are more in line with the budget for Scotland which assumed negligible volumes.
- (12) Civils - earthworks – unit costs have decreased by around 17 per cent due to the mix of projects completed in the current year compared to the previous year as well as some efficiencies made on individual delivery solutions. Volumes were in line with the prior year and slightly ahead of Network Rail's budget. The level of over delivery was in line with the number of volumes deferred from 2011/12 to 2012/13 after the plan for 2012/13 had been finalised.

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2012/13 prices unless stated otherwise

(13) Signalling – there were no volumes or unit cost information reported for 2011/12 to compare the current year result to.

(14) Telecoms – PETS/ Level Crossing – there were no volumes or unit cost information reported for 2011/12 to compare the current year result to. The volumes delivered were in line with Network Rail's budget for the year.

(15) Telecoms – Long line address system – there were no volumes or unit cost information reported for 2011/12 to compare the current year result to. The volumes delivered were almost 30 per cent higher than Network Rail's budget. This was mostly due to one project being accelerated from 2013/14 to the current year following efficient design and installation enabled by close relationship management with the train operator.

DISAGGREGATED ROUTE INFORMATION

Statement 1: Anglia Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	Actual
Income	542
Expenditure	
Controllable opex	93
Non-controllable opex	64
Maintenance	102
Schedule 4 & 8	17
Renewals	218
Enhancements	51
Total expenditure	545

Note:

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

Statement 3: Anglia Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Thameslink	2
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Total Schemes covered by a tailored protocol or fixed price agreement	2
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Funds

CP5 development fund	1
NRDF (Network Rail Discretionary Fund)	1
Access for All	4
NSIP (National Stations Improvement Programme)	3
Performance fund (HLOS)	4
SFN (Strategic Freight Network)	16
Seven day railway fund	4
Safety and environment fund	1
Adjustment due to change in funding from DfT	(3)

Total Funds	31
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Other PR08 funded schemes

North London Line capacity enhancement	1
Station Security (GB)	1
Platform Lengthening - Southern	(1)

Total Other PR08 funded schemes	1
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CP4 Delivery Plan	34
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Schemes carried over from CP3

Total Schemes carried over from CP3	-
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Total PR08 funded enhancements	34
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B) Investments not included in PR08

Government sponsored schemes

Crossrail	2
Other	1

Total Government sponsored schemes	3
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Network Rail sponsored schemes (income generating)

Other income generating schemes	1
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Total Network Rail sponsored schemes (income generating)	1
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Network Rail sponsored schemes (cost saving)

Other cost saving schemes	(4)
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Total Network Rail sponsored schemes (cost saving)	(4)
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Schemes promoted by third parties

Thameshaven Branch re-doubling	10
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Total Schemes promoted by third parties	10
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Enhancement expenditure not meeting ORR criteria

Outperformance expenditure	7
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Total enhancement expenditure not meeting ORR criteria	7
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Total Network Rail funded enhancements (see Statement 1)	51
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Third party funded (PAYG)	20
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Total enhancements	71
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Note:

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

Statement 6a: Anglia Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	69
Variable charges	
Variable usage charge	13
Traction electricity charges net of costs	37
Electrification asset usage charge	2
Capacity charge	12
Station usage charges	-
Schedule 4 net income ⁽²⁾	9
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	73
Total franchised track access income	142
Grant income	302
Total franchised track access and grant income	444
Other single till income	
Property income	53
Freight income	3
Open access income	4
Stations income	32
Depots income	5
Other	1
Total other single till income	98
Total income	542

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Anglia Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Controllable operating expenditure	
Signaller staff costs	23
Non-signaller staff costs	63
Staff incentives	5
Other employee related costs	8
Pensions	7
Consultants/contractors/agency	13
Insurance and claims	8
Accommodation, office, property expenses	9
Information management	5
Other	20
Total gross controllable operating expenditure	161
Less:	
Other operating income	(16)
Own work capitalised	(52)
Total controllable operating expenditure	93
Non-controllable operating expenditure	
Traction electricity costs	42
Cumulo rates	12
British Transport Police costs	7
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	2
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	64
Total operating expenditure	157

Note:

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

Statement 8a: Anglia Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	57
Structures	4
Signalling	16
Telecoms	2
Electrification	5
Plant & machinery	3
Operational property	-
Other	2
Total	89
Non-core maintenance	
Indirect costs	7
Other costs	6
Total	13
Total maintenance expenditure	102

Notes:

(1) These costs only include direct costs.

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

Statement 9a: Anglia Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	58
Structures	31
Signalling	34
Telecoms	14
Electrification	33
Plant and machinery	14
Operational property	7
Other renewals	
Information management	8
Corporate offices	1
Discretionary investment	1
ORBIS	4
Other	13
Total	27
Total renewals expenditure	218

Note:

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

Statement 10: Anglia Other information

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(18)
Net cost	(18)
Schedule 8	
Net amount receivable under NR regime	1
Net amount receivable under TOC regime	-
Net income	1
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	9
Cost	(18)
Net cost	(9)
Schedule 8	
Access Charge Supplement Income	-
Income	1
Net income	1

Note:

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

Statement 13: Anglia Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	6	28.95m	26.72 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£759m	£595m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.34m	2.53 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,680m	2,643 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	6					

Note:

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

Statement 1: Kent Summary of regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	498
Expenditure	
Controllable opex	68
Non-controllable opex	50
Maintenance	74
Schedule 4 & 8	17
Renewals	160
Enhancements	419
Total expenditure	788

Note:

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

Statement 3: Kent Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Thameslink	331
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Total Schemes covered by a tailored protocol or fixed price agreement	331
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Funds

CP5 development fund	1
NRDF (Network Rail Discretionary Fund)	1
Access for All	6
NSIP (National Stations Improvement Programme)	9
Seven day railway fund	9
Safety and environment fund	8
Adjustment due to change in funding from DfT	(6)

Total Funds	28
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Other PR08 funded schemes

Platform Lengthening - Southern	24
Power supply upgrade	12

Total Other PR08 funded schemes	36
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CP4 Delivery Plan	395
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Schemes carried over from CP3

Total Schemes carried over from CP3	-
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Total PR08 funded enhancements	395
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B) Investments not included in PR08

Government sponsored schemes

Crossrail	5
Stations Commercial Project Fund (SCPF)	2
Winter resilience	10

Total Government sponsored schemes	17
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Network Rail sponsored schemes (income generating)

London Bridge retail development project	7
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Total Network Rail sponsored schemes (income generating)	7
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Network Rail sponsored schemes (cost saving)

Other cost saving schemes	(1)
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Total Network Rail sponsored schemes (cost saving)	(1)
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Schemes promoted by third parties

Total Schemes promoted by third parties	-
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Enhancement expenditure not meeting ORR criteria

Outperformance expenditure	1
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Total enhancement expenditure not meeting ORR criteria	1
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Total Network Rail funded enhancements (see Statement 1)	419
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Third party funded (PAYG)	7
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Total enhancements	426
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Note:

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

Statement 6a: Kent Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	65
Variable charges	
Variable usage charge	9
Traction electricity charges net of costs	31
Electrification asset usage charge	1
Capacity charge	12
Station usage charges	-
Schedule 4 net income ⁽²⁾	4
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	57
Total franchised track access income	122
 Grant income	 291
Total franchised track access and grant income	413
 Other single till income	
Property income	23
Freight income	1
Open access income	-
Stations income	43
Depots income	7
Other	11
Total other single till income	85
 Total income	 498

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Kent Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Controllable operating expenditure	
Signaller staff costs	14
Non-signaller staff costs	49
Staff incentives	3
Other employee related costs	6
Pensions	5
Consultants/contractors/agency	9
Insurance and claims	5
Accommodation, office, property expenses	7
Information management	4
Other	16
Total gross controllable operating expenditure	118
Less:	
Other operating income	(10)
Own work capitalised	(40)
Total controllable operating expenditure	68
Non-controllable operating expenditure	
Traction electricity costs	34
Cumulo rates	9
British Transport Police costs	5
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	50
Total operating expenditure	118

Note:

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

Statement 8a: Kent Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	36
Structures	3
Signalling	13
Telecoms	3
Electrification	3
Plant & machinery	3
Operational property	-
Other	2
Total	63
Non-core maintenance	
Indirect costs	5
Other costs	6
Total	11
Total maintenance expenditure	74

Notes:

(1) These costs only include direct costs.

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

Statement 9a: Kent Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	23
Structures	35
Signalling	22
Telecoms	14
Electrification	20
Plant and machinery	9
Operational property	12
Other renewals	
Information management	5
Corporate offices	1
Discretionary investment	1
ORBIS	3
Other	15
Total	25
Total renewals expenditure	160

Note:

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

Statement 10: Kent Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(8)
Net cost	(8)
Schedule 8	
Net amount payable under NR regime	(9)
Net amount payable under TOC regime	-
Net cost	(9)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	4
Cost	(8)
Net cost	(4)
Schedule 8	
Access Charge Supplement Income	-
Cost	(9)
Net cost	(9)

Note:

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

Statement 13: Kent Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	4	20.80 m	19.19 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£545 m	£428 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.68 m	1.82 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,925 m	1,898 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	4					

Note:

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

Statement 1: LNE Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	1,006
Expenditure	
Controllable opex	158
Non-controllable opex	69
Maintenance	153
Schedule 4 & 8	57
Renewals	445
Enhancements	291
Total expenditure	1,173

Note:

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

Statement 3: LNE Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	19
Total Schemes covered by a tailored protocol or fixed price agreement	19
Funds	
CP5 development fund	4
NRDF (Network Rail Discretionary Fund)	3
Access for All	9
NSIP (National Stations Improvement Programme)	4
Performance fund (HLOS)	5
SFN (Strategic Freight Network)	3
Seven day railway fund	4
Safety and environment fund	7
Total Funds	39
Other PR08 funded schemes	
Intercity express programme	7
King's Cross	26
East Coast Mainline overhead line enhancement	4
Station security	1
ECML improvements	180
Northern Urban Centres - Leeds	5
Unallocated Overheads	1
Total Other PR08 funded schemes	224
CP4 Delivery Plan	282
Schemes carried over from CP3	
Total Schemes carried over from CP3	-
Total PR08 funded enhancements	282
B) Investments not included in PR08	
Government sponsored schemes	
Stations Commercial Project Fund (SCPF)	5
Other	1
Total Government sponsored schemes	6
Network Rail sponsored schemes (income generating)	
Other income generating schemes	3
Total Network Rail sponsored schemes (income generating)	3
Network Rail sponsored schemes (cost saving)	
York Acquisition Thall site	(9)
Other cost saving schemes	(1)
Total Network Rail sponsored schemes (cost saving)	(10)
Schemes promoted by third parties	
Other	5
Total Schemes promoted by third parties	5
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	5
Total enhancement expenditure not meeting ORR criteria	5
Total Network Rail funded enhancements (see Statement 1)	291
Third party funded (PAYG)	13
Total enhancements	304

Note:

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

Statement 6a: LNE Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	147
Variable charges	
Variable usage charge	29
Traction electricity charges net of costs	31
Electrification asset usage charge	2
Capacity charge	15
Station usage charges	-
Schedule 4 net income ⁽²⁾	32
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	109
Total franchised track access income	256
 Grant income	 665
Total franchised track access and grant income	921
 Other single till income	
Property income	6
Freight income	16
Open access income	9
Stations income	46
Depots income	7
Other	1
Total other single till income	85
 Total income	 1,006

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: LNE Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Controllable operating expenditure	
Signaller staff costs	48
Non-signaller staff costs	96
Staff incentives	7
Other employee related costs	13
Pensions	12
Consultants/contractors/agency	21
Insurance and claims	13
Accommodation, office, property expenses	16
Information management	8
Other	32
Total gross controllable operating expenditure	266
Less:	
Other operating income	(25)
Own work capitalised	(83)
Total controllable operating expenditure	158
Non-controllable operating expenditure	
Traction electricity costs	35
Cumulo rates	19
British Transport Police costs	11
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	3
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	69
Total operating expenditure	227

Note:

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

Statement 8a: LNE Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	76
Structures	6
Signalling	21
Telecoms	5
Electrification	6
Plant & machinery	8
Operational property	-
Other	1
Total	123
Non-core maintenance	
Indirect costs	19
Other costs	11
Total	30
Total maintenance expenditure	153

Notes:

(1) These costs only include direct costs.

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

Statement 9a: LNE Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	156
Structures	72
Signalling	74
Telecoms	33
Electrification	10
Plant and machinery	22
Operational property	20
Other renewals	
Information management	13
Corporate offices	9
Discretionary investment	1
ORBIS	6
Other	29
Total	58
Total renewals expenditure	445

Note:

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

Statement 10: LNE Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(23)
Net cost	(23)
Schedule 8	
Net amount payable under NR regime	(32)
Net amount payable under TOC regime	(2)
Net cost	(34)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	32
Cost	(23)
Net income	9
Schedule 8	
Access Charge Supplement Income	-
Cost	(34)
Net cost	(34)

Note:

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

Statement 13: LNE Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	9	47.58 m	43.91m	0.8%	69p	per passenger train mile
Passenger farebox	-	£1,248 m	£978 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	3.85m	4.15 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	4,404 m	4,343 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	9					

Note:

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

Statement 1: LNW Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	1,539
Expenditure	
Controllable opex	228
Non-controllable opex	113
Maintenance	262
Schedule 4 & 8	62
Renewals	603
Enhancements	343
Total expenditure	1,611

Note:

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

Statement 3: LNW Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Total Schemes covered by a tailored protocol or fixed price agreement	-
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Funds

CP5 development fund	13
NRDF (Network Rail Discretionary Fund)	8
Access for All	6
NSIP (National Stations Improvement Programme)	6
Performance fund (HLOS)	3
SFN (Strategic Freight Network)	5
Seven day railway fund	11
Safety and environment fund	2
Adjustment due to change in funding from DfT	(6)

Total Funds	48
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Other PR08 funded schemes

Birmingham New Street gateway project	33
Station security	1
WCML Committed Schemes	125
Midlands Improvement Programme	6
Northern Urban Centres – Leeds	1
Northern Urban Centres - Manchester	13
Trans Pennine Express linespeed improvements	1

Total Other PR08 funded schemes	180
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CP4 Delivery Plan	228
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Schemes carried over from CP3

Total Schemes carried over from CP3	-
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Total PR08 funded enhancements	228
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B) Investments not included in PR08

Government sponsored schemes

Electrification	78
Northern Hub – phase 1	10
Stations Commercial Project Fund (SCPF)	1
Nuneaton North Cord (TIF)	4
Mid Tier Accessibility	2
Other	4

Total Government sponsored schemes	99
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Network Rail sponsored schemes (income generating)

Other income generating schemes	6
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Total Network Rail sponsored schemes (income generating)	6
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Network Rail sponsored schemes (cost saving)

Other cost saving schemes	(4)
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Total Network Rail sponsored schemes (cost saving)	(4)
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Schemes promoted by third parties

Evergreen 3	10
Virgin 11 car Pendolino on West Coast	3

Total Schemes promoted by third parties	13
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Enhancement expenditure not meeting ORR criteria

Outperformance expenditure	1
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Total enhancement expenditure not meeting ORR criteria	1
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Total Network Rail funded enhancements (see Statement 1)	343
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Third party funded (PAYG)	146
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Total enhancements	489
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Note:

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

Statement 6a: LNW Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	233
Variable charges	
Variable usage charge	42
Traction electricity charges net of costs	52
Electrification asset usage charge	3
Capacity charge	47
Station usage charges	-
Schedule 4 net income ⁽²⁾	36
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	180
Total franchised track access income	413
Grant income	996
Total franchised track access and grant income	1,409
Other single till income	
Property income	13
Freight income	14
Open access income	-
Stations income	91
Depots income	10
Other	2
Total other single till income	130
Total income	1,539

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: LNW Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Controllable operating expenditure	
Signaller staff costs	55
Non-signaller staff costs	159
Staff incentives	10
Other employee related costs	20
Pensions	17
Consultants/contractors/agency	36
Insurance and claims	20
Accommodation, office, property expenses	25
Information management	12
Other	49
Total gross controllable operating expenditure	403
Less:	
Other operating income	(38)
Own work capitalised	(137)
Total controllable operating expenditure	228
Non-controllable operating expenditure	
Traction electricity costs	58
Cumulo rates	31
British Transport Police costs	17
Rail Safety and Standards Board levy	2
ORR fees (incl. ORR Licence fee and the railway safety levy)	5
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	113
Total operating expenditure	341

Note:

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

Statement 8a: LNW Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	134
Structures	9
Signalling	41
Telecoms	8
Electrification	20
Plant & machinery	10
Operational property	1
Other	3
Total	226
Non-core maintenance	
Indirect costs	21
Other costs	15
Total	36
Total maintenance expenditure	262

Notes:

(1) These costs only include direct costs.

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

Statement 9a: LNW Summary Analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	177
Structures	104
Signalling	119
Telecoms	41
Electrification	12
Plant and machinery	27
Operational property	48
Other renewals	
Information management	23
Corporate offices	4
Discretionary investment	6
West Coast Rollover	9
ORBIS	9
Other	24
Total	75
Total renewals expenditure	603

Note:

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

Statement 10: LNW Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(32)
Net cost	(32)
Schedule 8	
Net amount payable under NR regime	(33)
Net amount receivable under TOC regime	3
Net cost	(30)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	36
Cost	(32)
Net income	4
Schedule 8	
Access Charge Supplement Income	-
Cost	(30)
Net cost	(30)

Note:

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

Statement 13: LNW Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	15	74.69 m	68.93 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£1,959 m	£1,536 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	6.05m	6.52 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	6,916 m	6,818 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	15					

Note:

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

Statement 1: East Midlands Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	375
Expenditure	
Controllable opex	45
Non-controllable opex	20
Maintenance	52
Schedule 4 & 8	10
Renewals	216
Enhancements	121
Total expenditure	464

Note:

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

Statement 3: East Midlands Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	32
Total Schemes covered by a tailored protocol or fixed price agreement	32
Funds	
CP5 development fund	1
NRDF (Network Rail Discretionary Fund)	1
NSIP (National Stations Improvement Programme)	1
Performance fund (HLOS)	1
SFN (Strategic Freight Network)	31
Seven day railway fund	5
Adjustment due to change in DfT funding	(2)
Total Funds	38
Other PR08 funded schemes	
St Pancras - Sheffield line speed improvements	22
Nottingham Resignalling	6
Total Other PR08 funded schemes	28
CP4 Delivery Plan	98
Schemes carried over from CP3	
Total Schemes carried over from CP3	-
Total PR08 funded enhancements	98
B) Investments not included in PR08	
Government sponsored schemes	
Electrification	6
Total Government sponsored schemes	6
Network Rail sponsored schemes (income generating)	
Total Network Rail sponsored schemes (income generating)	-
Network Rail sponsored schemes (cost saving)	
Total Network Rail sponsored schemes (cost saving)	-
Schemes promoted by third parties	
EMT promoted schemes	2
Nottingham hub	8
Total Schemes promoted by third parties	10
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	7
Total enhancement expenditure not meeting ORR criteria	7
Total Network Rail funded enhancements (see Statement 1)	121
Third party funded (PAYG)	4
Total enhancements	125

Note:

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

Statement 6a: East Midlands Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	57
Variable charges	
Variable usage charge	9
Traction electricity charges net of costs	7
Electrification asset usage charge	-
Capacity charge	25
Station usage charges	-
Schedule 4 net income ⁽²⁾	4
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	45
Total franchised track access income	102
 Grant income	 251
Total franchised track access and grant income	353
 Other single till income	
Property income	1
Freight income	3
Open access income	-
Stations income	13
Depots income	5
Other	-
Total other single till income	22
 Total income	 375

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: East Midlands Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Controllable operating expenditure	
Signaller staff costs	11
Non-signaller staff costs	32
Staff incentives	2
Other employee related costs	5
Pensions	3
Consultants/contractors/agency	7
Insurance and claims	4
Accommodation, office, property expenses	5
Information management	3
Other	11
Total gross controllable operating expenditure	83
Less:	
Other operating income	(9)
Own work capitalised	(29)
Total controllable operating expenditure	45
Non-controllable operating expenditure	
Traction electricity costs	8
Cumulo rates	7
British Transport Police costs	4
Rail Safety and Standards Board levy	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	20
Total operating expenditure	65

Note:

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

Statement 8a: East Midlands Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	26
Structures	2
Signalling	8
Telecoms	1
Electrification	2
Plant & machinery	2
Operational property	-
Other	1
Total	42
Non-core maintenance	
Indirect costs	6
Other costs	4
Total	10
Total maintenance expenditure	52

Notes:

(1) These costs only include direct costs.

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

Statement 9a: East Midlands Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	96
Structures	14
Signalling	74
Telecoms	9
Electrification	1
Plant and machinery	5
Operational property	4
Other renewals	
Information management	5
Corporate offices	1
Discretionary investment	2
ORBIS	2
Other	3
Total	13
Total renewals expenditure	216

Note:

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

Statement 10: East Midlands Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(6)
Net cost	(6)
Schedule 8	
Net amount payable under NR regime	(4)
Net amount payable under TOC regime	-
Net cost	(4)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	4
Cost	(6)
Net cost	(2)
Schedule 8	
Access Charge Supplement Income	-
Cost	(4)
Net cost	(4)

Note:

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

Statement 13: East Midlands Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformanc e reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	3	16.76 m	15.47 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£440 m	£345 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.36m	1.46 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,551 m	1,530 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	3					

Note:

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

Statement 1: Sussex Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	396
Expenditure	
Controllable opex	66
Non-controllable opex	44
Maintenance	51
Schedule 4 & 8	24
Renewals	156
Enhancements	106
Total expenditure	447

Note:

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

Statement 3: Sussex Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Thameslink	20
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Total Schemes covered by a tailored protocol or fixed price agreement	20
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Funds

NRDF (Network Rail Discretionary Fund)	8
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Access for All	4
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NSIP (National Stations Improvement Programme)	6
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Performance fund (HLOS)	3
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Seven day railway fund	4
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Safety and environment fund	1
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Total Funds	26
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Other PR08 funded schemes

Platform Lengthening - Southern	20
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Southern Capacity	14
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Power supply upgrade	2
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Total Other PR08 funded schemes	36
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CP4 Delivery Plan	82
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Schemes carried over from CP3

Total Schemes carried over from CP3	-
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Total PR08 funded enhancements	82
---------------------------------------	-----------

B) Investments not included in PR08

Government sponsored schemes

Stations Commercial Projects Funds (SCPF)	3
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Winter Resilience	6
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Other	2
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Total Government sponsored schemes	11
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Network Rail sponsored schemes (income generating)

Other income generating schemes	5
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Total Network Rail sponsored schemes (income generating)	5
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Network Rail sponsored schemes (cost saving)

Three Bridges signalling centre	(6)
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Total Network Rail sponsored schemes (cost saving)	(6)
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Schemes promoted by third parties

Southern promoted schemes	14
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Total Schemes promoted by third parties	14
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Enhancement expenditure not meeting ORR criteria

Total enhancement expenditure not meeting ORR criteria	-
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Total Network Rail funded enhancements (see Statement 1)	106
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Third party funded (PAYG)	11
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Total enhancements	117
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Note:

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

Statement 6a: Sussex Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	48
Variable charges	
Variable usage charge	9
Traction electricity charges net of costs	27
Electrification asset usage charge	-
Capacity charge	16
Station usage charges	-
Schedule 4 net income ⁽²⁾	8
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	60
Total franchised track access income	108
 Grant income	 225
Total franchised track access and grant income	333
 Other single till income	
Property income	11
Freight income	-
Open access income	-
Stations income	46
Depots income	6
Other	-
Total other single till income	63
Total income	396

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Sussex Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Controllable operating expenditure	
Signaller staff costs	14
Non-signaller staff costs	44
Staff incentives	3
Other employee related costs	5
Pensions	5
Consultants/contractors/agency	9
Insurance and claims	6
Accommodation, office, property expenses	7
Information management	4
Other	14
Total gross controllable operating expenditure	111
Less:	
Other operating income	(10)
Own work capitalised	(35)
Total controllable operating expenditure	66
Non-controllable operating expenditure	
Traction electricity costs	30
Cumulo rates	8
British Transport Police costs	4
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	44
Total operating expenditure	110

Note:

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

Statement 8a: Sussex Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	25
Structures	2
Signalling	9
Telecoms	1
Electrification	2
Plant & machinery	3
Operational property	-
Other	-
Total	42
Non-core maintenance	
Indirect costs	5
Other costs	4
Total	9
Total maintenance expenditure	51

Notes:

- (1) These costs only include direct costs.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Sussex Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	26
Structures	28
Signalling	39
Telecoms	14
Electrification	9
Plant and machinery	7
Operational property	13
Other renewals	
Information management	5
Corporate offices	1
Discretionary investment	1
ORBIS	2
Other	11
Total	20
Total renewals expenditure	156

Note:

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

Statement 10: Sussex Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(7)
Net cost	(7)
Schedule 8	
Net amount payable under NR regime	(18)
Net amount receivable under TOC regime	1
Net cost	(17)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	8
Cost	(7)
Net income	1
Schedule 8	
Access Charge Supplement Income	-
Cost	(17)
Net cost	(17)

Note:

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

Statement 13: Sussex Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	4	19.90 m	18.37 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£522 m	£409 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.61 m	1.74 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,842 m	1,817 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	4					

Note:

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

Statement 1: Wessex Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	541
Expenditure	
Controllable opex	73
Non-controllable opex	57
Maintenance	77
Schedule 4 & 8	27
Renewals	198
Enhancements	112
Total expenditure	544

Note:

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

Comment:

The deep alliance in the Wessex route between Network Rail and Stagecoach South West Trains commenced in April 2012. By entering into the alliance, both parties will work to improve the efficiency and productivity of the joint resources and assets available, aligning incentives and removing barriers to working to realise cost savings beyond that which either party could achieve by itself alone, while respecting the requirement of separation in relation to certain activities of infrastructure managers and train operators. As this plan is being developed the opportunities from this way of working are becoming clearer and will continue to evolve over time. It is expected that the alliance will improve joint decision making processes, allow improved collaboration and deliver benefits to customers.

A pain/gain share arrangement is in place that can lead to payments between the parties measured against an agreed baseline. The baseline includes income and costs managed by the Network Rail route and the train operating company, including the impact of performance regime compensation payments. In the first year of operation, there has been a huge transition agenda and the focus has been on implementing plans to enhance performance. Whilst cost efficiency schemes have been identified and implemented, many are constrained by the potential to unwind the Alliance at the start of CP5 and the focus on improving performance has, in certain circumstances, resulted in additional cost being incurred by both Network Rail and SSWT.

Currently, the Alliance has only been permitted by the DfT to operate until 31st March 2014; similarly the licence consents obtained from the ORR extend to this date, with both parties having a key role to play in the option to extend the Alliance into CP5. At that stage, revised baselines will need to be developed to reflect the CP5 determination and the emerging business forecasts at that time.

Statement 3: Wessex Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Total Schemes covered by a tailored protocol or fixed price agreement	-
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Funds

NRDF (Network Rail Discretionary Rail)	2
Access for All	8
NSIP (National Stations Improvement Programme)	6
Performance Fund (HLOS)	4
SFN (Strategic Freight Network)	3
Seven Day Railway Fund	4
Adjustment due to change in funding from DfT	(3)

Total Funds	24
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Other PR08 funded schemes

Platform Lengthening – Southern	36
Power Supply Upgrade	25

Total Other PR08 funded schemes	61
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CP4 Delivery Plan	85
--------------------------	-----------

Schemes carried over from CP3

Total Schemes carried over from CP3	-
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Total PR08 funded enhancements	85
---------------------------------------	-----------

B) Investments not included in PR08

Government sponsored schemes

Mid Tier Accessibility	3
------------------------	---

Total Government sponsored schemes	3
---	----------

Network Rail sponsored schemes (income generating)

Waterloo Retail Development Project	6
Other	8

Total Network Rail sponsored schemes (income generating)	14
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Network Rail sponsored schemes (cost saving)

Other cost saving schemes	(1)
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Total Network Rail sponsored schemes (cost saving)	(1)
---	------------

Schemes promoted by third parties

SSWT promoted schemes	8
Other schemes promoted by third parties	3

Total Schemes promoted by third parties	11
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Enhancement expenditure not meeting ORR criteria

Total enhancement expenditure not meeting ORR criteria	-
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Total Network Rail funded enhancements (see Statement 1)	112
---	------------

Third party funded (PAYG)	10
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Total enhancements	122
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Note:

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

Statement 6a: Wessex Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	72
Variable charges	
Variable usage charge	13
Traction electricity charges net of costs	33
Electrification asset usage charge	1
Capacity charge	8
Station usage charges	-
Schedule 4 net income ⁽²⁾	14
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	69
Total franchised track access income	141
 Grant income	 325
Total franchised track access and grant income	466
 Other single till income	
Property income	15
Freight income	1
Open access income	-
Stations income	52
Depots income	7
Other	-
Total other single till income	75
Total income	541

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Wessex Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Controllable operating expenditure	
Signaller staff costs	14
Non-signaller staff costs	55
Staff incentives	4
Other employee related costs	7
Pensions	6
Consultants/contractors/agency	11
Insurance and claims	7
Accommodation, office, property expenses	9
Information management	5
Other	19
Total gross controllable operating expenditure	137
Less:	
Other operating income	(15)
Own work capitalised	(49)
Total controllable operating expenditure	73
Non-controllable operating expenditure	
Traction electricity costs	37
Cumulo rates	11
British Transport Police costs	6
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	2
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	57
Total operating expenditure	130

Note:

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

Statement 8a: Wessex Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	38
Structures	4
Signalling	12
Telecoms	2
Electrification	2
Plant & machinery	3
Operational property	-
Other	1
Total	62
Non-core maintenance	
Indirect costs	8
Other costs	7
Total	15
Total maintenance expenditure	77

Notes:

(1) These costs only include direct costs.

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

Statement 9a: Wessex Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	58
Structures	21
Signalling	41
Telecoms	15
Electrification	12
Plant and machinery	10
Operational property	18
Other renewals	
Information management	8
Corporate offices	2
Discretionary investment	1
ORBIS	3
Other	9
Total	23
Total renewals expenditure	198

Note:

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

Statement 10: Wessex Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(11)
Net cost	(11)
Schedule 8	
Net amount payable under NR regime	(15)
Net amount payable under TOC regime	(1)
Net cost	(16)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	14
Cost	(11)
Net income	3
Schedule 8	
Access Charge Supplement Income	-
Cost	(16)
Net cost	(16)

Note:

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

Statement 13: Wessex Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	6	27.79 m	25.65 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£729 m	£571 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.25 m	2.43 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,572 m	2,537 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	6					

Note:

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

Statement 1: Western Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Income	657
Expenditure	
Controllable opex	73
Non-controllable opex	21
Maintenance	87
Schedule 4 & 8	33
Renewals	287
Enhancements	488
Total expenditure	989

Note:

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

Statement 3: Western Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Total Schemes covered by a tailored protocol or fixed price agreement	-
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Funds

CP5 development fund	2
Access for All	2
NSIP (National Stations Improvement Programme)	2
Performance fund (HLOS)	2
SFN (Strategic Freight Network)	16
Seven day railway fund	6
Safety and environment fund	1

Total Funds	31
--------------------	-----------

Other PR08 funded schemes

Intercity express programme	15
Crossrail and Reading	223
Western Improvements Programme	20

Total Other PR08 funded schemes	258
--	------------

CP4 Delivery Plan	289
--------------------------	------------

Schemes carried over from CP3

Total Schemes carried over from CP3	-
--	----------

Total PR08 funded enhancements	289
---------------------------------------	------------

B) Investments not included in PR08

Government sponsored schemes

Crossrail	112
Electrification	84
Stations Commercial Project Fund (SCPF)	2
Mid Tier Accessibility	1
Other	(4)

Total Government sponsored schemes	195
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Network Rail sponsored schemes (income generating)

Other income generating schemes	6
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Total Network Rail sponsored schemes (income generating)	6
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Network Rail sponsored schemes (cost saving)

Total Network Rail sponsored schemes (cost saving)	-
---	----------

Schemes promoted by third parties

Total Schemes promoted by third parties	-
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Enhancement expenditure not meeting ORR criteria

Outperformance expenditure	(2)
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Total enhancement expenditure not meeting ORR criteria	(2)
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Total Network Rail funded enhancements (see Statement 1)	488
---	------------

Third party funded (PAYG)	12
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Total enhancements	500
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Note:

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

Statement 6a: Western Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	93
Variable charges	
Variable usage charge	18
Traction electricity charges net of costs	-
Electrification asset usage charge	-
Capacity charge	30
Station usage charges	-
Schedule 4 net income ⁽²⁾	25
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	73
Total franchised track access income	166
Grant income	420
Total franchised track access and grant income	586
Other single till income	
Property income	15
Freight income	5
Open access income	10
Stations income	33
Depots income	8
Other	-
Total other single till income	71
Total income	657

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Western Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Controllable operating expenditure	
Signaller staff costs	15
Non-signaller staff costs	58
Staff incentives	4
Other employee related costs	7
Pensions	6
Consultants/contractors/agency	13
Insurance and claims	5
Accommodation, office, property expenses	9
Information management	5
Other	19
Total gross controllable operating expenditure	141
Less:	
Other operating income	(15)
Own work capitalised	(53)
Total controllable operating expenditure	73
Non-controllable operating expenditure	
Traction electricity costs	-
Cumulo rates	11
British Transport Police costs	7
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	2
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	21
Total operating expenditure	94

Note:

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

Statement 8a: Western Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	48
Structures	3
Signalling	17
Telecoms	2
Electrification	1
Plant & machinery	3
Operational property	-
Other	(2)
Total	72
Non-core maintenance	
Indirect costs	9
Other costs	6
Total	15
Total maintenance expenditure	87

Notes:

(1) These costs only include direct costs.

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

Statement 9a: Western Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	94
Structures	45
Signalling	80
Telecoms	16
Electrification	-
Plant and machinery	12
Operational property	19
Other renewals	
Information management	8
Corporate offices	2
Discretionary investment	1
ORBIS	4
Other	6
Total	21
Total renewals expenditure	287

Note:

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

Statement 10: Western Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(7)
Net cost	(7)
Schedule 8	
Net amount payable under NR regime	(24)
Net amount payable under TOC regime	(2)
Net cost	(26)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	25
Cost	(7)
Net income	18
Schedule 8	
Access Charge Supplement Income	-
Cost	(26)
Net cost	(26)

Note:

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

Statement 13: Western Volume incentives

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	6	27.94 m	25.79 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£733 m	£574 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.26 m	2.44 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,587 m	2,551 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	6					

Note:

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

Statement 1: Wales Summary regulatory financial performance

In £m 2012/13 prices unless stated otherwise

2012/13	
Actual	
<hr/>	
Income	308
<hr/>	
Expenditure	
Controllable opex	51
Non-controllable opex	12
Maintenance	52
Schedule 4 & 8	6
Renewals	182
Enhancements	10
<hr/>	
Total expenditure	313
<hr/>	

Note:

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

Statement 3: Wales Analysis of enhancement capital expenditure

In £m 2012/13 prices unless stated otherwise

2012/13

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement	
Total Schemes covered by a tailored protocol or fixed price agreement	-
Funds	
NRDF (Network Rail Discretionary Fund)	1
NSIP (National Stations Improvement Programme)	4
Total Funds	5
Other PR08 funded schemes	
Western Improvements Programme	4
Total Other PR08 funded schemes	4
CP4 Delivery Plan	9
Schemes carried over from CP3	
Total Schemes carried over from CP3	-
Total PR08 funded enhancements	9
B) Investments not included in PR08	
Government sponsored schemes	
Mid Tier Accessibility	1
Total Government sponsored schemes	1
Network Rail sponsored schemes (income generating)	
Total Network Rail sponsored schemes (income generating)	-
Network Rail sponsored schemes (cost saving)	
Total Network Rail sponsored schemes (cost saving)	-
Schemes promoted by third parties	
Total Schemes promoted by third parties	-
Enhancement expenditure not meeting ORR criteria	
Total enhancement expenditure not meeting ORR criteria	-
Total Network Rail funded enhancements (see Statement 1)	10
Third party funded (PAYG)	40
Total enhancements	50

Note:

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

Statement 6a: Wales Analysis of income

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Fixed charges	52
Variable charges	
Variable usage charge	5
Traction electricity charges net of costs	-
Electrification asset usage charge	-
Capacity charge	6
Station usage charges	-
Schedule 4 net income ⁽²⁾	7
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	18
Total franchised track access income	70
Grant income	221
Total franchised track access and grant income	291
Other single till income	
Property income	-
Freight income	4
Open access income	-
Stations income	10
Depots income	3
Other	-
Total other single till income	17
Total income	308

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (3) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Wales Analysis of operating expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13 Actual
Controllable operating expenditure	
Signaller staff costs	17
Non-signaller staff costs	31
Staff incentives	2
Other employee related costs	4
Pensions	4
Consultants/contractors/agency	7
Insurance and claims	4
Accommodation, office, property expenses	5
Information management	3
Other	11
Total gross controllable operating expenditure	88
Less:	
Other operating income	(8)
Own work capitalised	(29)
Total controllable operating expenditure	51
Non-controllable operating expenditure	
Traction electricity costs	-
Cumulo rates	7
British Transport Police costs	4
Rail Safety and Standards Board levy	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	12
Total operating expenditure	63

Note:

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

Statement 8a: Wales Summary analysis of maintenance expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Core Maintenance ⁽¹⁾	
Track	28
Structures	2
Signalling	9
Telecoms	1
Electrification	-
Plant & machinery	2
Operational property	-
Other	1
Total	43
Non-core maintenance	
Indirect costs	5
Other costs	4
Total	9
Total maintenance expenditure	52

Notes:

(1) These costs only include direct costs.

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

Statement 9a: Wales Summary analysis of renewals expenditure

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
Track	25
Structures	45
Signalling	74
Telecoms	13
Electrification	-
Plant and machinery	5
Operational property	9
Other renewals	
Information management	4
Corporate offices	1
Discretionary investment	1
ORBIS	2
Other	3
Total	11
Total renewals expenditure	182

Note:

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

Statement 10: Wales Other information

In £m 2012/13 prices unless stated otherwise

	2012/13
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(5)
Net cost	(5)
Schedule 8	
Net amount payable under NR regime	(1)
Net amount payable under TOC regime	-
Net cost	(1)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	7
Cost	(5)
Net income	2
Schedule 8	
Access Charge Supplement Income	-
Cost	(1)
Net cost	(1)

Note:

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

Statement 13: Wales Volume incentives

In £m 2012/13 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2008/09 prices)	Outperformance reward - notes
Passenger train miles	3	16.28 m	15.03 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£427 m	£335 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.32 m	1.42 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,507 m	1,486 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	3					

Note:

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

Statement 16: Strategic routes maintenance analysis

in £m 2012/13 prices unless stated

	Track	Signalling	Structures	Electrification	Plant and machinery	Telecoms	Operational property	Other	Total maintenance
Kent	32	11	3	3	2	3	-	12	66
Sussex	30	11	2	2	4	1	-	11	61
Wessex	37	12	4	2	3	2	-	15	75
East Anglia	45	13	3	4	2	2	-	12	81
North London Line	2	-	-	-	-	-	-	1	3
Thameside	9	3	1	1	-	-	-	2	16
East Coast and North East	65	18	5	5	8	4	-	26	131
Cross-Pennine, Yorks & Humber and North West	34	10	2	4	3	2	-	12	67
London and East Midlands	26	8	2	2	2	1	-	11	52
London and West Midlands	28	10	2	1	2	1	-	8	52
West of England	18	6	2	-	1	1	-	5	33
Wales	31	10	2	-	2	1	-	11	57
West Midlands & Chilterns	28	9	2	4	2	2	-	8	55
West Coast	88	27	6	13	7	5	1	26	173
Merseyside	4	1	-	1	-	-	-	2	8
Scotland East	19	6	2	3	2	1	-	5	38
Scotland West	15	5	1	2	1	2	-	5	31

Note:

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

Statement 17: Strategic routes renewals analysis

in £m 2012/13 prices unless stated

	Track	Signalling	Structures	Electrification	Plant and machinery	Telecoms	Operational property	Other	Total renewals
Kent	21	20	31	18	7	13	11	22	143
Sussex	30	43	32	11	8	17	14	23	178
Wessex	57	40	21	12	10	15	18	20	193
East Anglia	46	27	25	27	11	11	6	21	174
North London Line	2	1	1	1	-	-	-	2	7
Thameside	9	5	5	5	2	2	1	6	35
East Coast and North East	130	64	64	9	19	28	22	46	382
Cross-Pennine, Yorks & Humber and North West	56	32	29	4	8	12	11	22	174
London and East Midlands	95	72	14	1	5	9	4	14	214
London and West Midlands	56	47	27	-	7	9	11	13	170
West of England	36	30	17	-	5	6	7	8	109
Wales	28	76	47	-	6	14	10	13	194
West Midlands & Chilterns	40	28	22	2	6	9	10	15	132
West Coast	117	79	72	8	18	27	35	50	406
Merseyside	5	3	3	-	1	1	2	3	18
Scotland East	30	22	29	2	6	8	22	8	127
Scotland West	24	18	24	1	5	6	19	7	104

Note:

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

Appendices to the Regulatory financial statements

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2013

In £m 2012/13 prices unless stated

	£m	£m
Valuations per statutory accounts at 31 March 2013		
Property, plant and equipment – the railway network	46,411	
Investment properties	751	
Unamortised Capital grants	(2,500)	
		44,662
Adjustment for cash flow differences in the Strategic Business Plan compared to Periodic Review 2008		346
Impact of achieving volume incentives		(56)
Other opex memo items		(16)
Other		2
RAB valuation at 31 March 2013 (Statement 2a)		44,938

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2013

In £m 2012/13 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2013 per the regulatory Statements (Statement 1)	1,436	999	2,435
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,410		1,410
Reactive maintenance expenditure		123	123
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	14		14
Network Rail (High Speed) Limited	(10)		(10)
Other	8		8
	1,422	123	1,545
Operating and maintenance expenditure for year ended 31 March 2013 per the statutory accounts	2,858	1,122	3,980

Notes:

⁽¹⁾ This includes depreciation expenses of £1,491m and capital grant amortisation of £81m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2013

In £m 2012/13 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2013 (Statements 1 and 6a)		6,540
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(258)	
Income from property sales	(39)	
Network Rail (High Speed) Limited	(10)	
Stakeholder rebates	(35)	
Other	(1)	
		(343)
Turnover per the statutory accounts for year ended 31 March 2013		6,197

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2013

In £m 2012/13 prices unless stated

	£m	£m
Regulatory debt at 31 March 2013 (Statement 4)		28,930
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	1,270	
Foreign exchange differences	158	
		1,428
Net debt per the statutory accounts at 31 March 2013		30,358

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2013

In £m 2012/13 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2013 (Statement 1)		4,806
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	272	
Reactive maintenance	(123)	
Capitalised interest	109	
Investment property schemes	(7)	
Other	(7)	
		244
Capital expenditure per the statutory accounts for the year ended 31 March 2013		5,050