Annual efficiency and finance assessment of Network Rail 2024

01 October 2024

Contents

Executive summary

Network Rail’s funding and requirements for Control Period six (CP6) were set out in our 2018 periodic review (PR18). This determined what Network Rail should deliver and improve in respect of operating, maintaining, and renewing its network, and the funding that we considered necessary to do this for the five year period from 1 April 2019 to 31 March 2024.

This document sets out our assessment of Network Rail's efficiency and wider financial performance in the year to 31 March 2024, the final year of CP6, and our assessment for CP6 overall. This document provides a more detailed assessment of Network Rail’s financial performance to support our recent Network Rail Annual Assessment. It covers Network Rail’s activities across Great Britain as a whole and separately for each of Network Rail’s regions in England & Wales, and Scotland.

Our assessment primarily focuses on two measures, financial performance and efficiency. The financial performance measure (FPM) compares Network Rail’s income and expenditure to the company’s CP6 delivery plan. It assesses whether, in aggregate, Network Rail has delivered its required activities for more or less than it was funded to deliver them.

Our efficiency measure examines the drivers of cost changes over time and across regions of Network Rail’s core business activities (operations, support functions, maintenance, and renewals). As such, financial performance and efficiency are related measures, though there are important differences which are explained in this report.

Our assessments and reporting of Network Rail’s efficiency and financial performance are important because they provide assurance to rail users and funders that Network Rail’s regions are delivering what is expected and, at the same time, provides a reputational incentive for them to become more efficient.

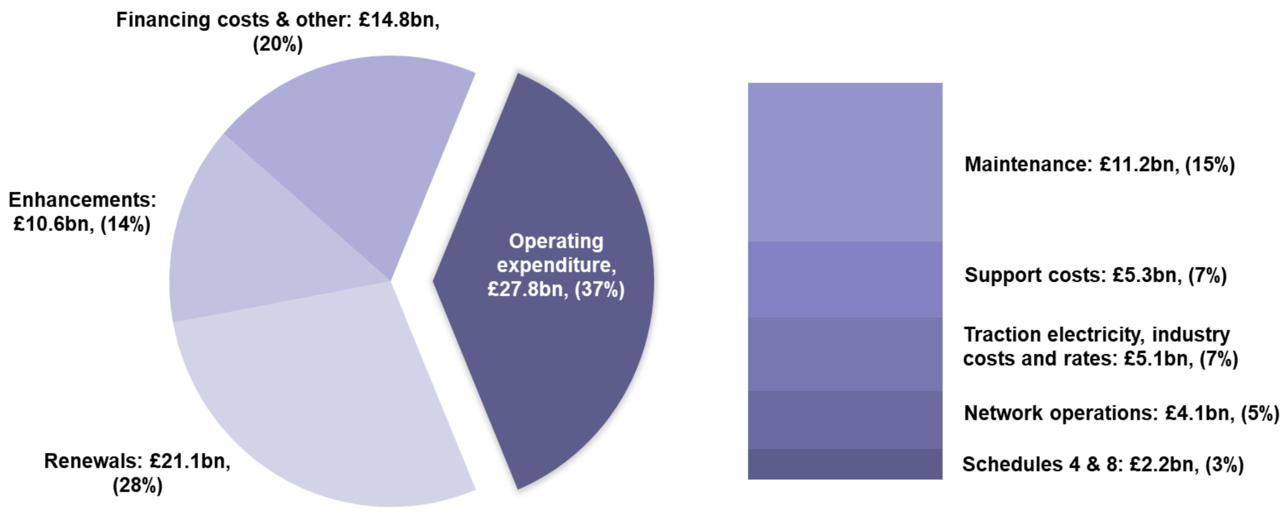
Network Rail delivered £1.1 billion of efficiency improvements in the final year of CP6 and £4.0 billion of efficiency improvements in CP6 as a whole. However, the company financially underperformed by £0.9 billion in the year and by £2.8 billion in CP6. This means that Network Rail spent £2.8 billion more than expected for what it delivered. This outcome of financial under-performance at the same time as efficiency out-performance is because of structural differences between the two measures which are explained in this document.

Network Rail spent £67.4 billion (2023-24 prices) operating, maintaining, renewing, enhancing and financing the national rail infrastructure in CP6, when adjusted for inflation.

This represents a 3% decrease compared to CP5. Additionally, Network Rail incurred £7.0 billion of financing costs on its historic debt (mostly due to accretion on index linked debt), these costs are separately funded by government. Figure 1 gives the breakdown by main areas of activity. We explain this further in chapter 2.

Annex A provides a more detailed breakdown of Network Rail's income and expenditure for April 2023 to March 2024 and CP6.

Figure 1: Network Rail's expenditure in CP6 (2023-24 prices)



Source: ORR analysis of Network Rail data

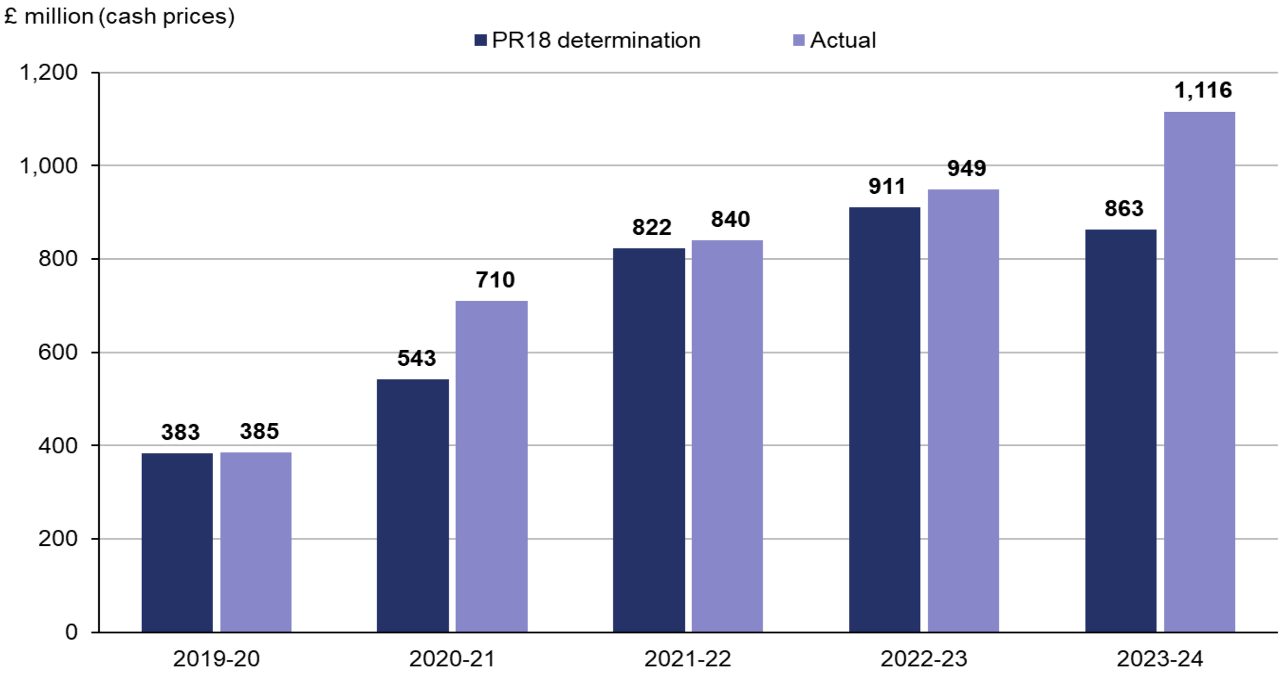
Key findings

The key findings from our assessment are:

1. Network Rail successfully delivered £4.0 billion of efficiency improvements in CP6, exceeding our five-year target

Network Rail delivered £4.0 billion of efficiency improvements in CP6, ahead of our PR18 target of £3.5 billion. Following the COVID-19 pandemic, Network Rail increased its own target to £4.0 billion. Despite the significant business challenges of COVID-19, industrial action and a volatile macroeconomic environment, Network Rail achieved this target from a range of initiatives including staff related savings, workforce modernisation, utilisation of in-house skills to improve works delivery, possession management and improvements driven by changes in standards.

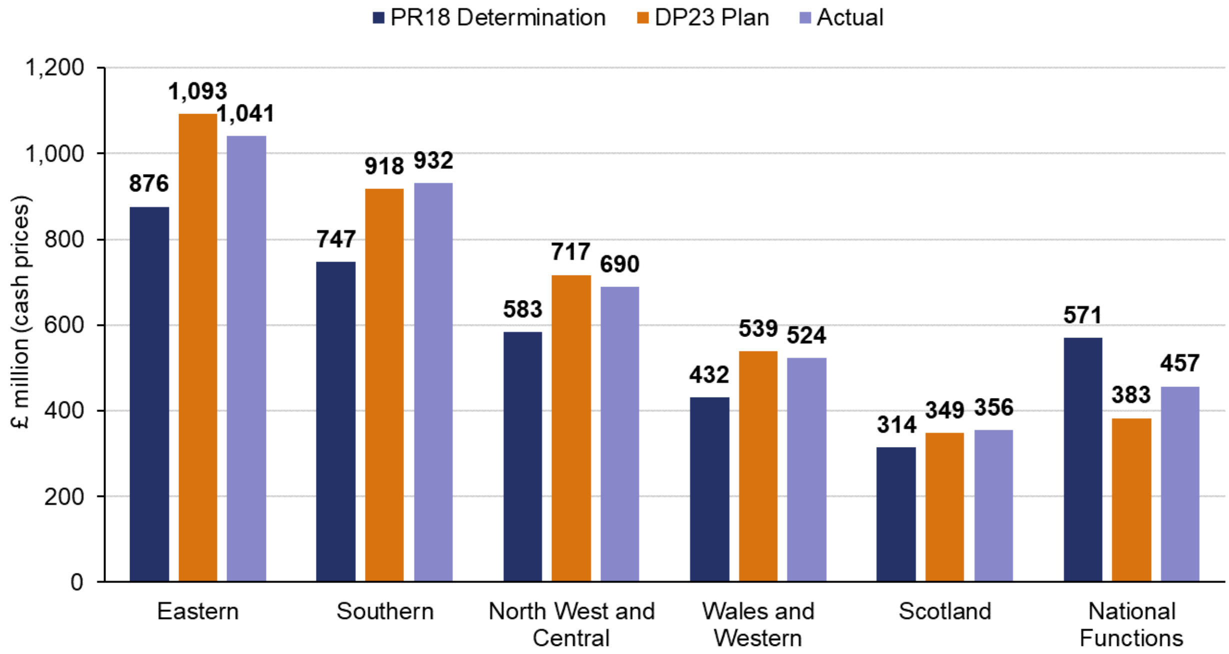
Figure 2: Efficiency improvements in CP6, April 2019 to March 2024



Source: ORR analysis of Network Rail's data

In April 2023 to March 2024, the final year of the control period, Network Rail delivered £1.1 billion of efficiency improvements. This represents an annual increase of 18%.

Figure 3: Regional contributions to efficiency improvements in CP6



Source: ORR analysis of Network Rail's data

As shown in Figure 3, all five of Network Rail's regions exceeded our CP6 targets set in the periodic review of 2018 (PR18). Southern and Scotland also exceeded their 2023 delivery plan (DP23) targets by 2%, while other regions fell slightly short. Eastern and North West and Central were slightly behind their delivery plan target as a result of setting additional stretch targets in an effort to deliver further efficiencies than planned.

With the conclusion of CP6, our monitoring has moved on to CP7 (control period 7), for which our PR23 final determination requires Network Rail to make £3.7 billion (2023-24 prices) of efficiency improvements over the next five years (equivalent to £3.9 billion in cash prices). To ensure that Network Rail regions' and central functions' CP7 efficiency plans are robust, we recently commissioned an independent reporter (Nichols Group) to review these efficiency plans (see key finding 8 below and chapter 2 for more details).

2. Wider financial performance suffered due to a number of factors including the COVID-19 pandemic and industrial action

Network Rail financially underperformed by £0.9 billion in the year April 2023 to March 2024 and cumulatively by £2.8 billion over CP6. This means that net of income, the company spent £2.8 billion more for what it delivered than it was funded to deliver, despite exceeding our efficiency target. Factors that affected this underperformance included unplanned costs and disruption from the COVID-19 pandemic, industrial action and extreme weather events, under delivery of planned renewals and inflationary pressures.

Whilst Network Rail has made good progress at improving its efficiency in CP6, it has underperformed on the financial performance measure (FPM). This difference in outcomes is because of structural differences between the two measures. FPM encompasses most of Network Rail's income and expenditure, whereas efficiency only includes operations, support, maintenance and renewals (OSMR) expenditure; FPM compares to a post efficient delivery plan baseline, whereas efficiency compares back to the final year of the preceding control period. For example, large cost pressures, such as the COVID-19 pandemic, inflation and industrial action (mostly affecting Schedule 4 & 8 payments), have adversely affected FPM reporting but are beyond the scope of efficiency reporting. These matters are further examined in our report.

3. Network Rail managed significant financial shocks and fully used its CP6 risk fund

Following ORR's PR18 final determination, Network Rail allocated £3.0 billion (cash prices) to manage unforeseen financial risks. The flexibility provided by this fund to manage financial risks helped enable Network Rail to manage significant financial pressures during

CP6 resulting from the COVID-19 pandemic, industrial action, severe weather events and changes in inflation.

Experience in CP6 has shown the importance of allocating a proportion of funding to efficiently manage unforeseen financial risks across a five-year control period. Our 2023 periodic review (PR23) final determination set out that Network Rail should set aside £1.7 billion (2023-24 prices) of risk funding (£1.5 billion for England and Wales and £0.2 billion for Scotland) for CP7.

4. Network Rail's headcount increased by 1% across CP6, although average employment costs fell by 4%

Network Rail employed 41,252 staff in the last year of CP6, a 1% increase from the end of CP5 (on a full time equivalent (FTE) basis). Overall, headcount increased significantly in the first three years of the control period, which the company attributed to resourcing needs to implement its 'Putting Passengers First' programme, with headcount reducing over the final two years.

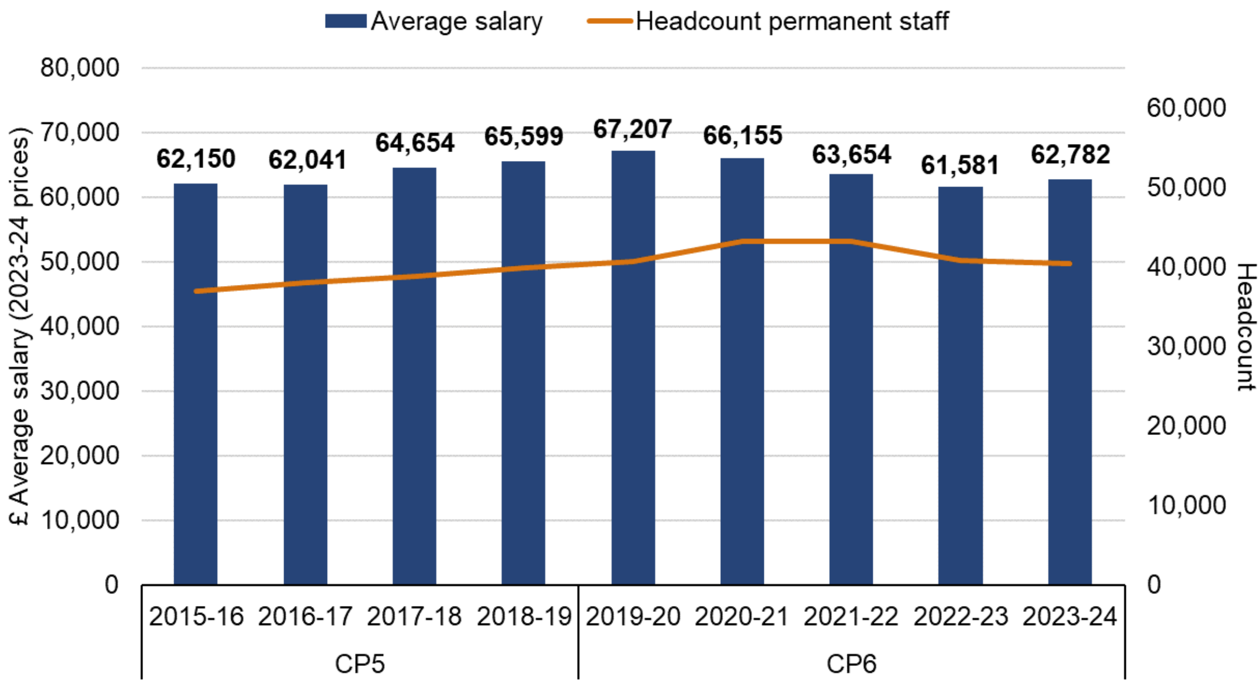
Senior management grades increased by 5% to around 650 FTEs during the year and have increased by 21% from the end of CP5.

Maintenance headcount decreased by 4% to 14,834 FTEs during the year and has decreased by 11% compared to the end of CP5. A large portion of this reduction followed the implementation of Network Rail's modernising maintenance programme which aims to improve staff rostering and deployment of the workforce. The company expects this programme to deliver further improvements to maintenance activities across CP7.

Network Rail's use of agency staff decreased by 22% in the year to 850 people. This represents a 12% decrease from the end of CP5.

The average employment cost for a permanent employee in April 2023 to March 2024 was £62,782, of which 26% related to overtime, allowances, performance related pay and employer pension contributions. As shown in Figure 4, the average employment cost in the year was 4% (£2,817) lower than the end of CP5, while permanent staff headcount levels increased by 1% (463 people).

Figure 4: Average salary and headcount of permanent staff



Source: ORR analysis of Network Rail's data

5. Network Rail Scotland delivered its efficiency improvements over CP6, exceeding our five year target and its revised delivery plan

Network Rail Scotland successfully delivered £356 million of efficiency improvements over CP6. This was 13% beyond our 2018 periodic review (PR18) determination target (£314 million) and 2% beyond Network Rail Scotland's revised delivery plan (£349 million).

Following the COVID-19 pandemic, Network Rail Scotland increased its CP6 efficiency target from the £314 million that we set it in our PR18 final determination to £412 million. However, during Year 4 (April 2022 to March 2023), the region revised down its target to £349 million due to changes to its planned renewals volumes in Year 4 and Year 5 and delays to the implementation of workforce reform initiatives. Network Rail Scotland successfully achieved this revised plan.

With the conclusion of CP6, our monitoring has moved on to CP7, for which our PR23 final determination requires Network Rail Scotland to make £389 million (cash prices excluding centrally delivered efficiencies), or £410 million (2023-24 prices including allocation of centrally-delivered efficiencies) of efficiency improvements over the next five years.

To ensure that Network Rail Scotland's CP7 efficiency plans are robust, we recently commissioned an independent reporter (Nichols Group) to review these efficiency plans (see key finding 8 and chapter 3 for more details).

6. Network Rail spent £10.6 billion on railway enhancements in CP6, 48% less than in CP5

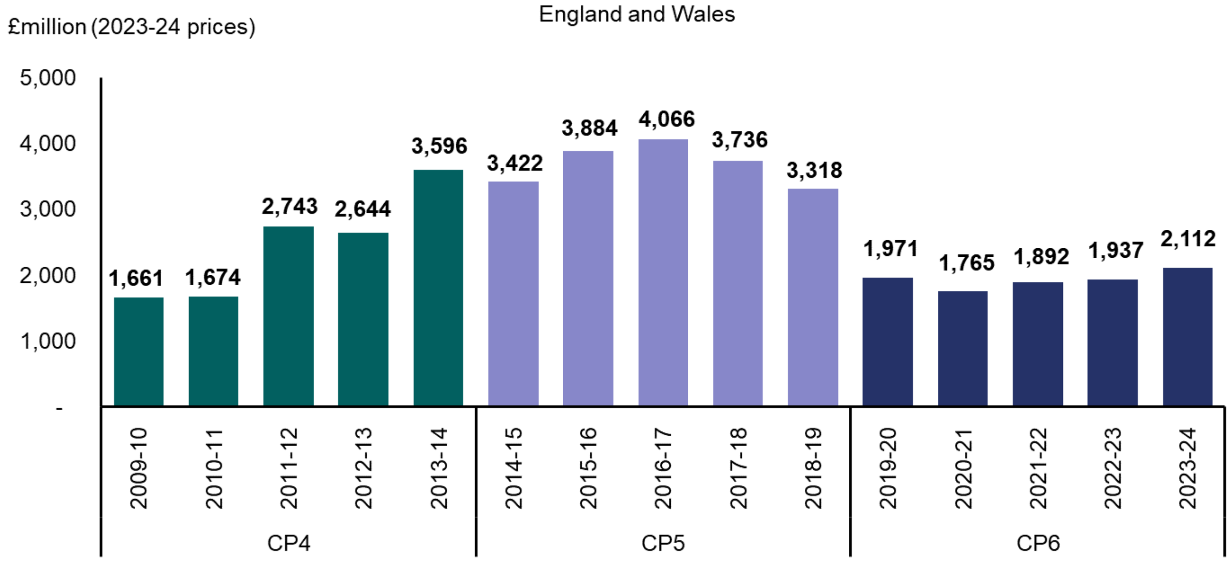
Network Rail spent £10.6 billion on government funded enhancements to the rail network over CP6 when adjusted for inflation, 48% less than in CP5. The CP6 average yearly spend in Great Britain was £2.1 billion compared to £4.1 billion in CP5 and £2.7 billion in CP4 (2023-24 prices).

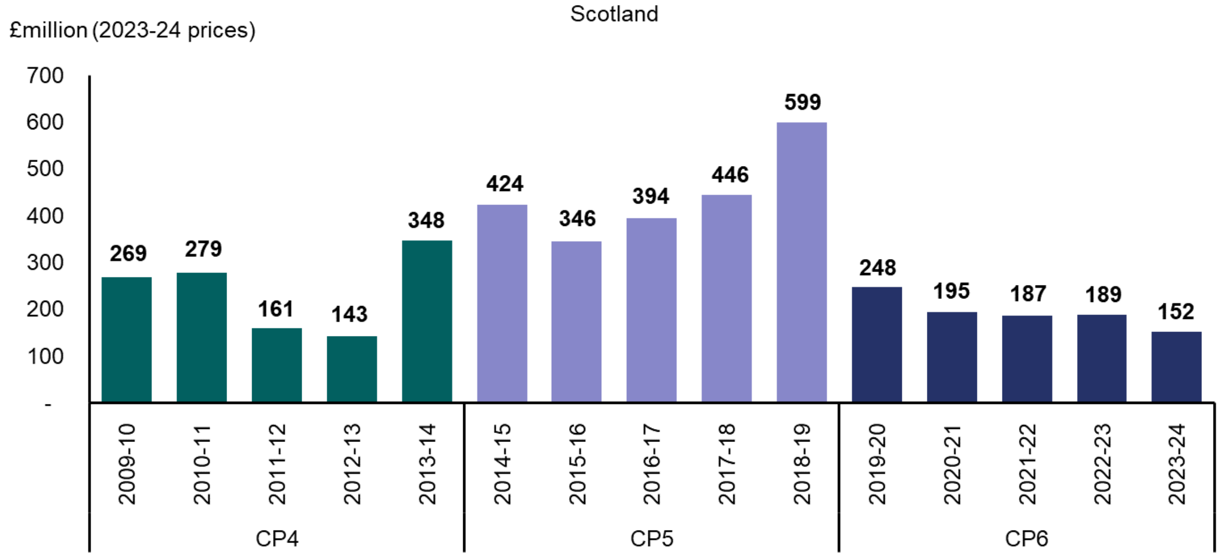
Major enhancement projects undertaken in the year included Transpennine Route Upgrade (£699 million), East Coast Digital (£284 million), Midland Main Line Programme (£192 million) and East West Rail Phase 2 (£119 million).

Network Rail Scotland spent £972 million on government funded enhancements in CP6 when adjusted for inflation, 56% less compared to CP5. The average yearly spend in CP6 was £194 million compared to £442 million in CP5 and £240 million in CP4 (2023-24 prices).

Key enhancement expenditure in the year included Levenmouth Rail Link (£57 million), Busby Junction to Barrhead Electrification (£25 million) and Feeder Stations programme (£22 million).

Figure 5: Enhancements expenditure, April 2009 to March 2024





Source: ORR analysis of Network Rail's data

7. Forward look to CP7

With the conclusion of CP6, our monitoring has moved on to CP7 (1 April 2024 to 31 March 2029). Over the next five years Network Rail plans to spend £43.1 billion (2023-24 prices) to operate, maintain, and renew Great Britain's railway network, as set out in its CP7 delivery plan.

Our PR23 final determination requires Network Rail to make £3.7 billion (2023-24 prices) of efficiency improvements over the next five years (£3.2 billion in England and Wales, and £0.4 billion in Scotland). Through its CP7 delivery plan, Network Rail has set out how it intends to achieve these required efficiency improvements. In cash terms the projected efficiencies over the next five years are £3.9 billion for the GB network (very similar to those achieved in CP6).

To ensure that Network Rail's CP7 efficiency plans are robust, we recently commissioned an independent reporter (Nichols Group) to review these plans with a focus on Year 1 and Year 2 plans. The review has found that:

- Network Rail's efficiency plans for CP7 are reasonable and aligned to our PR23 final determination, with almost 80% of the initiatives sampled at a relatively mature stage of planning. There is good evidence of robust assurance of efficiency plans within each of Network Rail's regional divisions;
- there is consistent categorisation of efficiency initiatives across regions and evidence of cross-regional engagement;
- documentation about the business changes underpinning efficiencies (based on a sample of initiatives) is variable, with both good examples as well as those with insufficient supporting information. The approach to establishing baselines and the level of detail presented varied across regions; and
- the delivery plan makes use of overplanning on efficiency initiative to manage delivery risk, which is good practice. However, Nichols highlights that this approach to overplanning and the use of overlays (to take the forecast back to target), may be obscuring the view of real forecasts. Evidence suggests that there is an opportunity for regions to apply greater effort on delivering efficiency improvements earlier in CP7.

While Nichols' review has found that Network Rail's CP7 efficiency plans are broadly robust at this stage, we have wider concerns about Network Rail's CP7 delivery plan in relation to the funding risk to delivery of its core asset requirements. In particular, our assessment in March this year identified a funding gap of £0.4 billion for England and Wales regions. We wrote to Network Rail requiring this matter to be resolved in the first six months of CP7. It is important for Network Rail to provide assurance that the renewal and maintenance of its core assets will be delivered as expected in CP7 and we are concerned that Network Rail has not yet made sufficient progress on this matter.

We recognise the fiscally challenging context in which Network Rail is operating in CP7 and that financial risks will continue to evolve as CP7 progresses. Nevertheless, we will continue to pursue this matter with Network Rail to ensure that renewals and maintenance of core assets are delivered as expected.

This matter does not affect Network Rail Scotland which does not have a funding gap in its delivery of core business requirements.

1. Introduction

1.1 Our annual efficiency and finance assessments provide our view of how Network Rail has financially performed each year. This 2024 publication covers CP6 as a whole (April 2019 to March 2024) and the fifth year of the control period, April 2023 to March 2024. It provides detailed support for our Network Rail Annual Assessment published in July, which also covers Network Rail's operational performance, including in respect of safety risk, train performance and asset management. We also published a detailed annual health and safety report in July.

1.2 Most of the financial information in this report is based on Network Rail's draft regulatory financial statements. Efficiencies, headwinds and financial risk numbers in this report are presented on a cash basis. All other financial information is presented in 2023-24 prices, except where stated.

1.3 Chapter 2 reports on Network Rail's overall financial performance, including on its income and expenditure, and on related matters such as changes to efficiency, financial risk management and budgetary flexibility.

1.4 Chapter 3 reports on the financial performance and efficiency of the Scotland region.

1.5 Chapter 4 provides comparisons of the relative financial performance and efficiency of Network Rail's five regions. These are Eastern, North West and Central (NW&C), Scotland, Southern and Wales and Western (W&W). The chapter also refers to the financial performance of the national functions.

1.6 Annex A provides detailed financial tables for Network Rail's activities in Great Britain, for England and Wales, and separately for the regions and national functions, and for Wales.

1.7 Annex B explains the relationship between the efficiency and financial performance measures used in our assessments.

How we calculate Network Rail's financial performance and efficiency

1.8 Different measures can be used to report on a company's financial performance and there is no uniquely correct measure. Different measures are typically used to complement one another and provide a more rounded assessment. We consulted on these matters in the development of our CP6 regulatory accounting guidelines.

These guidelines explain how Network Rail is required to publicly report on its finances in CP6. Our assessments in CP6 focus primarily on two measures:

- *Financial performance*: This compares income and expenditure to the financial assumptions underpinning CP6 funding. The efficiency improvements that regions are expected to achieve are embedded in the financial assumptions in their CP6 delivery plans. As such, these baselines are described as being 'post-efficient'. If a region has spent less and / or has received more income than its delivery plan (for what it has delivered), it will report financial outperformance, and vice versa for underperformance.

- *Efficiency*: This compares the relationship between expenditure on core business activities (operations, support functions, maintenance, and renewals) and outputs on a like-for-like basis over time.

1.9 Our assessments help to give assurance to rail users and funders about whether Network Rail's regions are delivering what is expected of them whilst providing a reputational incentive for regions to become more efficient.

Financial performance

1.10 Network Rail's financial performance can be calculated in several ways. The factors to be considered when deciding how to calculate financial performance include:

- to what baselines (or budget) we should compare;
- adjustments for the amount of work undertaken; and
- including or excluding some types of income and expenditure that is less controllable.

1.11 Our primary measure of Network Rail's financial performance is the Financial Performance Measure (FPM). To be as informative as possible, FPM takes each of the above matters into account. FPM compares Network Rail's income and expenditure to its CP6 delivery plan. It adjusts for the amount of work done and excludes income and expenditure that is not controllable by Network Rail. This includes network grants, fixed track access charges, traction electricity income and costs, and business rates. Our CP6 regulatory accounting guidelines explain how FPM is calculated.

Efficiency

1.12 The priorities for our assessments of efficiency, and hence for Network Rail's reporting, are to:

- drive the best outcomes for the users of the rail network through supporting better value for money;
- enhance regional performance comparisons to aid in benchmarking;
- move away from measures that aim to be technically precise to a more rounded assessment. This assessment aims to draw out key messages about the drivers of performance, make a clearer link between expenditure and delivery, and examine how efficiencies are being achieved;
- make better informed forward-looking assessments of the efficiencies that regions are likely to deliver throughout the control period; and
- provide clear and informative messages about efficiency improvements, recognising that different audiences want different levels of technical detail.

1.13 To deliver these priorities, we required Network Rail's reporting in CP6 to provide:

- greater emphasis on reporting how regions have delivered efficiency improvements;
- more detailed assessment of the drivers of cost changes over time and across regions; and
- a forward-looking view of the efficiencies that Network Rail will likely achieve across CP6. This includes reporting on the progress of regions' efficiency plans and leading indicators of delivery.

1.14 Efficiency and financial performance are related but not the same. The relationship between these measures is explained in more detail in Annex B.

Regional financial analysis

1.15 Network Rail started CP6 with eight regional operating routes supported by national functions. During the control period, it has reorganised these routes into five geographical regions (Eastern, North West and Central (NW&C), Scotland, Southern and Wales and Western (W&W)). It has also devolved some national functions to regions. Network Rail still has routes, although there are now 14 of them. The routes are now a sub-geography of the five regions. A map of Network Rail's five regions is shown in Figure 1.1.

1.16 Network Rail developed a CP6 delivery plan which set out how it intended to deliver the requirements of our PR18 determination within the funding available. It subsequently revised its delivery plan from being route-based to region-based. So, for the purpose of comparing Network Rail's financial performance to our PR18 funding assumptions, we use Network Rail's revised CP6 delivery plan as the funding baseline in this assessment.

Figure 1.1: The geography of Network Rail's regions

Source: Network Rail

1.17 We welcome comments on the content of this report. These should be sent to:
Customer Correspondence Team
Office of Rail and Road
25 Cabot Square
London E14 4QZ
Email: contact.cct@orr.gov.uk

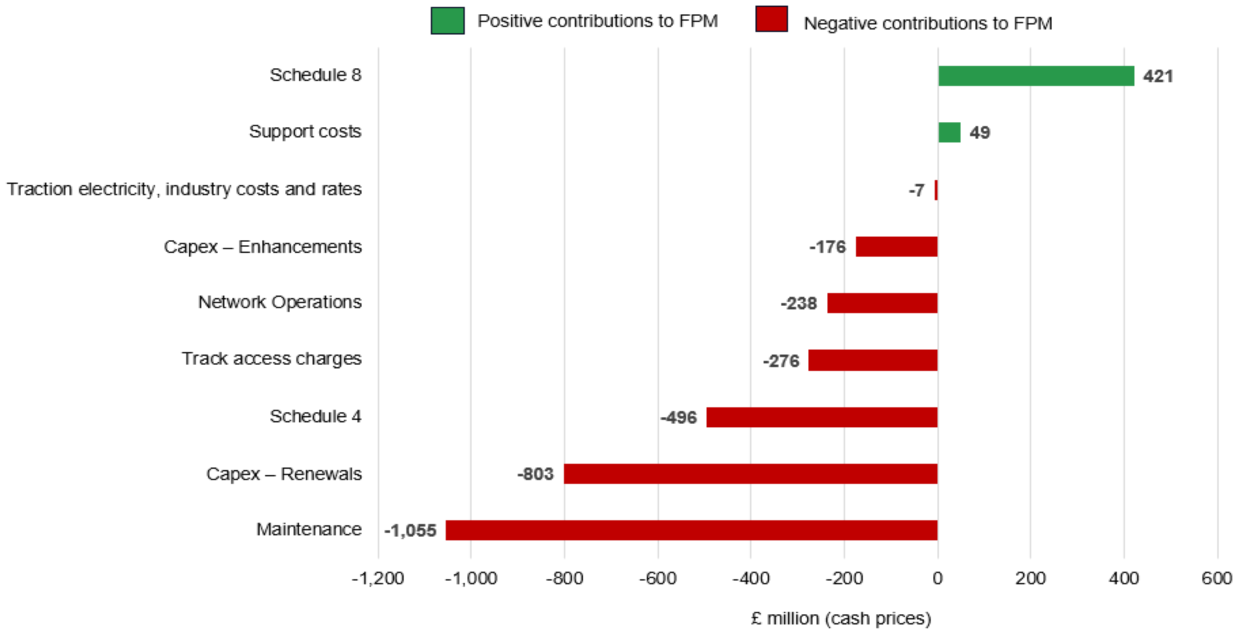
2. Network Rail's financial performance and efficiency

Financial performance

2.1 Our primary measure of Network Rail's financial performance is the financial performance measure (FPM). FPM provides a better understanding of Network Rail's financial performance than simple income and expenditure variances to a baseline / budget as it takes into account what has actually been delivered. A positive FPM means that Network Rail has outperformed, and a negative FPM means that Network Rail has underperformed. FPM and efficiency are complementary measures that provide a rounded assessment of Network Rail's performance and changes over time (see Annex B for details).

2.2 Network Rail spent £14,817 million (cash prices) operating, maintaining, renewing and enhancing the national rail infrastructure in April 2023 to March 2024, financially underperforming by £924 million against its CP6 delivery plan for the year. Network Rail spent £66,503 million (cash prices) in CP6, underperforming by £2,789 million against its CP6 delivery plan. This underperformance was partly funded from use of the company's CP6 risk fund. Figure 2.1 illustrates the factors contributing to Network Rail's financial underperformance in CP6.

Figure 2.1: Contributions to Network Rail's financial underperformance in CP6



Source: ORR analysis of Network Rail's data

Table 2.1: Network Rail's financial performance, Great Britain, April 2023 to March 2024 and CP6

£ million (cash prices)	2023-24 Actual	2023-24 FPM out / (under) performance	2023-24 % of FPM contribution	CP6 Actual	CP6 FPM out / (under) performance	CP6 % of FPM contribution
Network grant income	8,329	0	0%	34,206	0	0%
Franchised track access charges	3,157	(7)	(1%)	13,569	(276)	(10%)
Other income	882	112	12%	3,857	(209)	(7%)
Total income	**12,369**	**105**	**11%**	**51,633**	**(485)**	**(17%)**
Schedule 4	411	(79)	(9%)	2,111	(496)	(18%)
Schedule 8	258	(189)	(20%)	(89)	421	15%
Network operations	810	(110)	(12%)	3,617	(238)	(9%)
Support costs	1,169	(155)	(17%)	4,777	49	2%
Traction electricity, industry costs and rates	1,101	(4)	(0%)	4,583	(7)	(0%)
Maintenance	2,282	(435)	(47%)	9,944	(1,055)	(38%)
Total operating expenditure	**6,031**	**(971)**	**(105%)**	**24,943**	**(1,325)**	**(48%)**
Renewals	3,940	(68)	(7%)	18,752	(803)	(29%)
Enhancements	2,264	10	1%	9,505	(176)	(6%)
Total capital expenditure	**6,203**	**(58)**	**(6%)**	**28,256**	**(979)**	**(35%)**
Risk expenditure	0	0	0%	0	0	0%
Financing costs and other	2,583	0	0%	13,304	0	0%
Total expenditure	**14,817**	**(1,029)**	**(111%)**	**66,503**	**(2,304)**	**(83%)**
Financial performance measure (FPM)		**(924)**	**(100%)**		**(2,789)**	**(100%)**

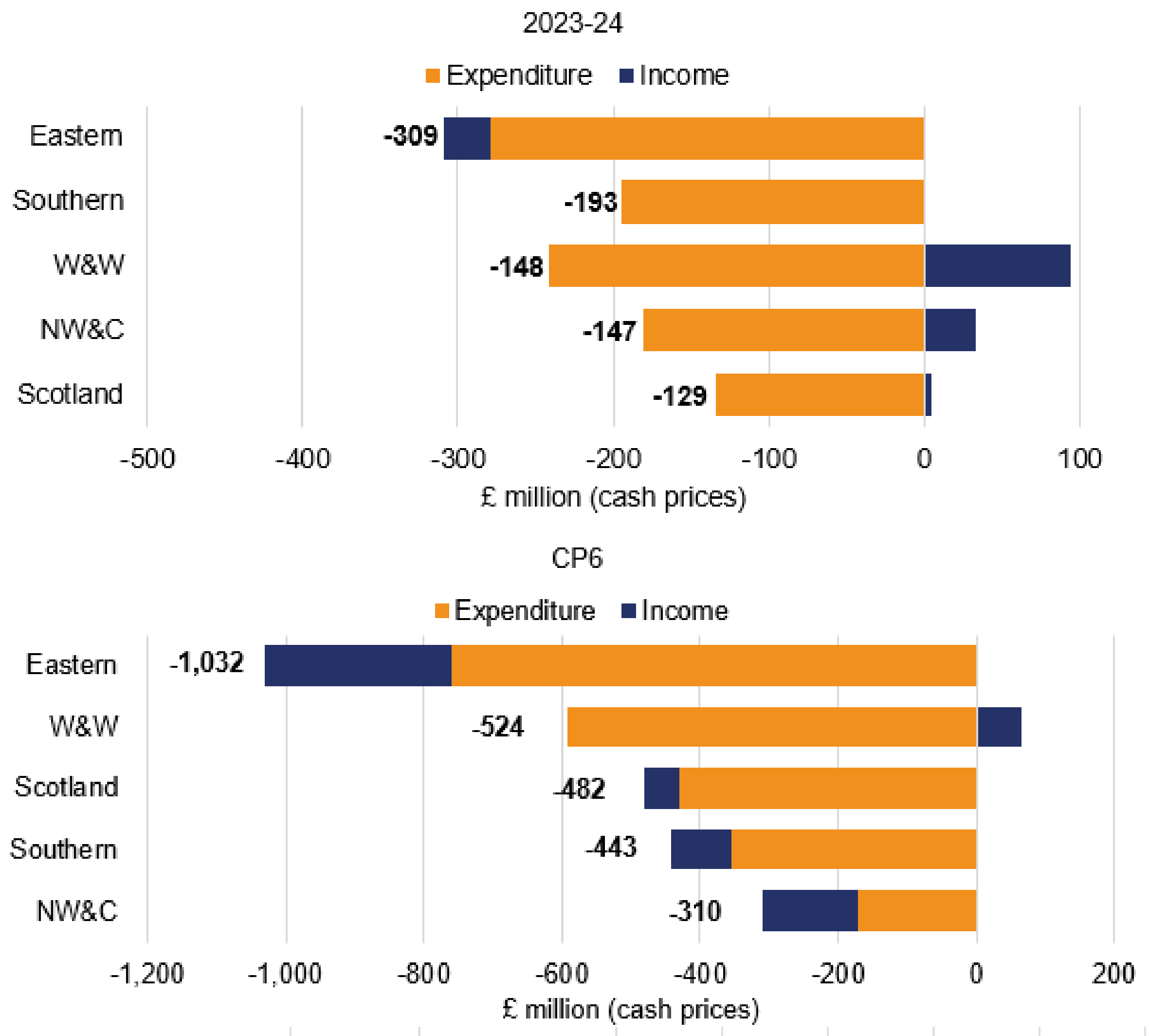
Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding

2.3 Table 2.1 summarises Network Rail's financial performance against its budgeted income and expenditure which were set out in its CP6 delivery plan.

2.4 Network Rail's financial underperformance in CP6 was caused by several factors including costs incurred from the COVID-19 pandemic, inflationary pressures, industrial action and costs of completing legacy CP5 enhancements. Figure 2.1 shows Schedule 8 over CP6 was highly positive due to better than expected performance over the pandemic period as a result of fewer passengers and services being run. This was largely offset by increased Schedule 4 payments due in large part to industrial action and inflationary pressures, which added further to costs later in the control period. Maintenance was the largest contributor to underperformance, reflecting additional work delivered and expenses responding to the COVID-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles.

2.5 Figure 2.2 shows the contributions of Network Rail's five regions to the company's financial underperformance.

Figure 2.2: Regional contributions to Network Rail's financial underperformance

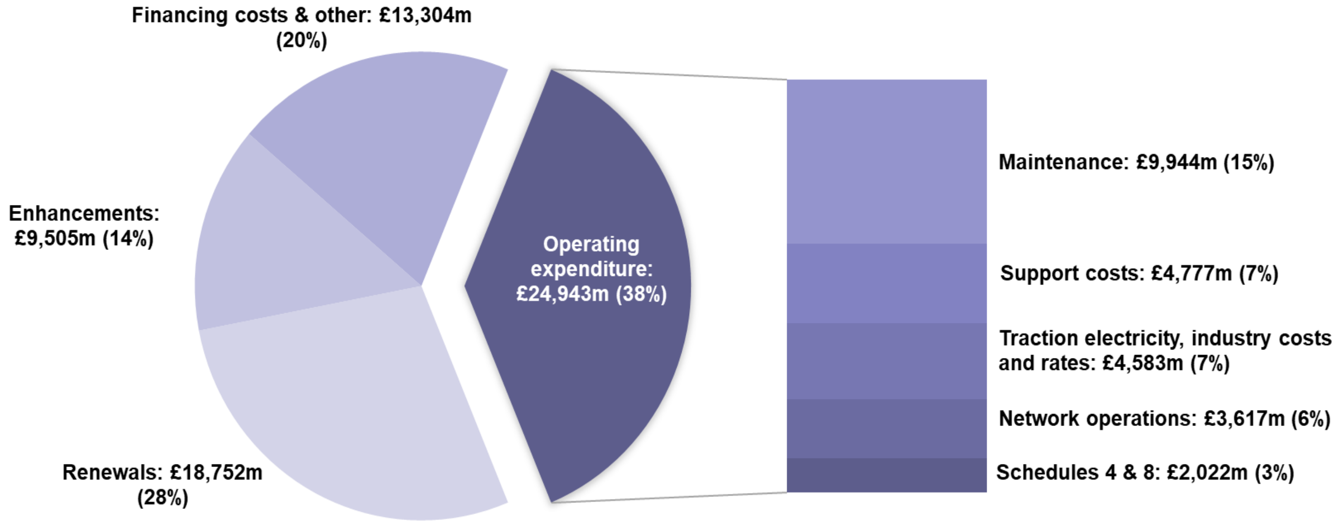


Source: ORR analysis of Network Rail's data

Expenditure

2.6 Network Rail spent £66,503 million (cash prices) operating, maintaining, renewing and enhancing rail infrastructure in CP6. Figure 2.3 shows the main categories of Network Rail's expenditure, and these are examined below. Numbers included in this section are in cash prices.

Figure 2.3: Network Rail's expenditure in CP6 (cash prices)



Source: ORR analysis of Network Rail's data

Operating expenditure

2.7 Operating expenditure relates to maintenance activities, network operations, support costs, traction electricity, industry costs and rates, and the Schedule 4 and 8 regimes. These expenditure items are examined below.

Maintenance

2.8 Maintenance expenditure relates to activities that maintain the condition and capability of the existing infrastructure to the previously assessed standard of performance.

- Network Rail spent £9,944 million in CP6, £1,171 million higher than the DP19 delivery plan (DP19) and underperforming by £1,055 million. Additional costs were incurred maintaining the network during the COVID-19 pandemic due to additional PPE and travel costs.

- Network Rail spent £2,282 million maintaining its network in April 2023 to March 2024, £469 million higher than planned, underperforming by £435 million. Network Rail has mostly attributed this underperformance to staffing disruption, rise in cost due to inflation and additional costs to comply with track worker safety regulations.

Network operations

2.9 Network operations expenditure relates to activities to operate the rail network. This includes signalling and operating Network Rail's managed stations.

- In CP6, Network Rail spent £3,617 million, which was £238 million higher than the delivery plan, resulting in an £238 million underperformance. This was due to extra costs incurred during the COVID-19 pandemic, inflationary pressures emerging in the second half the control period, additional recruitment to reduce overtime/address an aging skilled workforce and compliance with fatigue management standards.

- Network Rail spent £810 million operating the network in April 2023 to March 2024, £110 million higher than the delivery plan with a £110 million underperformance for the same additional recruitment reasons as explained above.

Support costs

2.10 Support costs relate to activities that facilitate Network Rail's core business activities. These include corporate functions and IT services.

- Network Rail spent £4,777 million in CP6, £312 million more than the delivery plan. Costs have been higher across the control period with the impact of the 'Putting Passengers First (PPF) re-organisation programme causing the need for additional resources, inflationary pressures in the latter part of the control period and COVID-19 related expenditure which have been partly offset by additional efficiencies in centrally managed activities. Some renewals costs were also reclassified to support costs in CP6 resulting in a cost variance to the original CP6 delivery plan. This change does not affect FPM. Adjusted for this, support costs outperformed by £49 million due to managing insurance claim risks within the Network Rail group, rather than paying external parties' insurance premiums.

- Support costs were £1,169 million in April 2023 to March 2024, £230 million higher than the delivery plan with an underperformance of £155 million. This was largely due to increased utilities costs, in particular electricity prices, in the wake of geopolitical disruption and uncertainty.

Traction electricity, industry costs and rates

2.11 Network Rail purchases electricity to provide power for electrically powered trains. These costs are largely matched by an equal amount of income from train operators (Network Rail retains a minimal amount of the cost for the electricity it uses). Industry rates and other costs include Network Rail's share of British Transport Police costs, business rates, Rail Safety and Standards Board (RSSB) costs, the ORR licence fee, and railway safety levy. Network Rail has limited control over these costs, which are either set by government agencies, or are driven by train operator usage and market prices in the case of traction electricity costs.

- Traction electricity, industry costs and rates were £4,583 million for CP6, underperforming by £7 million.
- In the period April 2023 to March 2024, Network Rail spent £1,101 million, underperforming by £4 million. These items are largely not controllable by Network Rail, so they largely do not contribute to its financial performance measure.

Schedule 4 and Schedule 8 costs

2.12 The Schedule 4 regime compensates train operators for planned reductions to network availability. It incentivises Network Rail to plan engineering work early and efficiently to reduce disruption. The Schedule 8 performance regime compensates train operators or Network Rail for the impact of unplanned service disruption.

- Over CP6 Schedule 4 costs were £2,111 million, £493 million more than planned and underperforming by £496 million. This resulted from the poor train performance in April 2022 to March 2023, during which the company had to compensate train operators for failing to deliver the agreed timetables for passengers due to disruptions caused by industrial action.
- Schedule 4 costs were £411 million in the year to March 2024, which was £100 million higher than delivery plan, with an underperformance of £79 million.

2.13 The Schedule 8 performance regime compensates train operators or Network Rail for the impact of unplanned service disruption.

- Over CP6 Schedule 8 costs were -£89 million, spending £421 million less than delivery plan. This was driven by the exceptional performance during COVID-19 times where fewer passengers and services resulted in increased punctuality and timetable resilience.
- Schedule 8 costs were £258 million for April 2023 to March 2024, £189 million more than delivery plan. This is largely the result of poor train performance brought on by disruptive weather, notably in the Wales and

Western region, and higher asset failures across the infrastructure all of which contributed to disruption to train services.

Renewals

2.14 Renewals expenditure relates to activities to replace (in whole, or in part) network assets that have deteriorated such that they can no longer be maintained economically. Renewal of an asset restores the original performance of the asset and can add additional functionality as technology improves.

- Network Rail spent £18,752 million in CP6, £269 million higher than delivery plan with an underperformance of £803 million being recognised. Underperformance over the control period was driven by higher costs associated with the increased focus upon track worker safety, earthworks and drainage assets.

- Network Rail spent £3,940 million renewing the rail network in April 2023 to March 2024, £62 million less than planned but still underperforming by £68 million. This was mostly due to industrial action impacting several renewals projects, resulting in aborted costs and delays to planned activities.

Enhancements

2.15 Enhancements are changes to improve network capacity or capability, for example, enabling more train journeys or higher speeds. Enhancement schemes are subject to approvals on a case by case basis from Department for Transport (DfT) and Transport Scotland (TS) under their ‘pipeline’ approaches for releasing funding as individual projects progress.

- Network Rail spent £9,505 million on government-funded enhancements schemes in CP6, underperforming by £176 million largely due to legacy CP5 programmes that were completed early in CP6. Projects in development stages are excluded from the financial performance measure until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders.

- Network Rail also spent £434 million on third-party funded schemes in the year and £2,105 million in CP6.

- Network Rail spent £2,264 million on government-funded enhancements in April 2023 to March 2024. Expenditure on the main schemes is summarised in Table 2.2

Table 2.2: Network Rail's enhancements expenditure in April 2023 to March 2024

	2023-24		CP6	
£ million (cash prices)	Actual	FPM out / (under) performance	Actual	FPM out / (under) performance
Trans Pennine Route Upgrade	699	1	2,189	20
East Coast Digital	284	0	591	0
Midland Main Line Programme	192	0	871	0
Access for All	128	0	275	0
East West Rail Phase 2	119	(1)	860	(1)
Other DfT funded schemes	69	5	267	4
Cambridge South Station Development 2	71	0	101	0
East Coast Main Line Enhancements Programme	69	23	628	(6)
Hope Valley Capacity	60	(10)	135	(11)
Oxford Corridor Capacity Phase 2	53	(10)	105	(10)
Restoring Your Railway	51	3	153	2
Levenmouth Rail Link	57	0	104	0
Other Network Rail-funded enhancements	414	1	3,228	(172)
Total Network Rail-funded enhancements	**2,264**	**10**	**9,505**	**(176)**
Third party-funded enhancements (including HS2)	434	0	2,105	0
Total enhancements	**2,698**	**10**	**11,610**	**(176)**

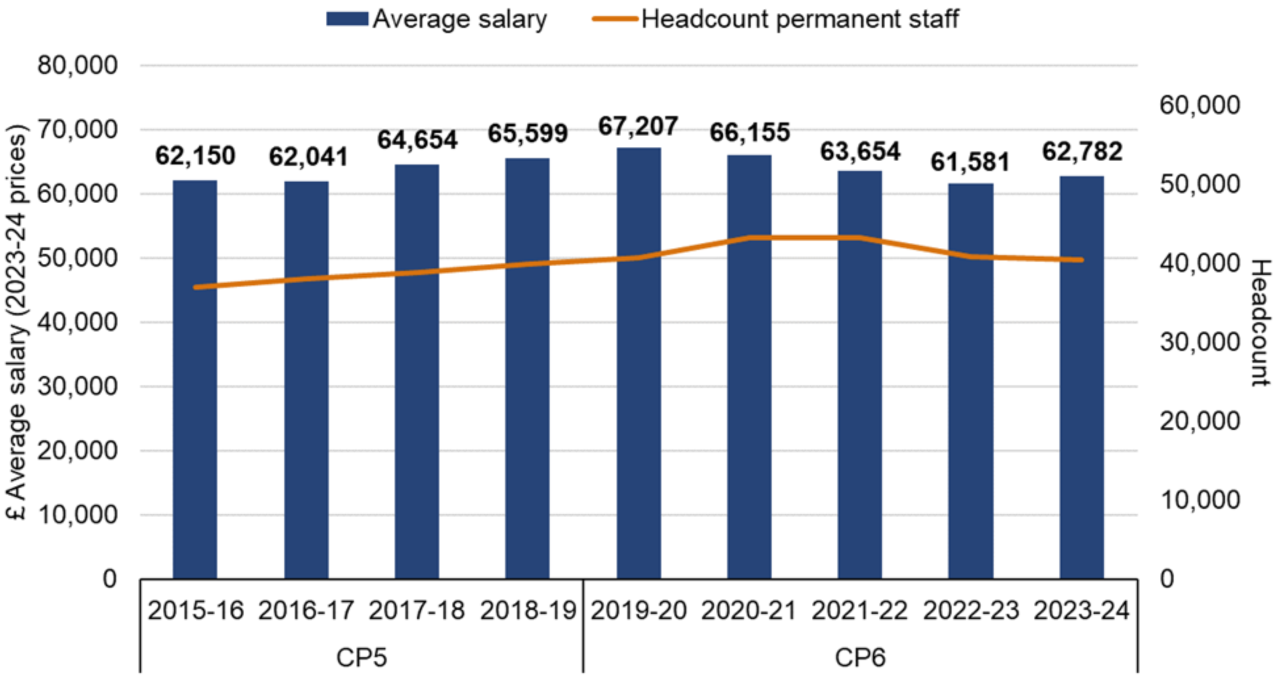
Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding.

Employment costs

2.16 In April 2023 to March 2024, Network Rail employed an average of 41,252 staff, a 1% increase from the end of CP5 (on a full time equivalent (FTE) basis). In the first three years of the control period headcount increased notably due to resourcing needs from Network Rail's implementation of its "Putting Passengers First" programme, with headcount reducing over the last two years of CP6.

2.17 The average employment cost for a full-time employee in April 2023 to March 2024 was £62,782, of which 26% was from overtime, allowances, and employer pension contributions. As illustrated in Figure 2.4, the average employment cost for the year decreased by 4% (£2,817, 2023-24 prices) compared to the end of CP5, while the number of permanent staff increased by 1% (463 people).

Figure 2.4: Average salary and headcount of permanent staff



Source: ORR analysis of Network Rail data

2.18 Senior management grades increased by 5% to around 650 FTEs during the year, this represents a 21% increase in these grades compared to the end of CP5.

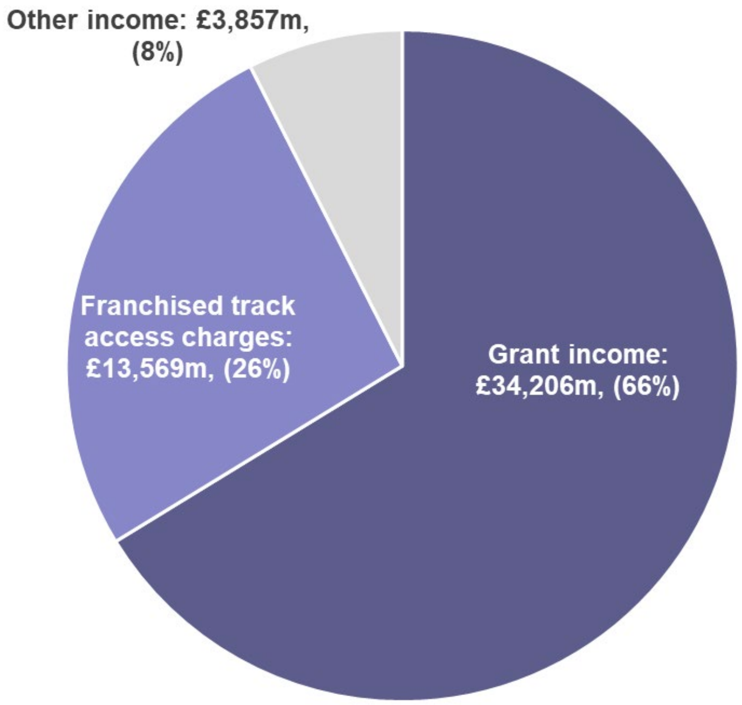
2.19 Maintenance headcount reduced by 4% to around 14,834 FTEs during the year, and by around 11% compared to the end of CP5. Network Rail is continuing to make further improvements in its maintenance activities through its modernising maintenance programme which will include further improvements to staff rostering. Network Rail expects the programme to deliver further improvements to maintenance activities across CP7.

2.20 Network Rail's agency FTE staff headcount reduced by 22% in the year to 850 people. This represents a 12% decrease from the end of CP5.

Income

2.21 Network Rail received £51,633 million (cash prices) of income in CP6. Figure 2.5 provides a breakdown of the main sources for this income. For the year April 2023 to March 24 Network Rail received £12,369 million of income, a 9% year on year increase (£1,032 million). Numbers included in this section are in cash prices.

Figure 2.5: Network Rail’s income for CP6: Total income: £51,633 million (cash prices)



Source: ORR analysis of Network Rail’s data

Grant Income

2.22 Grant income refers to the funding received from the Government or other public bodies to support operations and projects.

- Network Rail received £34,206 million grant income in CP6, £487 million lower than planned. Lower interest and corporation tax costs have meant Network Rail has not required as much in government grants across CP6.
- Network Rail received £8,329 million of grant income in April 2023 to March 2024. This is a 7% annual increase and £625 million more than set out in the delivery plan. Income is higher than the delivery plan for the year which reverses some of the reduced income in earlier years. The extra income this year represented a different phasing of activity being undertaken than anticipated in the delivery plan. Franchised track access charges income

2.23 Franchised track access charges income for Network Rail comes from fees paid by train operating companies to use its rail infrastructure.

- Franchised track access charge income was £13,569 million in CP6. This was £686 million lower than Network Rail's CP6 delivery plan, mostly due to reduced services impacted by the COVID-19 pandemic, structural changes to industry and lower traction electricity charges.

- Franchised track access charge income was £3,157 million from April 2023 to March 2024. This is a 10% annual increase and £123 million more than set out in the delivery plan, mostly due to higher-than-expected inflation resulting in increased payments by operators under track access charges.

Other income

2.24 Other income includes revenue from freight and stations, property rentals and sales, depot operations, and freight traction electricity.

- In CP6 Network Rail received £3,857 million of other income. Income was £316 million higher than planned as a result of property disposals offsetting reduced property rental income caused by the COVID-19 pandemic.

- Other income in year was £882 million which has increased by 26% (£180 million) compared to last year. Other single till income was £113 million higher than set out in the delivery plan due to increased property sales levels.

Efficiency

2.25 In determining the funding that Network Rail would need to deliver its required outputs in CP6, we assessed the efficient level of expenditure that it required. The detailed assumptions on expenditure and efficiency underlying these projections were set out in our 2018 periodic review (PR18), where we challenged Network Rail to make £3.5 billion of efficiency improvements (in cash prices).

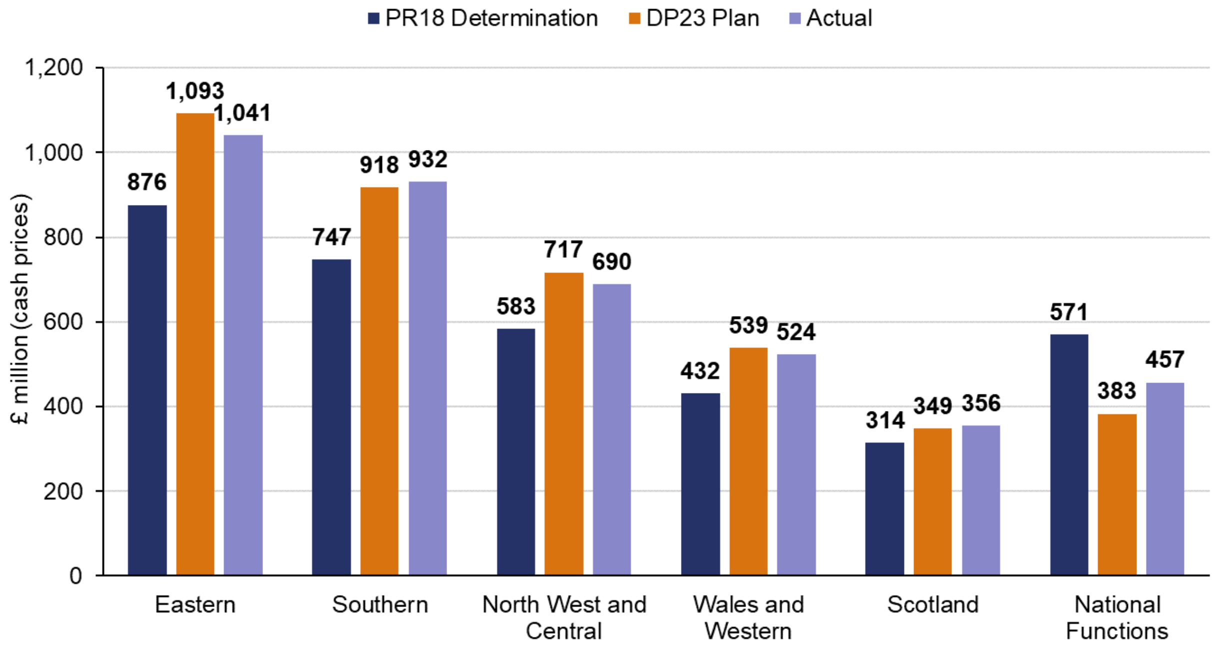
2.26 Network Rail responded to our PR18 determination by developing a CP6 delivery plan which included how it intended to deliver our efficiency challenge. Recognising the increased financial pressures from unanticipated cost increases from the COVID-19 pandemic, Network Rail subsequently increased its internal CP6 efficiency target to £4.0 billion, with the planned increase coming mostly from workforce reform initiatives. Throughout this document we refer to this as Network Rail's revised CP6 delivery plan.

2.27 In the year April 2023 to March 2024 Network Rail delivered £1,116 million of efficiency improvements, an 18% annual increase in line with its delivery plan target. Network Rail has reported £4.0 billion of efficiency improvements in CP6 ahead of our PR18 target of £3.5 billion.

2.28 However, as shown in Figure 2.6, there are important regional variations. All regions exceeded our CP6 targets. Notably, Southern and Scotland exceeded their revised delivery plan targets by 2% whilst the remaining regions fell slightly short.

2.29 Eastern and North West and Central were slightly behind their revised delivery plan targets after setting additional stretch targets in an effort to deliver more efficiencies than initially planned.

Figure 2.6: Regional contributions to efficiency improvements in CP6

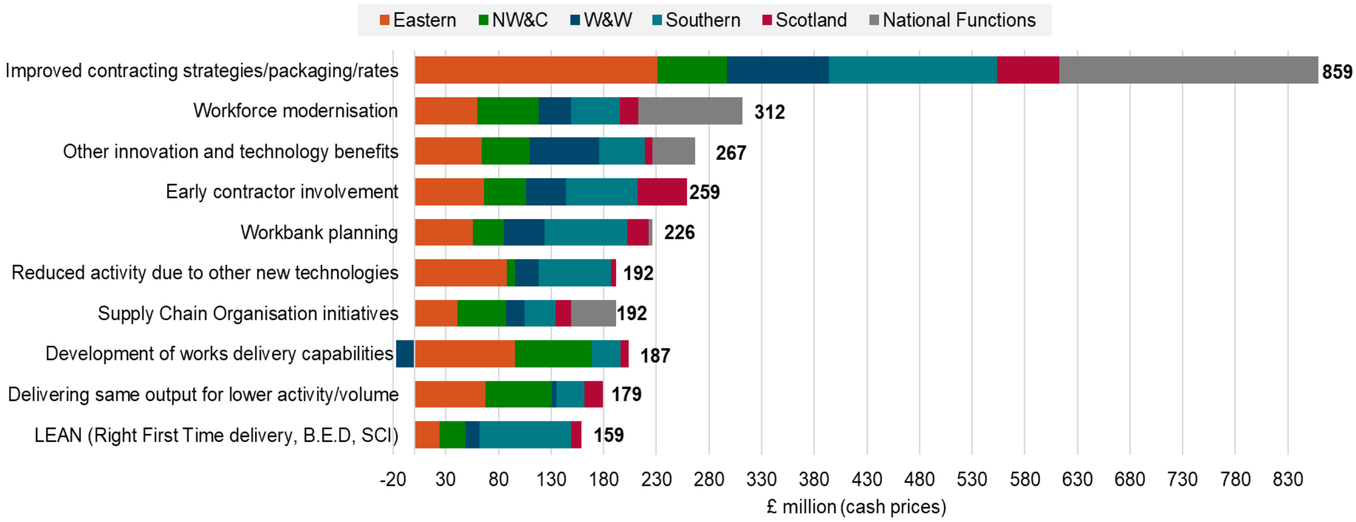


Source: ORR analysis of Network Rail's data

2.30 Network Rail achieved efficiency improvements in CP6 from a number of efficiency initiatives. The top ten initiatives are shown in Figure 2.7.

2.31 The number of efficiencies a region delivers depends on the type of work planned, the region's size, and its unique geography. One of the advantages of a regional structure is that Network Rail can learn from comparing the different approaches adopted by its regions.

Figure 2.7: Top ten efficiency initiatives in CP6



Source: ORR analysis of Network Rail's data

2.32 The largest efficiency initiatives that Network Rail delivered in CP6 were:

1. **Improved contracting strategies (£859 million)**

   Improved contracting strategies include negotiating contracts with improved terms or rates, enhancing market research and monitoring contracts more effectively. Network Rail states it has enhanced collaboration between routes and the central supply chain organisation to consolidate duplicate contracts, strengthen supplier relations and share expert knowledge.

2. **Workforce modernisation (£312 million)**

   Workforce modernisation comprised a number of initiatives to improve the management of headcount. This included recruitment controls, continued workforce attrition, and voluntary severance schemes.

3. **Other innovation and technology benefits (£267 million)**

   This efficiency grouping includes several initiatives aimed at modernising and improving the railway system. Some examples include the use of drones, Plain Line Pattern Recognition (PLPR) technology to detect track defects, and systems to improve asset intelligence.

4. **Early contractor involvement, defined scope and minimum specification solution (£259 million)**

   This initiative involves Network Rail identifying opportunities to make savings through reduced scope, using minimum specification solutions and value engineering.

5. **Workbank planning (£226 million)**

   Workbank stability is about ensuring that works which have been planned go ahead, and that fewer unplanned jobs are added to the workbank. Giving supply chains a fixed and predictable workbank should lead to improved unit rates. It might avoid peaks and troughs in activity and optimise the utilisation of constrained resources, whilst reducing rework and failures on delivery.

6. **Reduced activity due to other new technologies (£192 million)**

   This initiative aims to lower costs by using advanced key technologies. Key elements include automation, remote monitoring, predictive maintenance using data analytics and artificial intelligence, and the use of robotics for inspections and track maintenance. These technologies reduce the need for manual inspections and maintenance, improve safety, and increase reliability, although they require significant initial investment and integration with existing systems.

7. **Supply chain organisation initiatives (£192 million)**

   This initiative aims to make the railway's supply chain more reliable, efficient and cost-effective by improving how Network Rail buys materials, strengthening supplier partnerships, cutting costs, and ensuring that materials required for rail maintenance and upgrades arrives on time.

8. **Development of works delivery capabilities (£187 million)**

   By developing the capability of its in-house Works Delivery teams, Network Rail has reduced its use of external contractors for some renewals activities.

9. **Delivering same output for lower activity/volume (£179 million)**

   This initiative involved Network Rail reviewing programme deliverables to identify opportunities to reduce volume or specification without affecting outcomes.

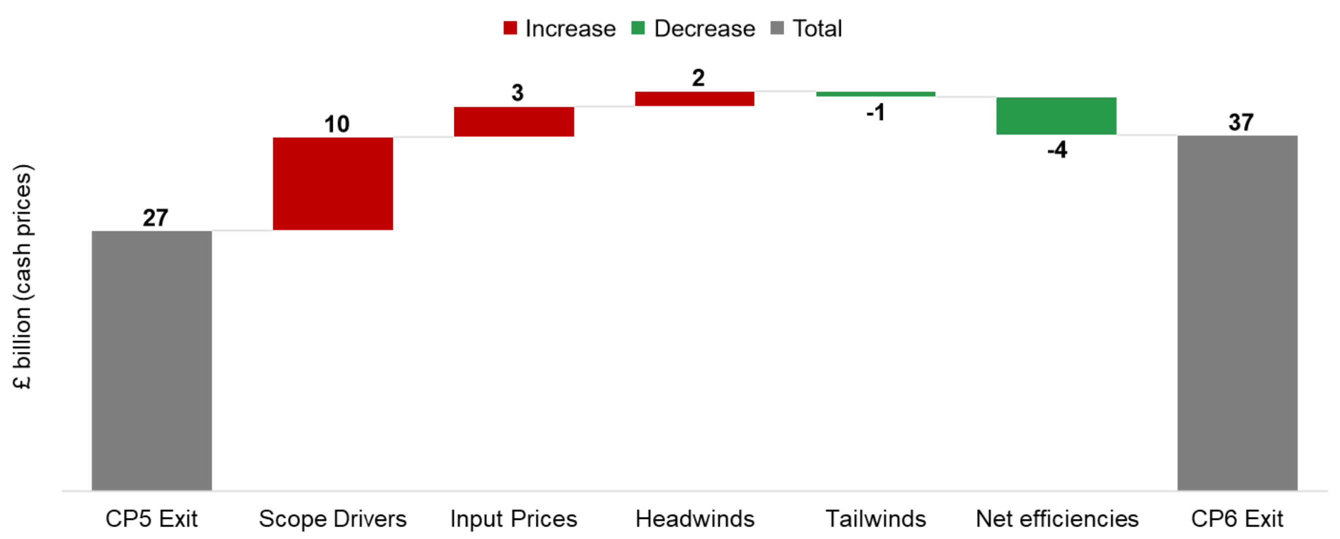
10. LEAN initiatives (£159 million)

LEAN initiatives refer to an installation of a culture of continuous improvement. An example of this is through the 'Better Every Day' programme which enables, empowers, and encourages employees to make incremental improvements to their work to create value with fewer resources and with less waste.

Headwinds, tailwinds, scope changes and input prices

2.33 Network Rail analyses changes to its operations, support, maintenance and renewals costs over time through a 'fishbone' analysis which includes efficiencies, headwinds (unplanned cost increases due to external factors such as the COVID-19 pandemic), tailwinds (unplanned cost decreases due to external factors), scope changes (planned changes to levels of work undertaken) and input prices (inflationary effects from increases or decreases in costs above general CPI inflation).

Figure 2.8: Network Rail GB's cost drivers in CP6



Source: ORR analysis of Network Rail's data

2.34 Network Rail identified £481 million of headwinds in April 2023 to March 2024. The largest of these were track worker safety (£96 million), increased task complexity (£54 million) and supply chain organisation initiatives (£24 million).

2.35 Network Rail has reported £1,596 million of headwinds in CP6, which was significantly higher than its delivery plan forecast of £600 million. The main reasons for these headwinds were cost increases relating to impact of the COVID-19 pandemic (£294 million) and track worker safety (£262 million).

2.36 Throughout CP6, we reviewed reporting of headwinds and scope changes. We concluded that these were broadly being tracked and reported appropriately.

Robustness of CP7 efficiency plans

2.37 Network Rail has targeted almost £3.7 billion (2023-24 prices) of efficiency savings for Control Period 7 (CP7, 1 April 2024 to 31 March 2029), equivalent to £3.9 billion in cash prices.

2.38 The Office of Rail and Road (ORR) and Network Rail jointly commissioned Nichols Group to undertake an independent assessment of Network Rail's preparedness to deliver its efficiency plans in the first two years of CP7.

2.39 The review considered a sample of high value efficiency initiatives within the Eastern, North West and Central, Scotland, Southern and Wales and Western regions, as well as initiatives developed centrally by Network Rail's Route Services Directorate and Technical Authority. It entailed interviews across Network Rail's teams and consideration of relevant documentary evidence.

2.40 Overall, Nichols' assessment found Network Rail's efficiency planning for years 1 and 2 of CP7 is broadly positive. Almost 80% of the initiatives sampled were already relatively mature in development terms. Two thirds of the sample had a 'high' level of confidence of delivery.

2.41 Nichols' findings include that Network Rail's July 2024 efficiency documentation demonstrates that there is a clear alignment of regional and functional efficiencies to regional delivery plans and that these, in aggregate, fully align to the CP7 efficiencies target stated in the ORR's PR23 Final Determination. They observed that the overall framework for managing and reporting efficiencies within Network Rail is more mature than it was at the equivalent point in CP6.

2.42 Nichols highlighted a key risk management tool applied by regions is 'over-planning' their efficiency portfolio by targeting greater efficiency than required to meet targets in order to anticipate change if less mature initiatives are delayed, cancelled or result in lower savings. The size of this over-plan varies between regions. This over-plan is a key factor that provides confidence that the forecast for years 1 and 2 are reasonable based on current plans.

2.43 The over-plan typically comprises a large number of early-stage initiatives, so there is some inherent uncertainty on the scale of efficiency that may be realised in future. Nichols concluded that there is an opportunity for Network Rail regions to apply greater effort on these less mature plans now, early in CP7, in order to meet or even outperform targets, drive implementation of business changes that enable and unlock efficiency benefits, de-risk delivery and to mitigate the effect of potential future financial headwinds.

2.44 One recommendation Nichols made is that there could be a greater consistency in the approach to the application of over-planning and use of overlays (to take the forecast back to target), supported by suitable analytical techniques. They highlighted that the application of overlays and unidentified items may be obscuring the view of real forecasts. Nichols noted that some overlays are planned to be released at Network Rail's delivery plan re-forecasts, RF6 (September 2024) and RF9 (December 2024), with further assurance and therefore more stability in the forecast expected to follow.

2.45 Nichols also recommended that Network Rail addresses the lower level of regional confidence in central efficiency plans (for example Route Services Directorate enabled initiatives) that are then handed over to and delivered by the regions.

2.46 Further details on Network Rail's CP7 efficiency planning can be found in the report, which we will publish soon.

Research and development expenditure

2.47 Our PR18 determination included £245 million of funding for Network Rail to spend on research and development (R&D) activities in CP6. Cumulatively, the company has spent £238 million in CP6 delivering £208 million of efficiency improvements to date. The underspend of 3% against the PR18 determination figure was primarily driven by a small number of projects not delivering as intended over the length of the control period. These projects were as a result removed by Network Rail as part of good governance practice of the R&D fund to ensure investments continue to generate a benefit.

2.48 Over 100 projects have started since the beginning of CP6, with 15 deploying on the network to date, generating approximately £208 million of efficiency savings. While this shows early signs of the programme's success, its long-term effectiveness will depend on continued engagement with routes and regions to ensure the potential benefits of projects are recognised, ultimately leading to their deployment in those routes.

Projects include:

(a) Plain line pattern recognition deep learning

Plain line pattern recognition (PLPR) has delivered vast improvements to visual inspection of plain line track. However, nearly half of the 130,000 periodic incidents turn out to be false positives, such as debris. This project developed and deployed a new algorithm to improve the detection of actual incidents, increasing the efficiency of the inspection.

(b) Cast crossing developments

Failures of cast crossings cause disruption and are costly. However, their design has not changed in decades. This project developed a new set of cast crossings based on an improved understanding of rail/wheel connected forces as well as increasing the strength in the castings to withstand increasing pressure from passing trains.

(c) Flow Bridge

New style of footbridge using fibre-reinforced polymer, known as FLOW, was developed and implemented after calls to improve safety at level crossings and the need to find alternatives to standard, heavy steel footbridges. These bridges have an in built monitoring system to record how they perform and are used for more efficient maintenance and future improvements to design.

2.49 Third party funding is used to support the R&D programme alongside the direct funding of £245 million set at PR18. Network Rail secured an additional £109 million of third party funding over the control period, 3% less than the CP6 target of £112 million. Whilst the use of third party funding can generate cost savings, these are not recorded as part of routes' and regions' efficiency savings.

2.50 Whereas there was a greater focus on a long term return period in CP6, for CP7, Network Rail has stated that it will be putting more emphasis on returns in the control period, which we support. Network Rail's delivery plan for CP7 includes a forecast of £143 million of R&D expenditure.

2.51 Network Rail has stated it will focus on developing a structured partnership with other domestic organisations to solve innovation challenges in an effort to seek greater efficiencies. This partnership approach should help to secure additional third party funding. It is important for Network Rail to take advantage of these types of opportunities, but the company must ensure that it prioritises project rollout throughout its regions.

Performance Innovation Fund

2.52 At PR19, we established a £40 million Performance Innovation Fund (PIF) for CP6 (in 2018 prices) designed to support innovative ways to drive performance improvements. Investments through the scheme were slow in the early years of the control period. Network Rail implemented a recovery plan to address our concerns. This plan delivered targeted interventions which increased the rate of investment made.

2.53 Throughout the remaining years of the control period, investment increased with a total of £39 million invested by the end of CP6. North West and Central made the largest regional investment of £10.5 million. The other four regions' combined total investment was £17.6 million with the remainder invested by Network Rail's national functions.

2.54 For CP7, Network Rail has a Performance Improvement and Innovation Fund (PIIF) worth £40 million (2023-24 price) which we set out in our PR23 determination. Given the importance of addressing train performance issues in CP7, we would expect the CP7 PIF to be fully utilised. We will monitor Network Rail's delivery of this through CP7.

Risk funding

2.55 Network Rail received £3.0 billion of risk funding (cash prices) in CP6. Going into year 5 of CP6, Network Rail had no unallocated risk funding available to manage unforeseen risks. Network Rail had used up its CP6 risk funding in the first four years of the control period to manage risks associated with the COVID-19 pandemic, industrial action, severe weather conditions and inflationary pressures.

2.56 In April 2023 to March 2024, Network Rail managed its risk by reprioritising workbanks and reducing the scope of its renewals to manage increasing costs. Throughout the year we worked with Network Rail in monitoring its reprioritisation of workbanks, how the company minimised any safety concerns and how it managed the implications on asset efficiency and sustainability.

2.57 The challenges in CP6 and the new governance arrangements in place for the use of its risk fund in CP7, highlight the importance of allocating funding appropriately to efficiently manage unforeseen financial risks over a five-year control period. Our PR23 final determination set out that Network Rail should set aside £1.7 billion (2023-24 prices) of risk funding (£1.5 billion for England and Wales and £0.2 billion for Scotland). We are aware of mounting pressures on CP7 funding so will continue to monitor Network Rail's use of risk funding throughout CP7.

Budget flexibility

2.58 Network Rail is classified as an arm's length public sector body which means that it is subject to the Government's resource (operating) and capital departmental expenditure limits ('RDEL' and 'CDEL'). These expenditure limits restrict Network Rail's ability to spend money in different years of a control period than initially agreed. The expenditure limits also restrict switching of expenditure between resource and capital expenditure. The budget flexibility rules for CP6 are quite complicated and were explained in our PR18 financial framework document.

2.59 Network Rail was not able to roll over any capital budgets into the next financial year. This is because there was no underspend on capital expenditure.

2.60 Oversight of the flexibility of grant payments within Scotland falls within the remit of Transport Scotland (TS) and the Scottish Government's budget flexibility process. We cover this in Chapter 3 of this report.

Regulatory finances

2.61 Network Rail's regulatory asset base (RAB) increased by £3.1 billion to £87.6 billion in the year April 2023 to March 2024. The increase was due to indexation plus renewals added to the RAB offset by the amortisation of existing assets and a £162 million deduction for property sales.

2.62 Network Rail no longer issues debt to fund its capital expenditure. However, it continues to hold legacy debt (£58.2 billion), including financial instruments issued to investors before the company's reclassification to the public sector. Network Rail's current gearing (net debt over RAB) is at 68%.

3. Network Rail Scotland's performance

Financial performance

3.1 As explained in Chapter 1, the financial performance measure (FPM) for Network Rail compares its income and expenditure to the CP6 delivery plan (set in 2019). If a region has spent less or has received more income than the baseline for what it has delivered, it will report financial outperformance, and vice versa. Our CP6 regulatory accounting guidelines explain further how FPM is calculated.

3.2 As shown in Table 3.1, Network Rail Scotland financially underperformed by £482 million over CP6 as a whole and by £129 million between April 2023 to March 2024.

Table 3.1: Network Rail Scotland's financial performance

£ million (cash prices)	2023-24			CP6		
	Actual	FPM out / (under) performance	% of FPM contribution	Actual	FPM out / (under) performance	% of FPM contribution
Grant income	596	0	0%	2,945	0	0%
Franchised track access charges	519	2	1%	2,085	(32)	(7%)
Other income	62	3	3%	222	(19)	(4%)
Total income	**1,176**	**5**	**4%**	**5,251**	**(51)**	**(11%)**
Schedule 4	16	17	13%	157	(68)	(14%)
Schedule 8	19	(18)	(14%)	63	(40)	(8%)
Network operations	75	(21)	(16%)	318	(53)	(11%)
Support costs	126	(38)	(29%)	507	(70)	(15%)
Traction electricity, industry costs and rates	106	(0)	(0%)	408	(0)	(0%)
Maintenance	216	(49)	(38%)	941	(125)	(26%)
Total operating expenditure	**557**	**(111)**	**(86%)**	**2,393**	**(358)**	**(74%)**
Renewals	466	(22)	(17%)	2,182	(70)	(15%)
Enhancements	152	(1)	(1%)	856	(3)	(1%)
Total capital expenditure	**618**	**(23)**	**(18%)**	**3,038**	**(73)**	**(15%)**
Financing costs and other	262	0	0%	1,340	0	0%
Other expenditure	**262**	**0**	**0%**	**1,340**	**0**	**0%**
Total expenditure	**1,437**	**(134)**	**(104%)**	**6,771**	**(431)**	**(89%)**
Financial performance measure		**(129)**			**(482)**	

Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding.

Expenditure

3.3 Network Rail Scotland spent £6.8 billion over CP6 as a whole, spending £1.4 billion in the final year of CP6. We note the significant impact that inflation has had on expenditure over the control period.

Schedules 4 and 8

3.4 Approximately 3% of Network Rail Scotland's expenditure in CP6 was spent on Schedules 4 and 8.

3.5 Under the Schedule 4 mechanism, Network Rail must compensate train operators for planned possessions and cancellations.

- Over CP6 as a whole, Schedule 4 costs in Scotland were £157 million, £66 million higher than the 2019 delivery plan, with £68 million of financial underperformance recognised. This was largely driven by underperformance in April 2022 to March 2023, due to industrial action.

- Between April 2023 and March 2024, Schedule 4 costs in Scotland were £16 million, £15 million lower than the delivery plan, with £17 million of outperformance recognised. This was partially as a result of the region planning work early, but also due to favourable settlements of commercial claims from 2019 to 2020. This has helped to make up for some of the underperformance seen in 2022 to 2023 when industrial action disrupted network availability.

3.6 The Schedule 8 mechanism provides a basis for compensation to train operators for the impact of lateness and cancellations on their income.

- Over CP6 as a whole, £63 million has been spent on Schedule 8 payments, £40 million higher than planned, with an underperformance of £40 million recognised. Increasingly volatile weather and asset failures have led to higher than anticipated compensation paid to operators.

- Schedule 8 costs in Scotland were £19 million in April 2023 to March 2024, an improvement on the prior year as a result of improved train performance. However, this was still £18 million higher than planned, with £18 million of financial underperformance recognised, largely due to disruptive weather affecting the ability to run trains to timetable.

Network operations costs

3.7 Approximately 5% of Network Rail Scotland's expenditure in CP6 was spent on operations costs. Operations costs are mostly associated with the management of signalling, stations and other customer-facing services.

- Over CP6 as a whole, Network Rail Scotland spent £318 million on network operations, £55 million higher than the delivery plan, with £53 million of financial underperformance recognised. Higher costs are attributed to the COVID-19 pandemic, inflationary pressures, additional recruitment to reduce overtime and address an aging workforce, and compliance with fatigue management standards. Additionally, increased investment has been made to enhance services, performance, and resilience for the public.

- For the period from April 2023 to March 2024, Network Rail Scotland spent £75 million on network operations, £21 million higher than the delivery plan, with £21 million of financial underperformance recognised.

Support costs

3.8 Approximately 7% of Network Rail Scotland's expenditure in CP6 was on support costs. Support costs refer to auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

- Over CP6 as a whole, support costs were £507 million in Scotland, £89 million higher than the delivery plan, with £70 million of financial underperformance recognised.

- For the period from April 2023 to March 2024, support costs were £126 million in Scotland, £37 million higher than the delivery plan, with £38 million of financial underperformance recognised.

3.9 Network Rail Scotland incurred additional expenses to build local HR and finance capabilities. This reflects Network Rail's 'Putting Passengers First' (PPF) strategy of devolving decision making to regions, closer to railway users. Additional costs also included COVID-19 related expenditure, inflationary pressures, legal and compensation costs for events such as the Stonehaven derailment, utility costs and redundancy expenses.

3.10 Despite these additional expenses, Network Rail Scotland achieved some savings from pay restraint, lower performance-related pay, lower consultancy expenses, decreased travel expenses and insurance savings.

Traction electricity, industry costs and rates

3.11 Approximately 6% of Network Rail Scotland's expenditure in CP6 was on traction electricity, industry costs and rates, British Transport Police costs, ORR fees, the railway safety levy, Rail Delivery Group membership and independent reporters' fees.

- Over CP6 as a whole, Network Rail Scotland incurred costs totalling £408 million for this category, which is £28 million lower than the delivery plan.

This was mainly due to pre-purchasing energy at lower prices and reduced train services during the pandemic. Business rates were also lower than expected.

- For April 2023 to March 2024, Network Rail Scotland incurred costs of £106 million, £5 million higher than anticipated. This was largely due to rising electricity prices, as the pre-purchase protections were no longer in effect.

3.12 Network Rail has limited control over these costs, which are influenced by government and market forces. As such, these categories do not impact FPM.

Maintenance

3.13 Approximately 14% of Network Rail Scotland's expenditure in CP6 was on maintaining the existing infrastructure in appropriate condition.

- Over CP6 as a whole, Network Rail Scotland spent £941 million on maintenance, £112 million more than its delivery plan. Scotland has attributed its £125 million underperformance to expenses responding to the COVID-19 pandemic, but also to additional investment in performance improvement schemes, track worker safety and the PPF reorganisation. There have also been increased Civil Examination Framework Agreement (CEFA) costs, and additional teams and resource required to maintain the newly electrified parts of the network in Scotland.

- For the period from April 2023 to March 2024, Network Rail Scotland spent £216 million on maintenance, £47 million more than its delivery plan, with £49 million of underperformance recorded. Budgetary pressures, chiefly caused by higher than expected inflation, necessitated a strategy away from renewals to more maintenance of existing assets. Costs also exceeded forecasts due to inflation, volatility in material prices and material availability.

Renewals

3.14 Approximately 32% of Network Rail Scotland's expenditure in CP6 was on renewing infrastructure.

- Over CP6 as a whole, Network Rail Scotland spent £2,182 million on renewals. This is £75 million lower than its delivery plan. Due to the pandemic, industrial action, inflation, poor train performance and weather resilience concerns, Network Rail has had to reprioritise its funding elsewhere. This led to a reduction in renewals expenditure. Note that the financial performance measure includes adjustments based on the volumes of work completed and therefore underspending does not necessarily indicate outperformance. In fact, £70 million of financial underperformance has been recorded over the control period.

Renewals financial underperformance largely relates to inflationary pressures on contractor and material prices. Additional factors include the loss of economies of scale from reduced workbanks, design issues and unforeseen compensation to gain site access. Underperformance is also linked to high output plant failure, productivity losses due to industrial action and higher costs associated with the increased focus upon track worker safety, electrification, earthworks and drainage.

- For the period from April 2023 to March 2024, Network Rail Scotland spent £466 million on renewals. This is £48 million higher than its delivery plan for the year, which offsets some of the underspends in earlier years of CP6. The region has managed risks elsewhere in the business this year, allowing more funds to be invested in renewals. Nevertheless, over the year, £22 million of financial underperformance has been recognised.

Enhancements

3.15 Approximately 13% of Network Rail Scotland's expenditure in CP6 was spent on enhancement projects delivering new infrastructure capabilities. The majority of enhancements are funded by the government, however there are some schemes that are funded by other third parties.

- Over CP6 as a whole, Network Rail Scotland spent £856 million on government funded enhancements[1]. The £3 million of financial underperformance recorded, largely relates to electrification programmes and associated compensation settlements.

- Enhancement expenditure in the year, paid for by Transport Scotland, was £152 million, broadly in line with its delivery plan, with £1 million of financial underperformance recognised.

3.16 Third party funded enhancement expenditure for CP6 as a whole was £33 million, of which £18 million related to April 2023 to March 2024. The 2019 delivery plan

[1] This amount includes £13 million for capital portfolio-level commercial claims provisions held at a Network Rail level and includes contributions from the Active Travel Fund and roads funding for A9 projects. These enhancements are often excluded from Transport Scotland funded enhancements reporting because they are not considered core rail funding.

included no baseline for enhancements funded by third parties so we cannot report on the financial performance for third-party funded enhancements.

Risk Funding

3.17 In the 2019 delivery plan, £306 million of ring-fenced risk funding was set aside for unplanned costs. This was insufficient to manage the £545 million of unplanned costs Network Rail Scotland eventually faced over CP6 as a whole. These include but are not limited to the COVID-19 pandemic, weather events, performance related issues, industrial action and rising inflation.

3.18 As a result, Network Rail Scotland has had to find other means with which to cover these unplanned costs. Earlier in the control period, the company decided to defer £83 million of planned renewals to improve its ability to manage financial risks in the final two years of CP6. Scotland's risk fund has also been topped up through workforce reform and modernisation efficiencies.

3.19 Network Rail, Transport Scotland and ORR will continue to work closely over the next control period to ensure that risk funding is used in a transparent way and consistent with our CP7 guidance and annex A of our PR23 Final determination, in order to ensure value for money. This is especially important given the limited risk funding available for CP7, with only £225 million (2023-24 prices) or £234 million (cash prices) set aside in our final determination for CP7, significantly less than in CP6. As such, Network Rail Scotland will need to enhance its risk management over the next five years and may need to deliver additional efficiencies to address financial pressures if the risk fund proves insufficient.

Allocation of centrally managed costs to Scotland

3.20 During CP6 a number of central costs were devolved to Scotland, including Traction Power, Rates, Telecoms, On Track Plant and Property. Nevertheless, some costs incurred by Network Rail's National Functions teams remain and these are re-charged to regions in proportion to their use of services provided by these functions and in accordance with the ORR's CP6 regulatory accounting guidelines.

- In CP6, £1,969 million was recharged to Scotland (of which £1,340 million related to financing costs and includes index-linked debt, which is where the amount borrowed changes in line with inflation and is paid to debtholders at the end of a loan period). Overall, allocations of centrally managed costs are around 8% less than forecast in Network Rail Scotland's original CP6 delivery plan. This is despite £224 million higher than expected financing costs.

- For the period from April 2023 to March 2024, £408 million was recharged to Scotland (of which £262 million related to financing costs). In this year, allocations of centrally managed costs are around 19% less than forecast in Network Rail Scotland’s original CP6 delivery plan. This is despite £41 million higher than expected financing costs.

3.21 These savings were possible due to savings across a number of central functions, namely as a result of economies of scale and through GB wide initiatives benefiting renewals costs in particular. Key contributors include workforce reform, decreased insurance expenses, advancements in technology and innovation, and research, development, and innovation (RD&I), especially in areas such as weather resilience, track, signalling, and overhead line equipment. Additional areas of savings include Route Services, earthworks remote monitoring, and telecommunications for CCTV.

Table 3.2: Allocation of centrally managed income and expenditure to Scotland

£ million (cash prices)	2023-24 Actual	2023-24 Delivery plan	2023-24 Variance Better/ (Worse)	CP6 Actual	CP6 Delivery plan	CP6 Variance Better/ (Worse)
Infrastructure cost charges	15	13	1	65	62	2
Schedule 4 access charge supplement	7	6	1	18	17	1
Traction electricity, industry costs and rates	0	0	0	64	80	(16)
Freight traction electricity charges	0	0	0	1	1	0
Property rental	1	3	(2)	21	31	(10)
Property sales	1	3	(2)	3	9	(6)
Total income (excluding grants)	**24**	**26**	**(2)**	**172**	**201**	**(29)**
Schedule 4	0	2	2	1	11	9
Schedule 8	0	0	0	(8)	2	10
Network operations	2	2	0	10	10	0
Support costs	80	68	(12)	327	317	(11)
Traction electricity, industry costs and rates	5	4	(1)	152	165	13
Maintenance	8	7	(1)	40	37	(3)
Renewals	74	116	42	265	333	68
Enhancements	0	0	0	13	0	(13)
Risk expenditure (route controlled)	0	108	108	0	306	306
Risk expenditure (centrally held)	0	(10)	(10)	0	9	9
Financing costs	262	222	(41)	1,340	1,116	(224)
Taxation	0	9	9	0	27	27
Total expenditure	**432**	**528**	**96**	**2,141**	**2,334**	**193**
Net expenditure	**408**	**502**	**94**	**1,969**	**2,133**	**163**
excluding financing, taxation and risk expenditure	*146*	*163*	*17*	*629*	*684*	*55*

Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding.

3.22 The saving compared to the delivery plan assumptions in Scotland were smaller than the overall GB position (16% lower than planned in GB vs 8% lower in Scotland over CP6 as a whole). This was largely a result of property disposals in England & Wales as well as an increase in relative headcount in Scotland compared to the other regions, which is one of the main drivers referred to when allocating central costs.

Income

3.23 Network Rail Scotland received £5.3 billion of income over CP6 as a whole and £1.2 billion in April 2023 to March 2024 (excluding enhancement grants).

Network grant funding

3.24 The main source of income for Network Rail Scotland is through network grant funding from the Scottish Government. This funding is for operating, maintaining, supporting and renewing the railway infrastructure.

- Network Rail Scotland received £2,245 million in network grant funding over CP6 as a whole. This is in line with the amount agreed in the 2019 Grant Funding Letter and matches our expectations as set out within our published 2018 Final Determination.

- Network Rail Scotland received £441 million in network grant funding in April 2023 to March 2024. This differs to the 2019 Grant funding letter due to the phasing of funding across years of the control period. Oversight of the flexibility and phasing of grant payments within Scotland falls within the remit of Transport Scotland and the Scottish Government's budget flexibility process.

3.25 Grants are deemed uncontrollable by Network Rail and are therefore considered neutral when assessing financial performance.

Other grant funding in Scotland

3.26 There are separate grant income arrangements with DfT to pay for Network Rail Scotland's share of financing costs, British Transport Police and corporation tax.

- Over CP6 as a whole, Network Rail Scotland received £699 million of other grant funding, £108 million less than set out in the delivery plan for the control period. This is largely because of changes in legislation and in forecasts compared to the start of the control period. This has meant that the tax payable in the control period is lower than planned, which results in reduced revenue grants required from DfT.

- For the period from April 2023 to March 2024, Network Rail Scotland received £155 million for these, £12 million less than set out in the delivery plan for the year. Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently there was a reduction in the revenue recognised from DfT to pay this tax in 2023 to 2024.

Franchised track access charges

3.27 Franchised track access charges are paid by franchised train operating companies that run on Network Rail's infrastructure.

- Across the control period as a whole, track access income was £2,085 million, £23 million lower than planned, with £32 million of financial underperformance recognised. This is a result of there being lower variable income than planned, as fewer trains have run, particularly during the COVID-19 pandemic but also following changes in travel habits and as a result of industrial action.

- Between April 2023 to March 2024, track access charges income was £519 million, £41 million higher than planned, with £2 million of outperformance, offsetting some of the underperformances seen in earlier years of CP6. This comes as the industry begins to recover from the pandemic and industrial action but also as higher-than-expected inflation has led to additional amounts payable by operators under track access contracts (which are uplifted for inflation).

3.28 In line with our CP6 regulatory accounting guidelines, some variances in this category (including fixed infrastructure cost charges and traction electricity income) are considered neutral when assessing financial performance.

Other income

3.29 Other income includes freight and stations income, property rental and sales income, depots income and freight traction electricity income.

- Across the control period as a whole, Network Rail Scotland received £222 million of other income, £14 million less than planned, with £19 million of financial underperformance recognised. Property rental income is significantly lower than planned due to the COVID-19 pandemic and industrial action's impact on passenger numbers and footfall.

- Between April 2023 to March 2024, Network Rail Scotland received £62 million of other income, £9 million more than planned, with £3 million of financial outperformance recognised. Depots income is higher than assumed, due to additional services offered to operators. This increase has helped offset lower-than-expected income from property and stations, as passenger numbers, though improved from the previous year, remain below pre-pandemic levels.

Enhancement grant funding

3.30 Aside from the network grant, Network Rail Scotland also receives enhancement grant funding (although this is not included under 'income' in Table 3.1). Enhancement funding supports projects that deliver new infrastructure capabilities and is considered more discretionary compared to essential maintenance and renewals, which ensure long term performance and safety and are covered by the network grant funding.

- Network Rail Scotland spent £856 million on enhancements to its network in CP6. This was funded by grants from the Scottish Government. The funding received by Network Rail Scotland was lower than the £1,114 million of cash funding set out in the Scottish Government's 2019 Grant Funding Letter. The changes to the funding of enhancements were made through a formal change control process, overseen by Transport Scotland.

- Network Rail Scotland spent £152 million on enhancements in April 2023 to March 2024. This was funded by grants from the Scottish Government.

3.31 In addition to grant funding, Network Rail also spent £33 million on enhancements funded by other third parties, of which £18 million related to April 2023 to March 2024. This included upgrading the Ravenscraig line crossing to improve connectivity in the area.

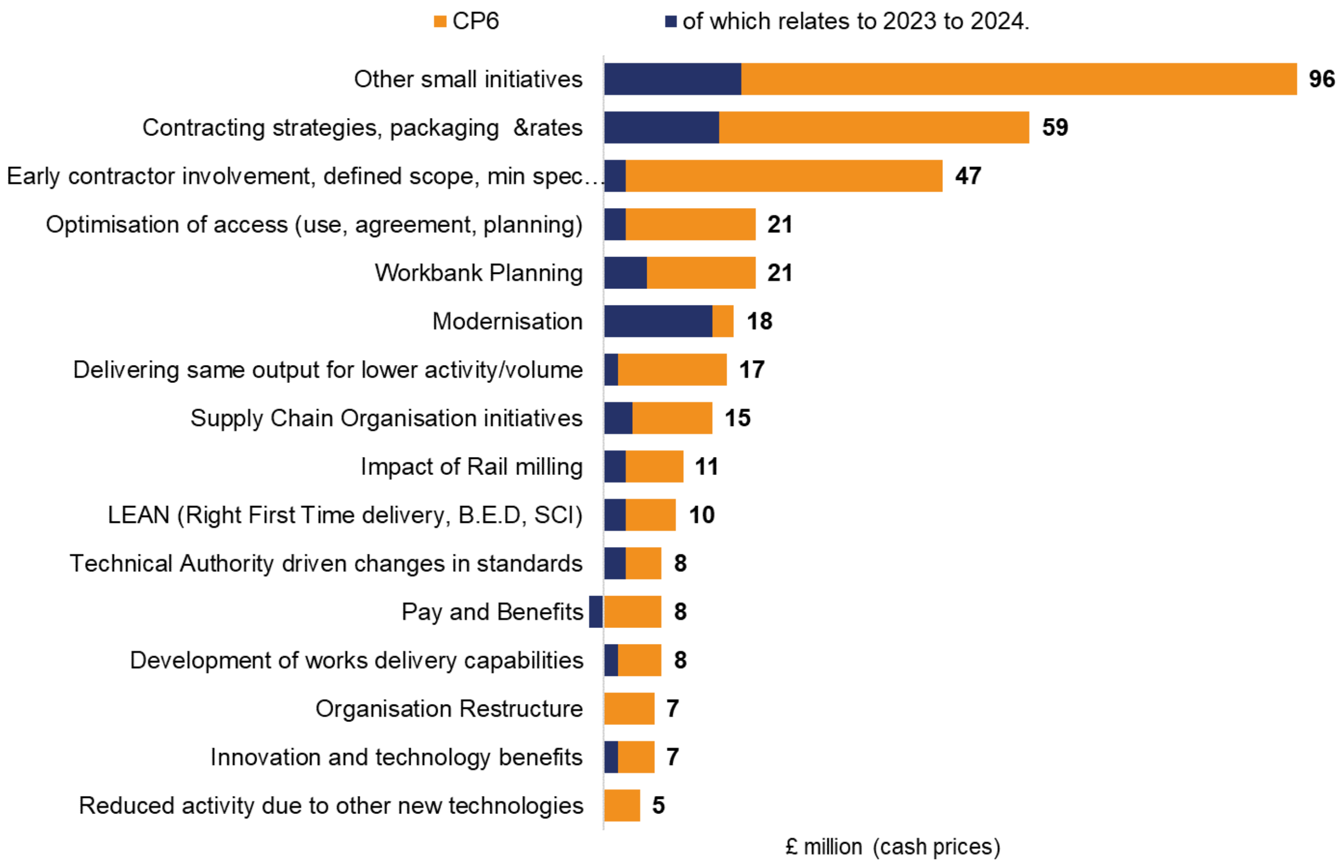
Efficiencies

3.32 Efficiencies are the result of a positive action or initiative which has reduced the cost of delivery since the prior control period exit or has reduced the amount of work required to achieve the same outcome.

- Over CP6 as a whole, Network Rail Scotland reported £356 million of efficiency improvements, exceeding its 2023 delivery plan CP6 target of £349 million for the control period by around 2%. The largest initiatives over CP6 included contracting packaging and rates (£59 million), early contractor involvement, defined scope and minimum specification solution (£47 million), optimisation of access (£21 million) and workbank planning (£21 million).

- Between April 2023 and March 2024, Network Rail Scotland reported £79 million of efficiency improvements, exceeding its 2023 delivery plan target of £72 million for the year by around 10%. The largest three initiatives within the year included improved contracting strategies, packaging and rates (£16 million), modernisation (£15 million) and workbank planning (£6 million).

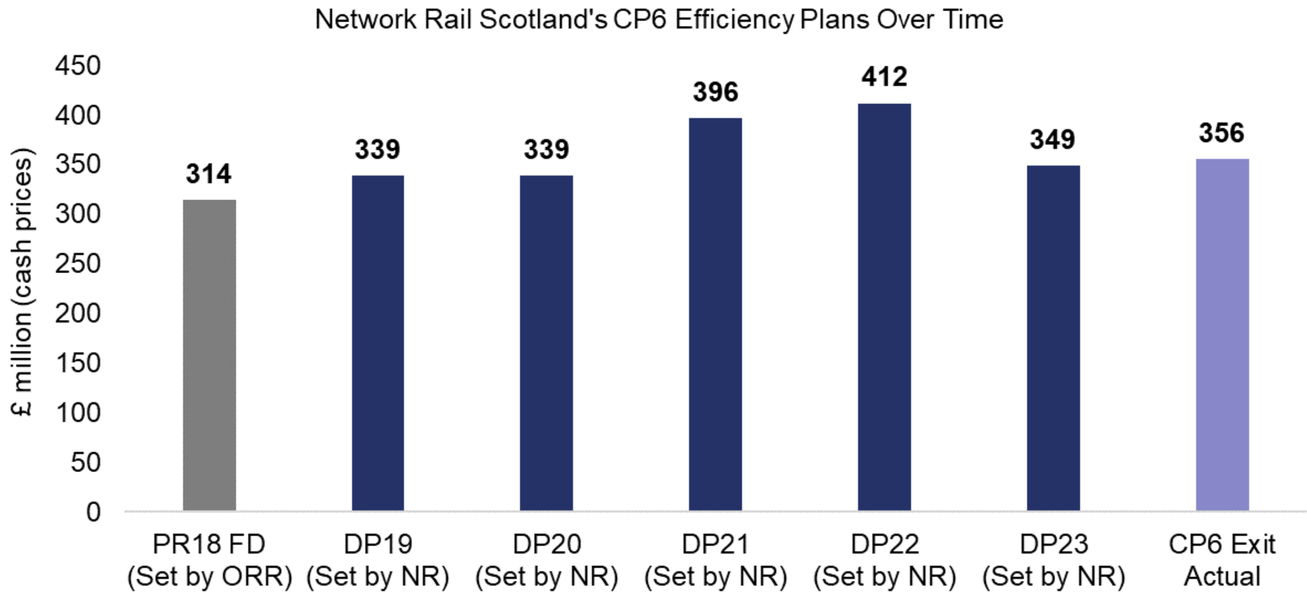
Figure 3.1: Network Rail Scotland's main efficiency initiatives in CP6



Source: ORR analysis of Network Rail's data

3.33 Network Rail Scotland's efficiency delivery plans have undergone significant changes in CP6. Figure 3.2 shows that Network Rail Scotland's 2023 delivery plan target for CP6 as a whole was less ambitious than in the two previous years. This was largely due to a deferral of planned renewals (due to high schedule 4 and 8 costs and the adverse impacts of the pandemic) and delays to the implementation of workforce reform initiatives.

Figure 3.2: Changes to Network Rail Scotland's efficiency plans for CP6



Source: ORR analysis of Network Rail's data

3.34 Whilst Network Rail Scotland has generally made good progress at improving its efficiency in CP6, it has underperformed on FPM. As explained in chapter 1 and in Annex B, this potentially counterintuitive result can be explained by structural differences between the two measures:

a. Efficiency is compared to the final year of the previous control period, while FPM is measured against a delivery plan baseline (DP19).

b. DP19 accounts for all expected efficiencies, so, all other things being equal, if the anticipated efficiency is achieved, the FPM would be zero.

c. FPM covers income and expenditure, whereas efficiency focuses on operations, support, maintenance, and renewals expenditure only. The efficiency measure excludes income and enhancements expenditure.

d. Certain cost drivers, such as the pandemic, inflation, and industrial action, are beyond Network Rail's control. These can negatively impact FPM but do not fall within the scope of efficiency reporting as these are separated out.

Headwinds, tailwinds, scope changes and input prices

3.35 Figure 3.3 demonstrates the other drivers impacting Network Rail Scotland's costs aside from efficiencies.

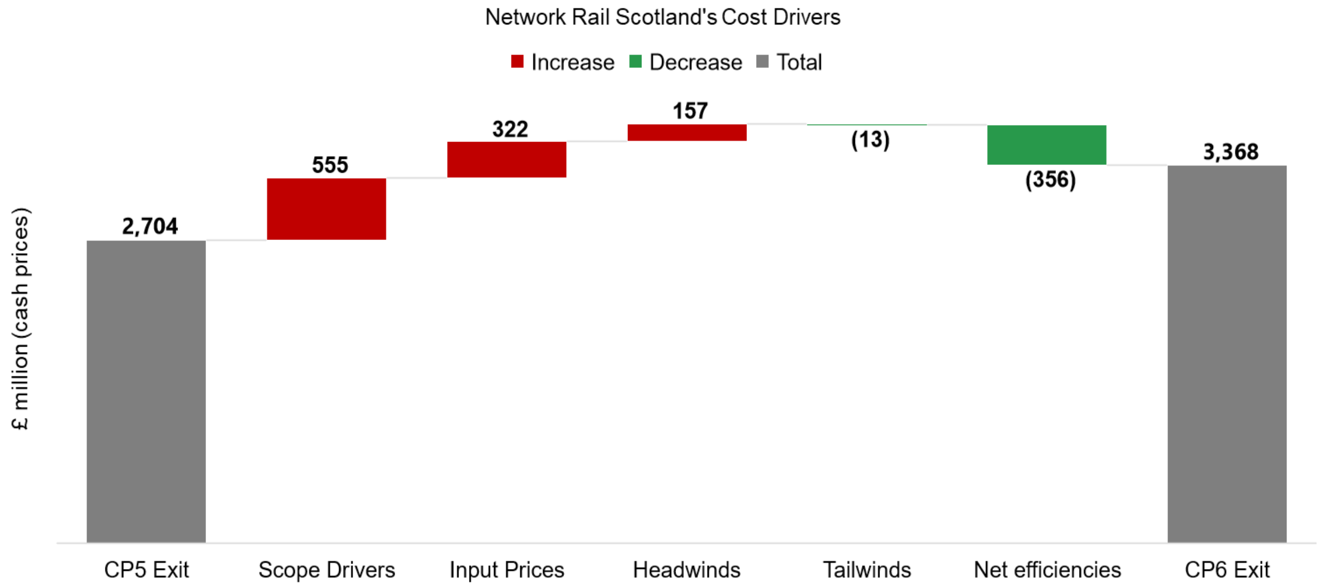
a. Scope drivers refer to one-off events or changes to standards, legislation and scope since the CP5 exit;

b. Inflation and Input prices refer to impacts of inflation and market pressures on costs;

c. Headwinds encompass other cost drivers which increase the cost of delivery, which are beyond Network Rail's immediate control; and

d. Tailwinds refer to cost drivers which decrease the cost of delivery, which are beyond Network Rail's immediate control.

Figure 3.3: Network Rail Scotland's cost drivers over CP6 (cash prices)[2]



Source: ORR analysis of Network Rail's data

Robustness of CP7 efficiency plans

3.36 Network Rail has targeted almost £3.7 billion (2023-24 prices) of efficiencies for Control Period 7 (CP7, 1 April 2024 to 31 March 2029), £410 million (including allocation of centrally delivered efficiencies) of which is to be achieved by Network Rail Scotland.

[2] Note that this is for regional OSMR (operations, support, maintenance and renewals) efficiencies only and does not include all central efficiency allocations. Input prices in this chart include the £285 million impact of general inflation and a £36.5 million impact of market pressures.

3.37 As explained in Chapter 2, we have commissioned Nichols Group to undertake an independent assessment of Network Rail's preparedness to deliver its efficiency plans in the first two years of CP7.

3.38 The review considered a sample of high value efficiency initiatives within Network Rail Scotland as well as initiatives developed centrally by Network Rail's Route Services Directorate and Technical Authority. The review entailed interviews across Network Rail's teams and consideration of relevant documentary evidence.

3.39 Nichols found that the overall framework for managing and reporting efficiencies is more mature than it was at the equivalent point in CP6 and there was a good articulation of knowledge sharing and lessons learnt from CP6.

3.40 It was found that almost 80% of the initiatives were already relatively mature in development terms. Two thirds had a 'high' level of confidence of delivery.

3.41 The July 2024 efficiency documentation demonstrates a clear alignment of efficiencies to Delivery Plans and to the ORR's Final Determination.

3.42 Nichols highlighted that calculations were provided for all initiatives sampled for Scotland. They were clear and sufficiently detailed and there was good evidence of robust, continuous assurance processes, with the use of challenge panels to address risks.

3.43 Nichols suggested that Network Rail Scotland could even exceed its target as it is prudently under-reporting its confidence levels for some initiatives, although Nichols agreed that the capex target for track renewals could be a challenge in Scotland.

3.44 Nichols highlighted that a key risk management tool applied is 'over-planning' the efficiency portfolio by aiming for greater efficiency than required to meet targets. The current scale of the over-plan indicates that Network Rail Scotland is in a good position to deliver its efficiency targets.

3.45 One recommendation Nichols made is that there could be a greater consistency in the approach to overplanning and use of overlays (to take the forecast back to target), supported by suitable analytical techniques. It highlighted that the application of overlays and unidentified items may be obscuring the view of real forecasts.

3.46 Nichols recommend that Network Rail addresses the lower level of regional confidence in central efficiency plans (for example Route Services Directorate enabled initiatives) that are then handed over to and delivered by the regions.

3.47 Nichols noted that further assurance and therefore more stability in the forecast is expected at Network Rail's Scotland re-forecast, RF6 (September 2024) and RF9

(December 2024), but that overall, the current regional efficiency forecast is deemed reasonable.

3.48 Further details on Network Rail Scotland's CP7 efficiency planning can be found in the report, which we will publish soon.

4. Regional performance

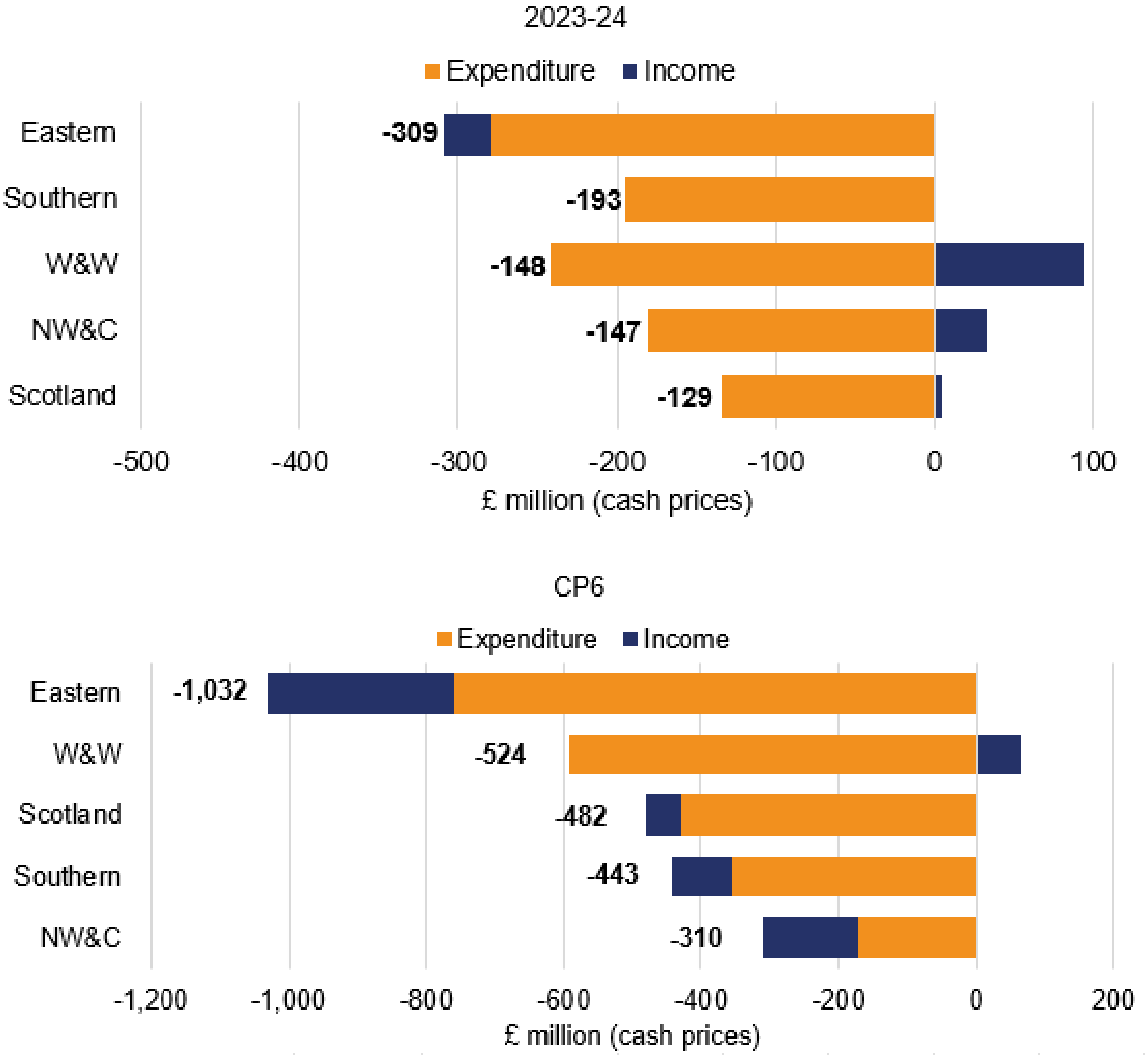
4.1 This chapter provides an analysis of the efficiencies and wider financial performance of each of Network Rail's five regions: Eastern, North West and Central (NW&C), Scotland[3], Southern, and Wales and Western (W&W). The financial information reported for each region includes its allocation of the national functions' income and costs. Caution is needed when comparing the relative performance of regions due to the differences in their geographical and operational characteristics.

Financial performance

4.2 As shown in Figure 4.1, all regions underperformed compared to their delivery plan for the year. Annex A provides detailed financial tables for each region.

[3] Chapter 3 provides a separate more detailed analysis for Scotland region. The region is also included in the analysis in this chapter to improve comparisons across regions.

Figure 4.1: Regional contributions to Network Rail's financial underperformance



Source: ORR analysis of Network Rail's data

Eastern

4.3 Eastern underperformed by £309 million in April 2023 to March 2024 compared to its delivery plan and by £1,032 million over CP6.

4.4 In April 2023 to March 2024, Eastern has attributed this underperformance to:

a) **Maintenance Costs (£172 million underperformance).** This was due to extra work being completed on vegetation management and inflationary pressures on materials prices.

b) **Support Costs (£38 million underperformance).** This was caused by higher electricity prices driving utilities costs and extra capabilities built-up through the 'Putting Passengers First' (PPF) re-organisation programme.

c) **Renewals (£35 million underperformance).** This was due to higher like for like capital project costs, income and maintenance expenditure being heavily affected by industrial action related delays and reprioritisations.

d) **Franchised track access charges (£33 million underperformance).** The underperformance is due to a combination of reduced services being run as a result of industrial action and lower traction electricity charges as market prices have not risen as quickly as the delivery plan assumed.

e) **Schedule 8 (£29 million underperformance).** Schedule 8 performance this year has suffered due to several factors. These included asset failures across the infrastructure and disruptive weather.

f) **Schedule 4 (£20 million underperformance).** This was due to higher possession activity which has been less productive than planned, higher number of disruptive events such as weather and storms and rise in inflation which has increased Schedule 4 compensation rates.

North West and Central

4.5 The region underperformed by £147 million in April 2023 to March 2024 compared to its delivery plan and by £310 million cumulatively over the five years of the control period.

4.6 In April 2023 to March 2024, North West and Central has attributed this underperformance to:

a) **Support costs (£56 million underperformance).** This was due to rising electricity prices, as pre-purchase protections were no longer in effect.

b) **Schedule 8 (£55 million underperformance).** Schedule 8 performance this year has suffered due to several factors including asset failures across the infrastructure and disruptive weather.

c) **Maintenance costs (£26 million underperformance).** Track was the highest area of maintenance spend caused by greater than anticipated inflation increases in materials and contractor costs.

d) **Network operations (£23 million underperformance).** This was due to the additional recruitment to improve workforce capabilities as part of a Network Rail company-wide strategy. Increased costs are also due to deploying extra staff at stations to offer a better service to the travelling public and incurring higher costs for running stations as inflation has risen faster than expected.

4.7 North West and Central suggests underperformance was partially offset by outperformance relating to:

a) **Other income (£27 million outperformance).** Additional other income due to better than planned property sales.

Southern

4.8 Southern underperformed by £193 million in April 2023 to March 2024 compared to its delivery plan and by £443 million cumulatively over the five years of the control period.

4.9 In April 2023 to March 2024, Southern has attributed this underperformance to:

a) **Maintenance costs (£135 million underperformance).** This underperformance was due to additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF, increased inspections and extra costs to comply with track worker safety standards.

b) **Renewals (£51 million underperformance).** This was due to increased investment being required to combat adverse performance related to earthworks and signalling renewals.

c) **Schedule 4 (£29 million underperformance).** This was mainly due to the impact of industrial action in April 2022 to March 2023.

d) **Other income (£13 million underperformance).** This underperformance was largely due to lower income from property rental as an ongoing effect from the COVID-19 pandemic.

4.10 Southern suggests underperformance was partially offset by outperformance relating to:

a) **Schedule 8 (£14 million outperformance)**. This outperformance is the highest of all the regions in the year. Despite industrial action and periods of extreme heat, which have affected most other regions, Southern remained resilient which has led to increased net compensation received from train operators within the year.

b) **Franchised track access charges (£14 million outperformance).** This is due to lower traction electricity income being offset by contractual inflation benefits on charges made to operators.

Wales and Western

4.11 The region underperformed by £148 million in April 2023 to March 2024 compared to its delivery plan and by £524 million cumulatively over CP6.

4.12 In April 2023 to March 2024, Wales and Western has attributed this underperformance to:

a) **Schedule 8 (£100 million underperformance).** This was due to the region not meeting its train performance targets as a result of industrial action, disruptive weather and a higher number of asset failures across the infrastructure, all contributing to poor performance.

Separately, we carried out an investigation into train performance in the region and published a report. Wales and Western has developed plans to improve performance which include more frequent inspections, replacing overhead electrical lines and using better data to understand where faults are. The benefits may require some time to be realised.

b) **Maintenance costs (£52 million underperformance).** This was due to extra work being undertaken to improve assets, addressing regional backlogs relating to signalling and telecoms and higher volumes of de-vegetation and track worker safety compliance.

c) **Schedule 4 (£42 million underperformance).** This was due to the industrial action that took place throughout the control period leading to more compensation payments being made to train operators.

d) **Network operations costs (£35 million underperformance).** This was due to higher costs to comply with changing fatigue management standards, costs associated with the new Elizabeth Line and increased staff to offer better signalling and operational resilience.

e) **Support costs (£27 million underperformance).** Mainly due to higher electricity prices driving utilities costs.

4.13 Underperformance at Wales and Western was partially offset by outperformance relating to:

a) **Other income (£90 million outperformance).** This is due to proceeds from additional property sales.

b) **Renewals** (**£26 million outperformance**). This was due to an increase in performance within its capital works delivery for the year.

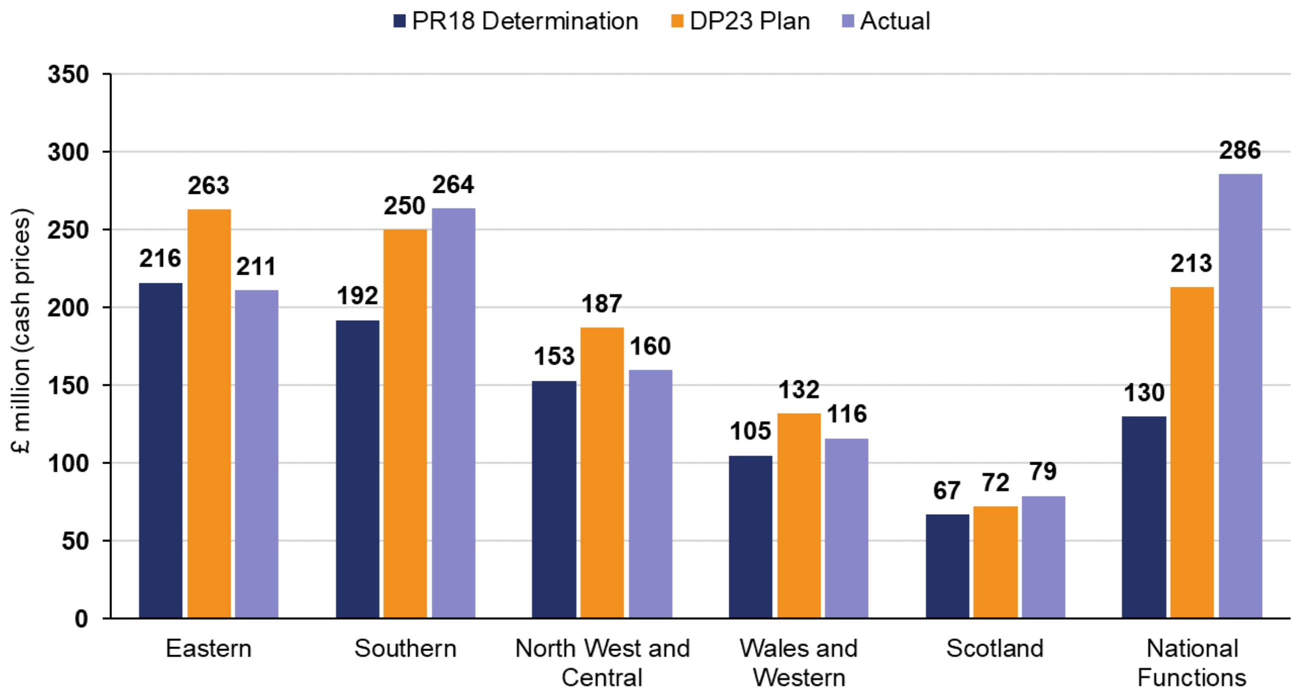
Scotland

4.14 Detailed information on Network Rail Scotland's financial performance can be found in chapter 3.

Efficiencies

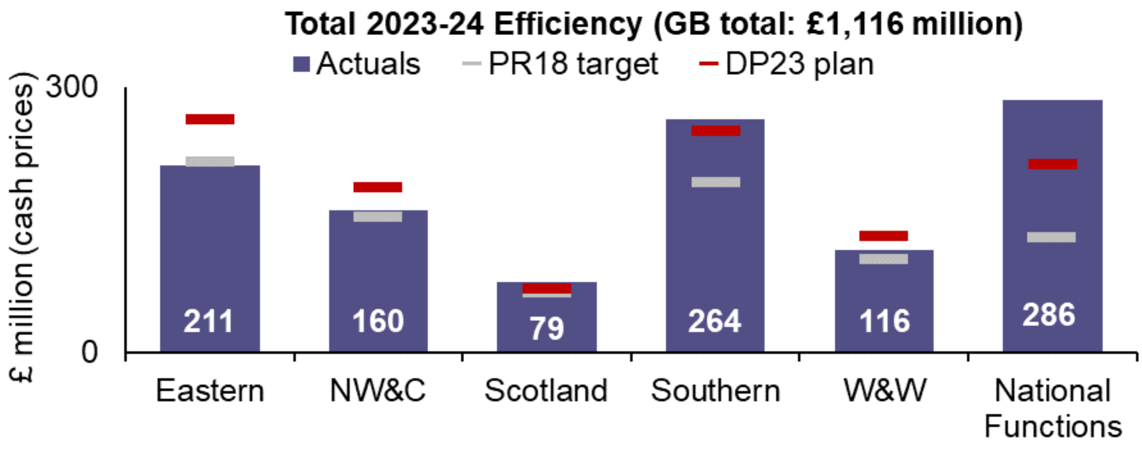
4.15 Figures 4.2 and 4.3 show that Southern, Scotland and National functions exceeded their delivery plan (DP23) efficiency targets in April 2023 to March 2024. All the other regions missed their DP23 plans for the financial year, with Eastern missing its plan by the largest amount (£52 million).

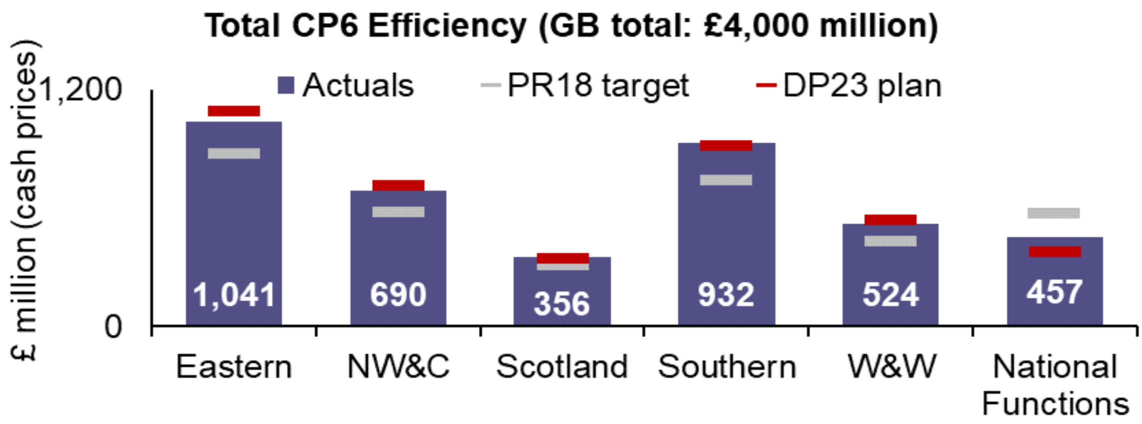
Figure 4.2: Regional contributions to efficiency improvements, April 2023 to March 2024



Source: ORR analysis of Network Rail's data

Figure 4.3: Regional contributions in April 2023 to March 2024 and CP6 efficiencies

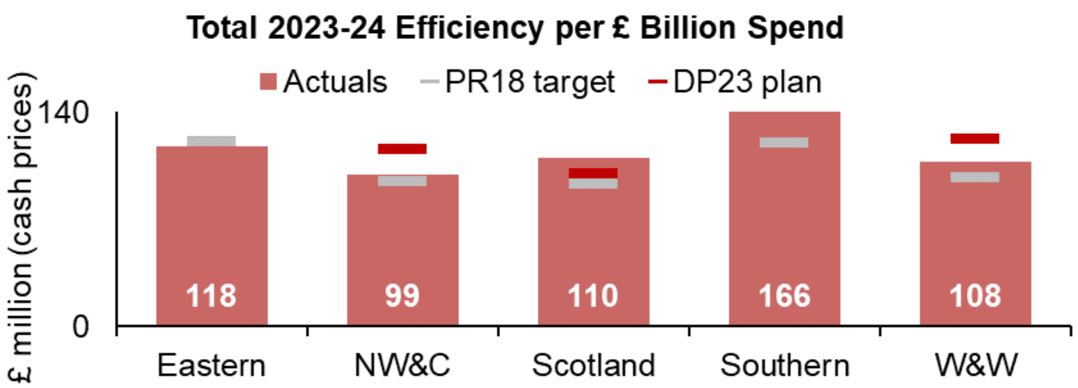


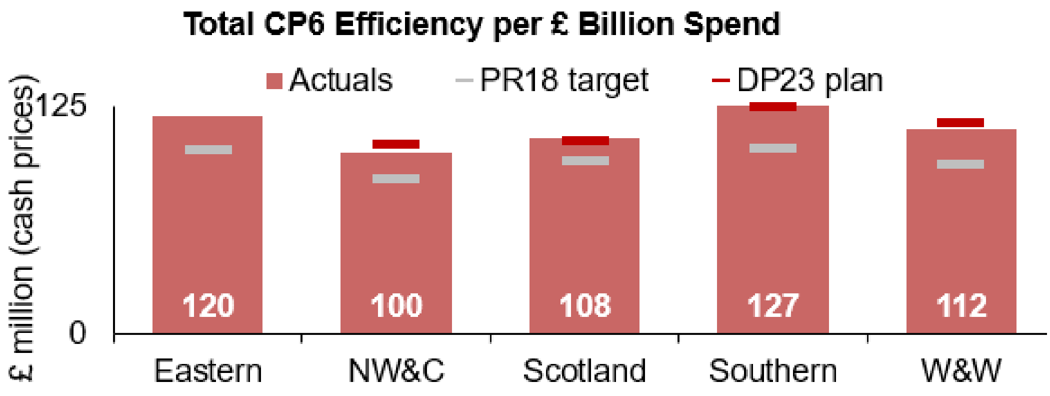


Source: ORR analysis of Network Rail's data

4.16 Figure 4.4, normalises the information in Figure 4.3 for relevant expenditure, reflecting the different sizes and operational characteristics of each region.

Figure 4.4: Regional efficiencies in April 2023 to March 2024 and CP6, normalised by OMR expenditure

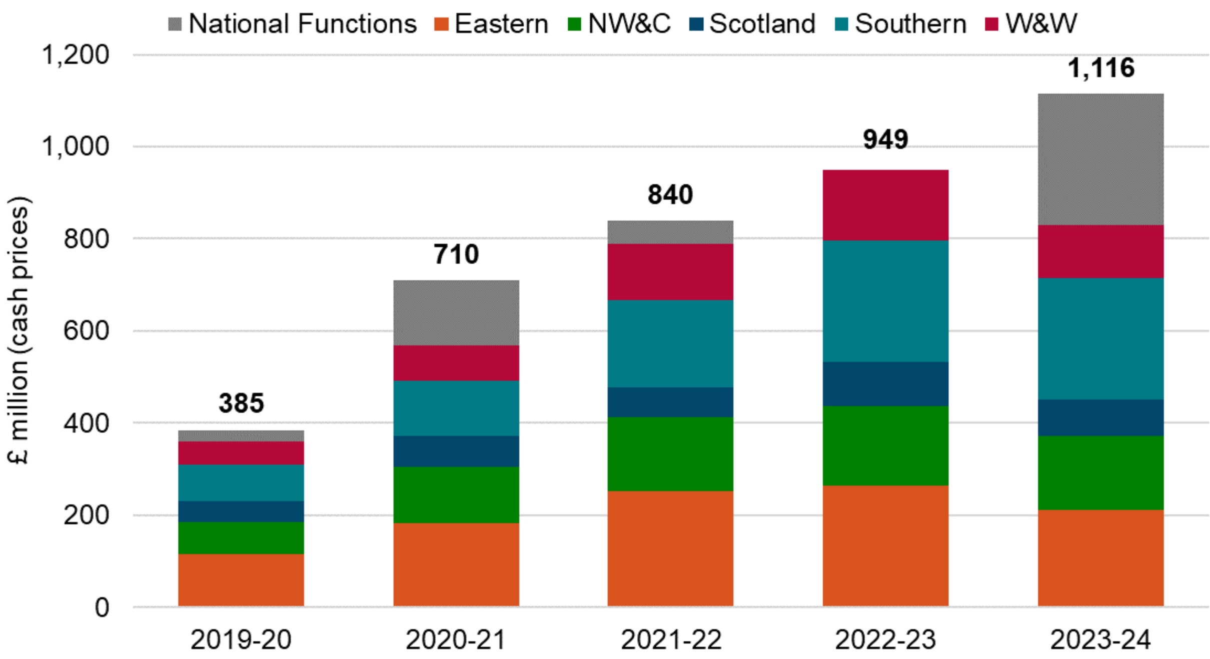




Source: ORR analysis of Network Rail's data

4.17 Regional contributions to Network Rail's CP6 efficiency trajectory are shown in Figure 4.5.

Figure 4.5: Regional contributions to actual efficiency in each year of CP6



Source: ORR analysis of Network Rail's data

Eastern

4.18 Eastern reported £211 million of efficiency improvements in April 2023 to March 2024, missing its DP23 plan for the year of £263 million by 20%, mainly due to cash constraints resulting in cancelled and deferred works across the region.

Eastern delivered £1,041 million of efficiency improvements in CP6, missing its DP23 target for CP6 by 5%. The largest three efficiency initiatives for the region in the year were development of work delivery capabilities (£73 million), improved contracting strategies, packaging and rates (£46 million) and workforce modernisation (£43 million).

North West and Central

4.19 North West and Central reported £160 million of efficiency improvements in April 2023 to March 2024, missing its DP23 plan of £187 million for the year by 14%. This was due to the LEAN programme delivering less efficiencies than planned. The region aimed to deliver £717 million of efficiency improvements in CP6 but missed its DP23 plan by 4%. The largest efficiency initiative for the region in the year was delivering the same output for lower activity/volume (£31 million) and in CP6 was the development of works delivery capabilities (£73 million).

Scotland

4.20 Between April 2023 and March 2024, Network Rail Scotland reported £79 million of efficiency improvements, exceeding its 2023 delivery plan of £72 million for the year by 10%. The largest three initiatives within the year included improved contracting strategies, packaging and rates (£16 million), modernisation (£15 million) and workbank planning (£6 million).

4.21 Please refer to chapter 3 for more detail on Network Rail Scotland's efficiency delivery.

Southern

4.22 Southern reported £264 million of efficiency improvements in April 2023 to March 2024, exceeding its DP23 plan for the year of £250 million by 6%. Southern delivered £932 million efficiency improvements in CP6, surpassing its DP23 plan of £918 million. When efficiency spend is normalised by each of the region's operations, maintenance and renewals (OMR) spend, Southern achieved more efficiencies than all other regions both in year and across the control period, achieving:

- 41% in year and 6% in CP6, more efficiencies than the next highest performing region; and
- 68% in year and 27% in CP6, more than the lowest performing region, when normalised by OMR.

4.23 The largest three efficiency initiatives for the region in the year were improved contracting strategies, packaging, and rates (£43 million), workforce modernisation (£28 million) and early contractor involvement (£23 million).

Wales and Western

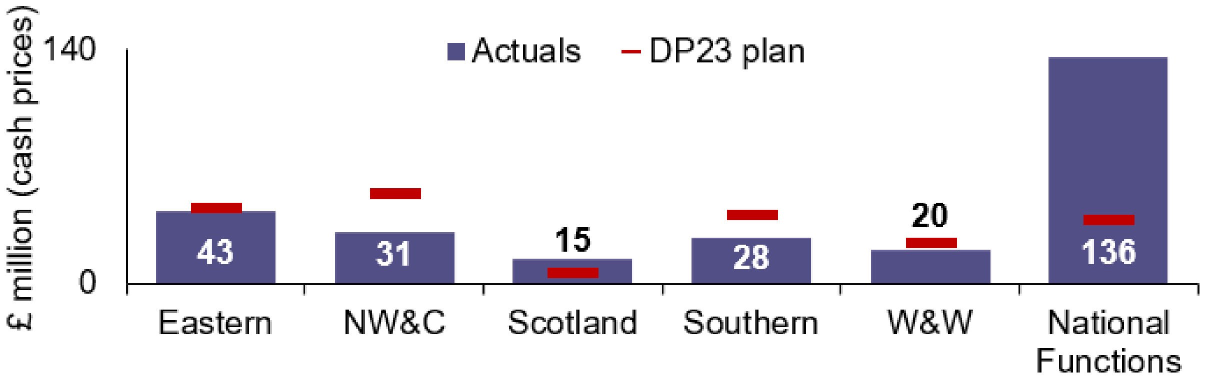
4.24 Wales and Western reported £116 million of efficiency improvements in April 2023 to March 2024, missing its plan of £132 million for the year by 12%. This is partly due to the lack of staff modernisation efficiencies being realised in the year. The region's aim was to deliver £539 million of efficiency improvements in CP6 but it delivered £524 million, largely due to a decrease in reform efficiencies across the final years of CP6. The largest three efficiency initiatives for the region in the year were innovation and technology benefits (£26 million), improved contracting strategies, packaging, and rates (£22 million) and workforce modernisation (£20 million).

The five largest efficiency initiatives in April 2023 to March 2024

4.25 The next section shows regional contributions to the five largest efficiency initiatives overall in April 2023 to March 2024. It also compares actual efficiency achievements to regional delivery plans for the year (DP23 plans). Network Rail has cautioned that it does not use the delivery plan as a target and that there are various changes during the year that will impact the deliverability of initiatives. Some efficiencies have also been re-categorised and re-prioritised. These factors may contribute to the variances reported between actual efficiencies and planned efficiencies at an initiative level.

#1 Modernisation

Figure 4.6: Efficiencies due to Modernisation (GB total: £273 million)

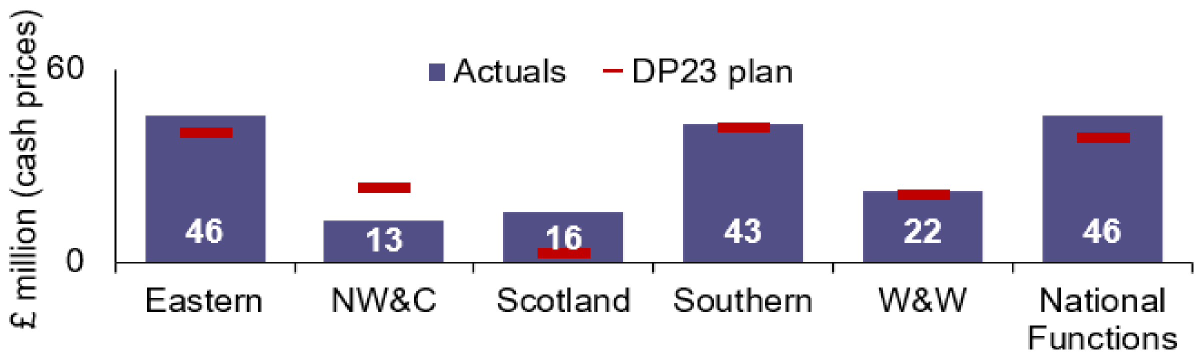


Source: ORR analysis of Network Rail's data

4.26 Network Rail achieved £273 million of efficiencies relating to Modernisation in the year. These efficiencies have been driven by modernisation initiatives such as the voluntary severance scheme and management reform. Eastern did particularly well, achieving £43 million of efficiencies in this category, however the most success with this initiative has been seen within the national functions and is due to lower than expected costs from implementing workforce reforms. Despite this being the largest efficiency initiative, all regions except Scotland missed their DP23 delivery plan targets for this initiative.

#2 Improved contracting strategies, packaging, and rates

Figure 4.7: Efficiencies due to improved contracting strategies, packaging and rates (GB total: £187 million)

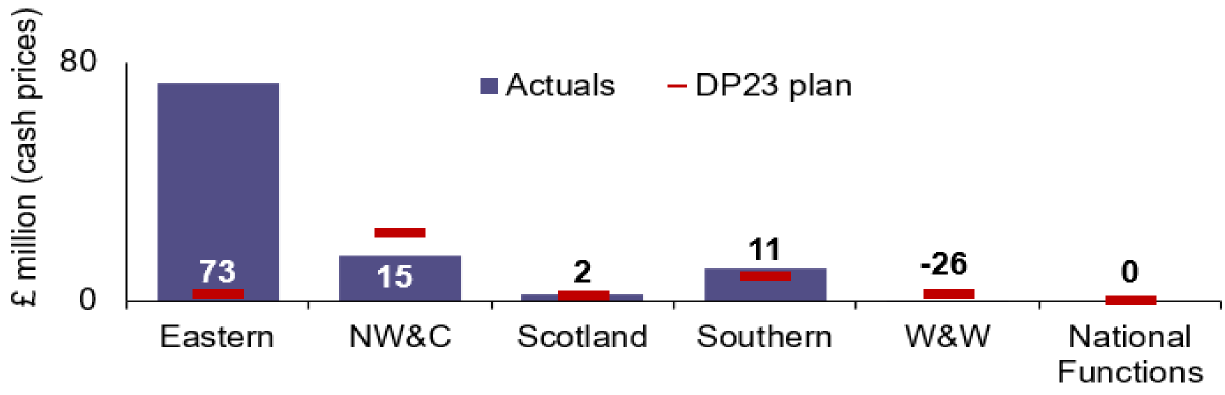


Source: ORR analysis of Network Rail's data

4.27 Network Rail achieved £187 million of efficiencies relating to improved contracting strategies, packaging, and rates in the year. This is 11% above its DP23 plan of £169 million. This was driven by national functions and all regions except North West and Central exceeding their DP23 plan targets.

#3 Development of works delivery capabilities

Figure 4.8: Efficiencies due to development of works delivery capabilities (GB total: £76 million)

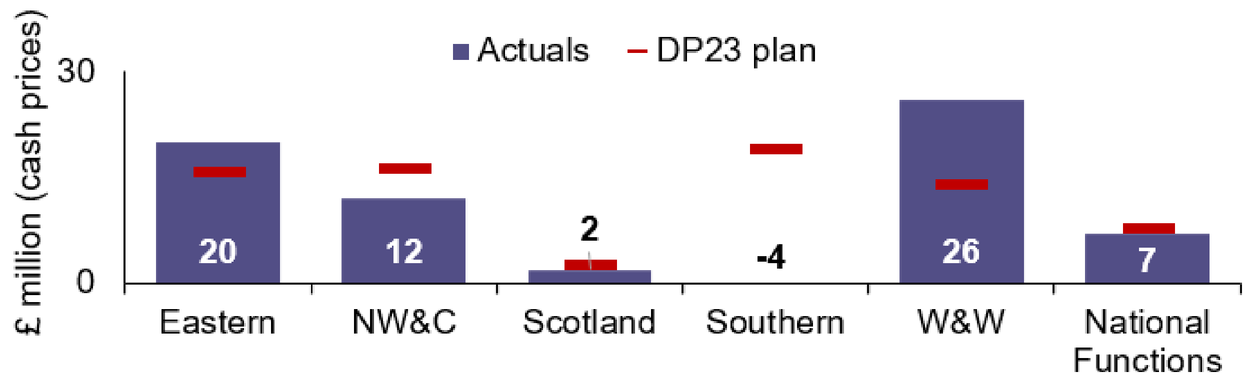


Source: ORR analysis of Network Rail's data

4.28 Network Rail achieved £76 million of efficiencies relating to development of works capabilities in the year. This initiative surpassed its DP23 plan of £37 million.

#4 Innovation and technology benefits

Figure 4.9: Efficiencies due to innovation and technology benefits (GB total: £63 million)

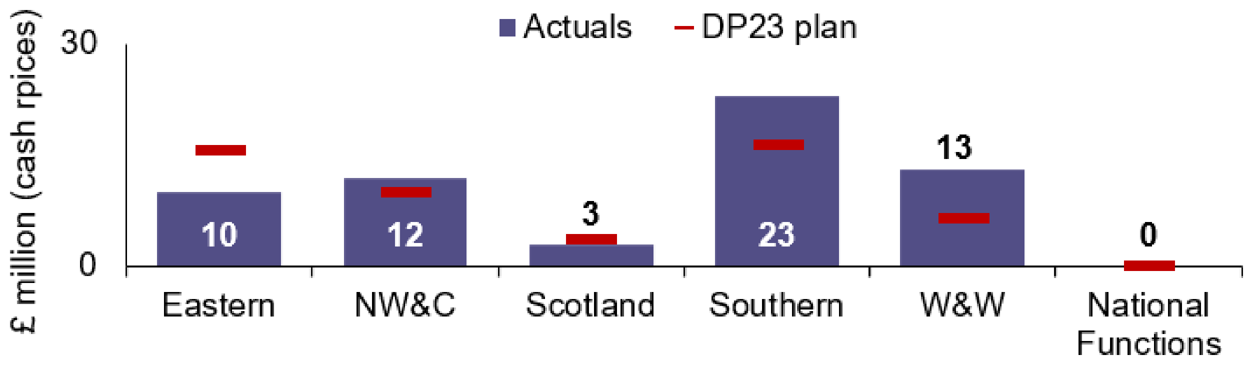


Source: ORR analysis of Network Rail's data

4.29 Network Rail achieved £63 million of efficiencies relating to innovation and technology benefits in the year. This was the fourth largest efficiency initiative overall for the year. Wales and Western did particularly well, achieving £26 million of efficiencies in this category whereas Southern reported £4 million of inefficiencies. Network Rail suggests this was due to prior year corrections actioned in 2023 to 2024 by Southern, in relation to Telecoms following assurance activities around the plan to upgrade to a more modern, networked CCTV system that would utilise more cost effective widely available cameras.

#5 Early contractor involvement, defined scope, minimum specification solution

Figure 4.10: Efficiencies due to early contractor involvement, defined scope, minimum specification solution (GB total: £61 million)



Source: ORR analysis of Network Rail's data

4.30 Network Rail achieved £61 million of efficiencies relating to early contractor involvement in the year. This is 15% higher than its delivery plan target of £53 million. Although Eastern and Scotland did not meet their DP23 targets, the other regions have all still achieved high levels of efficiency in this area, making it the fifth largest efficiency initiative for Network Rail.

Underperforming efficiency initiatives

4.31 We highlight efficiency initiatives which underperformed against their delivery plans.

(a) Reduced activity due to other new technologies

Inefficiencies of £29 million arose from reduced activity due to other new technologies in the year. Network Rail's DP23 plan for this initiative was that it would generate £68 million of efficiencies. North West and Central outperformed its delivery plan and Wales and Western met its delivery plan. Southern missed its DP23 plan and Eastern generated the highest level of inefficiencies. The inefficiency reported is due to prior year corrections in Eastern (£66 million) and Southern (£14 million).

(b) Pay and Benefits

There were £89 million of inefficiencies in Pay and Benefit initiatives in the year, whereas Network Rail expected to generate £3 million of efficiencies, with all regions generating inefficiencies. Network Rail indicates that this was driven by a change in workforce reform plans in the year which increased modernisation benefits, but as a result reduced pay and benefit efficiencies.

(c) Optimisation of access (use, agreement, planning)

There were £2 million of inefficiencies in the year from optimisation of access initiatives. By contrast in the DP23 plan, £44 million of optimisation of access initiative efficiencies were forecast. Eastern, Southern, North West and Central and Wales and Western performed worse than their DP23 plan. This was due to prior year corrections across the regions.

Annex A: Summary of key financial information

Great Britain

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	8,329	7,704	625	34,206	34,693	(487)
Franchised track access charges	3,157	3,034	123	13,569	14,255	(686)
Other single till income	882	769	113	3,857	3,541	316
Total income	**12,369**	**11,507**	**861**	**51,633**	**52,489**	**(857)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	810	700	(110)	3,617	3,379	(238)
Support costs	1,169	939	(230)	4,777	4,465	(312)
Traction electricity, industry costs and rates	1,101	1,196	94	4,583	5,152	568
Maintenance	2,282	1,812	(469)	9,944	8,772	(1,171)
Schedule 4 compensation payments	411	311	(100)	2,111	1,618	(493)
Schedule 8 compensation payments	258	69	(189)	(89)	332	421
Total operating expenditure	**6,031**	**5,028**	**(1,003)**	**24,943**	**23,718**	**(1,225)**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	3,940	4,001	62	18,752	18,483	(269)
Enhancements	2,264	2,238	(26)	9,505	9,124	(381)
Total capital expenditure	**6,203**	**6,239**	**36**	**28,256**	**27,607**	**(649)**
Risk (Centrally held)	-	295	295	-	846	846
Risk (Route-controlled)	-	302	302	-	879	879
Risk (Contingent asset management funding)	-	292	292	-	913	913
Total risk expenditure	**-**	**889**	**889**	**-**	**2,638**	**2,638**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	2,583	2,219	(364)	13,302	11,177	(2,125)
Corporation tax	-	91	91	2	272	270
Total other expenditure	2,583	2,310	(273)	13,304	11,449	(1,855)
Total expenditure	**14,817**	**14,466**	**(351)**	**66,503**	**65,412**	**(1,092)**
Other information						
RAB	87,577	n/a	n/a	87,577	n/a	n/a
Net debt	59,465	n/a	n/a	59,465	n/a	n/a
Gearing (net debt/RAB)	68%	n/a	n/a	68%	n/a	n/a

Source: Network Rail's regulatory financial statements

England and Wales

£ million, cash prices	2023-24			CP6		
	Actual	Delivery plan	Variance	Actual	Delivery plan	Variance
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	7,733	7,059	675	31,261	31,642	(380)
Franchised track access charges	2,638	2,557	82	11,484	12,148	(663)
Other single till income	821	716	105	3,636	3,305	331
Total income	**11,192**	**10,331**	**861**	**46,381**	**47,094**	**(713)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	735	646	(89)	3,296	3,116	(180)
Support costs	1,043	851	(192)	4,271	4,049	(222)
Traction electricity, industry costs and rates	996	1,095	99	4,176	4,717	541
Maintenance	2,066	1,644	(422)	9,002	7,944	(1,058)
Schedule 4 compensation payments	395	281	(115)	1,954	1,527	(428)
Schedule 8 compensation payments	239	69	(170)	(152)	309	461
Total operating expenditure	**5,474**	**4,586**	**(889)**	**22,547**	**21,662**	**(886)**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	3,474	3,583	110	16,570	16,226	(344)
Enhancements	2,112	2,086	(25)	8,649	8,280	(368)
Total capital expenditure	**5,585**	**5,669**	**84**	**25,218**	**24,506**	**(712)**
Risk (Centrally held)	-	305	305	-	837	837
Risk (Route-controlled)	-	194	194	-	573	573
Risk (Contingent asset management funding)	-	292	292	-	913	913
Total risk expenditure	**-**	**791**	**791**	**-**	**2,323**	**2,323**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	2,321	1,998	(323)	11,962	10,061	(1,901)
Corporation tax	-	82	82	2	245	243
Total other expenditure	2,321	2,080	(240)	11,964	10,305	(1,658)
Total expenditure	**13,380**	**13,126**	**(253)**	**59,729**	**58,796**	**(933)**
Other information						
RAB	78,427	n/a	n/a	78,427	n/a	n/a
Net debt	53,412	n/a	n/a	53,412	n/a	n/a
Gearing (net debt/RAB)	68%	n/a	n/a	68%	n/a	n/a

Source: Network Rail's regulatory financial statements

Scotland

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	596	645	(50)	2,945	3,051	(107)
Franchised track access charges	519	478	41	2,085	2,108	(23)
Other single till income	62	53	9	222	236	(14)
Total income	**1,176**	**1,176**	**0**	**5,251**	**5,395**	**(144)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	75	54	(21)	318	263	(55)
Support costs	126	88	(37)	507	417	(89)
Traction electricity, industry costs and rates	106	101	(5)	408	435	28
Maintenance	216	168	(47)	941	828	(112)
Schedule 4 compensation payments	16	31	15	157	91	(66)
Schedule 8 compensation payments	19	0	(18)	63	23	(40)
Total operating expenditure	**557**	**443**	**(114)**	**2,393**	**2,058**	**(335)**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	466	418	(48)	2,182	2,257	75
Enhancements	152	152	(1)	856	844	(13)
Total capital expenditure	**618**	**570**	**(49)**	**3,038**	**3,100**	**62**
Risk (Centrally held)	-	(10)	(10)	-	9	9
Risk (Route-controlled)	-	108	108	-	306	306
Risk (Contingent asset management funding)	-	0	0	-	0	0
Total risk expenditure	**-**	**98**	**98**	**-**	**315**	**315**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	262	222	(41)	1,340	1,116	(224)
Corporation tax	-	9	9	-	27	27
Total other expenditure	262	230	(32)	1,340	1,143	(197)
Total expenditure	**1,437**	**1,340**	**(97)**	**6,771**	**6,617**	**(155)**
Other information						
RAB	9,150	n/a	n/a	9,150	n/a	n/a
Net debt	6,053	n/a	n/a	6,053	n/a	n/a
Gearing (net debt/RAB)	66%	n/a	n/a	66%	n/a	n/a

Source: Network Rail's regulatory financial statements

Southern

£ million, cash prices	2023-24 Actual	2023-24 Delivery plan	2023-24 Variance	CP6 Actual	CP6 Delivery plan	CP6 Variance
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	1,709	1,154	555	7,354	7,781	(427)
Franchised track access charges	811	804	8	3,384	3,547	(162)
Other single till income	253	271	(19)	1,161	1,210	(50)
Total income	**2,773**	**2,229**	**544**	**11,899**	**12,538**	**(639)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	205	191	(14)	928	927	(1)
Support costs	214	218	3	964	989	24
Traction electricity, industry costs and rates	227	326	100	1,262	1,468	206
Maintenance	526	384	(142)	2,287	1,886	(401)
Schedule 4 compensation payments	102	87	(14)	533	410	(122)
Schedule 8 compensation payments	(10)	4	14	(308)	25	333
Total operating expenditure	**1,265**	**1,212**	**(53)**	**5,667**	**5,705**	**39**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	976	1,020	44	4,547	4,413	(134)
Enhancements	140	125	(15)	854	804	(50)
Total capital expenditure	**1,116**	**1,145**	**30**	**5,401**	**5,217**	**(184)**
Risk (Centrally held)	-	79	79	-	210	210
Risk (Route-controlled)	-	68	68	-	198	198
Risk (Contingent asset management funding)	-	92	92	-	263	263
Total risk expenditure	**-**	**238**	**238**	**-**	**671**	**671**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	583	505	(79)	3,017	2,541	(476)
Corporation tax	-	23	23	1	70	69
Total other expenditure	583	528	(55)	3,018	2,610	(408)
Total expenditure	**2,964**	**3,123**	**159**	**14,086**	**14,204**	**119**
Other information						
RAB	19,182	n/a	n/a	19,182	n/a	n/a
Net debt	13,600	n/a	n/a	13,600	n/a	n/a
Gearing (net debt/RAB)	71%	n/a	n/a	71%	n/a	n/a

Source: Network Rail's regulatory financial statements

Wales and Western

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	1,312	1,257	54	4,998	5,142	(145)
Franchised track access charges	542	480	62	2,376	2,408	(32)
Other single till income	183	94	89	984	435	549
Total income	**2,037**	**1,831**	**205**	**8,358**	**7,985**	**372**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	121	87	(35)	505	426	(80)
Support costs	170	144	(25)	725	723	(2)
Traction electricity, industry costs and rates	151	115	(36)	499	513	14
Maintenance	318	270	(48)	1,402	1,300	(102)
Schedule 4 compensation payments	78	28	(50)	305	169	(136)
Schedule 8 compensation payments	119	19	(100)	103	58	(45)
Total operating expenditure	**958**	**664**	**(295)**	**3,540**	**3,189**	**(351)**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	679	608	(71)	2,961	2,891	(70)
Enhancements	170	176	6	1,201	1,063	(138)
Total capital expenditure	**849**	**784**	**(65)**	**4,162**	**3,955**	**(208)**
Risk (Centrally held)	-	53	53	-	150	150
Risk (Route-controlled)	-	27	27	-	108	108
Risk (Contingent asset management funding)	-	63	63	-	153	153
Total risk expenditure	**-**	**143**	**143**	**-**	**411**	**411**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	497	439	(58)	2,550	2,213	(337)
Corporation tax	-	10	10	-	32	32
Total other expenditure	497	450	(48)	2,550	2,245	(305)
Total expenditure	**2,305**	**2,040**	**(265)**	**10,253**	**9,800**	**(453)**
Other information						
RAB	15,810	n/a	n/a	15,810	n/a	n/a
Net debt	11,382	n/a	n/a	11,382	n/a	n/a
Gearing (net debt/RAB)	72%	n/a	n/a	72%	n/a	n/a

Source: Network Rail's regulatory financial statements

Eastern

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	2,619	2,634	(14)	11,038	10,864	175
Franchised track access charges	592	695	(103)	2,858	3,314	(456)
Other single till income	201	200	2	806	895	(88)
Total income	**3,413**	**3,529**	**(116)**	**14,703**	**15,073**	**(370)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	229	212	(17)	1,080	1,027	(53)
Support costs	292	258	(34)	1,298	1,221	(77)
Traction electricity, industry costs and rates	303	417	114	1,375	1,703	328
Maintenance	714	540	(174)	3,001	2,606	(396)
Schedule 4 compensation payments	103	85	(18)	656	485	(172)
Schedule 8 compensation payments	71	42	(29)	50	183	133
Total operating expenditure	**1,714**	**1,554**	**(160)**	**7,462**	**7,225**	**(236)**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	935	1,150	215	5,139	5,182	42
Enhancements	1,522	1,484	(38)	5,179	4,993	(186)
Total capital expenditure	**2,457**	**2,634**	**177**	**10,318**	**10,175**	**(143)**
Risk (Centrally held)	-	101	101	-	273	273
Risk (Route-controlled)	-	18	18	-	69	69
Risk (Contingent asset management funding)	-	77	77	-	292	292
Total risk expenditure	**-**	**196**	**196**	**-**	**634**	**634**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	689	587	(102)	3,565	2,957	(608)
Corporation tax	-	29	29	1	84	83
Total other expenditure	689	616	(73)	3,566	3,041	(525)
Total expenditure	**4,860**	**5,000**	**140**	**21,346**	**21,075**	**(270)**
Other information						
RAB	24,606	n/a	n/a	24,606	n/a	n/a
Net debt	15,801	n/a	n/a	15,801	n/a	n/a
Gearing (net debt/RAB)	64%	n/a	n/a	64%	n/a	n/a

Source: Network Rail's regulatory financial statements

North West and Central

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	2,097	2,014	83	7,875	7,855	20
Franchised track access charges	693	578	115	2,866	2,879	(13)
Other single till income	183	151	32	684	765	(81)
Total income	**2,973**	**2,743**	**231**	**11,425**	**11,499**	**(73)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	179	156	(23)	786	736	(50)
Support costs	367	231	(136)	1,282	1,116	(166)
Traction electricity, industry costs and rates	315	237	(78)	1,040	1,032	(8)
Maintenance	507	449	(57)	2,312	2,152	(160)
Schedule 4 compensation payments	112	80	(32)	460	463	3
Schedule 8 compensation payments	58	3	(55)	2	43	41
Total operating expenditure	**1,538**	**1,157**	**(381)**	**5,882**	**5,542**	**(340)**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	883	805	(78)	3,922	3,740	(182)
Enhancements	280	300	21	1,415	1,419	5
Total capital expenditure	**1,163**	**1,106**	**(57)**	**5,337**	**5,159**	**(178)**
Risk (Centrally held)	-	72	72	-	204	204
Risk (Route-controlled)	-	82	82	-	199	199
Risk (Contingent asset management funding)	-	60	60	-	204	204
Total risk expenditure	**-**	**214**	**214**	**-**	**606**	**606**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	551	467	(85)	2,829	2,350	(479)
Corporation tax	-	20	20	-	59	59
Total other expenditure	551	487	(65)	2,829	2,409	(421)
Total expenditure	**3,252**	**2,963**	**(289)**	**14,048**	**13,716**	**(332)**
Other information						
RAB	18,830	n/a	n/a	18,830	n/a	n/a
Net debt	12,627	n/a	n/a	12,627	n/a	n/a
Gearing (net debt/RAB)	67%	n/a	n/a	67%	n/a	n/a

Source: Network Rail's regulatory financial statements

National functions

Note: the numbers set out below are allocated within each region's financial information as part of their regional allocation.

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	8,329	7,704	625	34,206	34,693	(487)
Franchised track access charges	119	109	10	1,441	1,643	(202)
Other single till income	135	31	103	1,010	460	549
Total income	**8,583**	**7,845**	**738**	**36,657**	**36,797**	**(140)**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	26	24	(2)	115	119	4
Support costs	655	695	41	3,032	3,326	295
Traction electricity, industry costs and rates	43	36	(7)	1,754	1,907	153
Maintenance	71	59	(12)	380	327	(53)
Schedule 4 compensation payments	5	55	50	(0)	263	264
Schedule 8 compensation payments	6	11	5	(14)	53	67
Total operating expenditure	**805**	**881**	**75**	**5,266**	**5,996**	**729**
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	658	1,108	450	2,659	3,313	654
Enhancements	12	(0)	(13)	412	13	(400)
Total capital expenditure	**670**	**1,108**	**437**	**3,071**	**3,326**	**255**
Risk (Centrally held)	-	295	295	-	846	846
Risk (Route-controlled)	-	302	302	-	879	879
Risk (Contingent asset management funding)	-	292	292	-	913	913
Total risk expenditure	**-**	**889**	**889**	**-**	**2,638**	**2,638**
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	2,583	2,219	(364)	13,302	11,177	(2,125)
Corporation tax	-	91	91	2	272	270
Total other expenditure	2,583	2,310	(273)	13,304	11,449	(1,855)
Total expenditure	**4,059**	**5,188**	**1,129**	**21,642**	**23,408**	**1,767**

Source: Analysis of Network Rail's regulatory financial statements

Wales

Note: the numbers set out below are discussed in the above commentary as part of the Wales and Western region.

	2023-24			CP6		
£ million, cash prices	**Actual**	**Delivery plan**	**Variance**	**Actual**	**Delivery plan**	**Variance**
Income	**A**	**B**	**C=A-B**	**A**	**B**	**C=A-B**
Grant income (exc. enhancement grant)	381	-	-	1,445	-	-
Franchised track access charges	130	-	-	602	-	-
Other single till income	13	-	-	66	-	-
Total income	**524**	**-**	**-**	**2,114**	**-**	**-**
Operating expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Network operations	45	-	-	180	-	-
Support costs	65	-	-	283	-	-
Traction electricity, industry costs and rates	32	-	-	108	-	-
Maintenance	110	-	-	477	-	-
Schedule 4 compensation payments	15	-	-	75	-	-
Schedule 8 compensation payments	20	-	-	41	-	-
Total operating expenditure	**287**	-	-	**1,163**	-	-
Capital expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Renewals	254	-	-	1,130	-	-
Enhancements	19	-	-	173	-	-
Total capital expenditure	**273**	-	-	**1,304**	-	-
Risk (Centrally held)	-	-	-	-	-	-
Risk (Route-controlled)	-	-	-	-	-	-
Risk (Contingent asset management funding)	-	-	-	-	-	-
Total risk expenditure	**-**	-	-	**-**	-	-
Other expenditure	**A**	**B**	**C=B-A**	**A**	**B**	**C=B-A**
Financing costs and other	139	-	-	713	-	-
Corporation tax	-	-	-	-	-	-
Total other expenditure	139	-	-	713	-	-
Total expenditure	**699**	**-**	**-**	**3,180**	**-**	**-**
Other information						
RAB	4,804	n/a	n/a	4,804	n/a	n/a
Net debt	3,458	n/a	n/a	3,458	n/a	n/a
Gearing (net debt/RAB)	72%	n/a	n/a	72.%	n/a	n/a

Source: Network Rail's analysis of industry financials

Annex B: Link between efficiency and financial performance

A.1 Several measures can be used to report on a company's financial performance and there is no single right or wrong measure. The measures are not exclusive and can be complementary to provide a more rounded assessment. Our assessments focus on two measures: efficiency and the financial performance measure (FPM).

A.2 Consistent with general use in economic regulation, we use the term 'efficiency' to refer to changes over time of the cost of Network Rail's core business activities. These are Network Rail's activities of operating, maintaining, and renewing the rail network, and supporting functions such as human resources and finance. These are broadly repeatable activities, which makes them easier to compare over time.

A.3 We use the term 'financial performance' to assess both core business activities and wider activities that generate income (such as property income) and expenditure (such as enhancements to the network). Financial performance is a comparison of income and expenditure to the financial assumptions in a baseline such as in a business plan or regulatory determination. Other things being equal, if Network Rail has achieved the expected level of efficiency improvements in a business plan, it will report neither out nor under-performance against that plan. However, in practice, other things do result in differences between the reporting of efficiency and FPM. These include:

(i) items of income and expenditure that are included in FPM but not efficiency reporting, such as interest payments or insurance costs.

(ii) external factors that can result in cost increases ('headwinds') and cost decreases ('tailwinds') such as changes to employment legislation which are outside of Network Rail's control. These external factors are reported separately to efficiency. However, these are all considered for FPM, so, for example, a headwind will negatively affect FPM (but not efficiency).

(iii) FPM adjusts for future cost increases resulting from business decisions made during the current financial year. For example, the costs of a major re-signalling project may be expected to increase in the next financial year due to a purchase decision made during the current financial year. This will result in negative financial performance being reported during the current financial year (consistent with the accruals accounting concept). Efficiency reporting does not adjust for this; and

(iv) the additional cost of any changes to planned renewals work during a year are recorded as negative FPM, whereas the cost of the work avoided is recorded as FPM neutral. This is because FPM measures performance against the delivery plan and is designed to discourage regions from making late changes to planned work during the year.

A.4 Further information on efficiency and financial performance can be found in our CP6 regulatory accounting guidelines.