CP7 regulatory accounting guidelines for Network Rail

07 May 2024

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Executive summary

These regulatory accounting guidelines set out the information that Network Rail Infrastructure Limited ('Network Rail') must provide to us through annual regulatory financial statements in Control Period 7 ('CP7'), the five-year period from April 2024 to March 2029.

Good quality financial information is important for effective regulation as it helps to ensure that the interests of customers and funders are properly protected. Network Rail's regulatory financial statements are the primary sources of information about Network Rail's financial performance that we consider are required for us to fulfil our statutory duties and functions and to inform stakeholders about these matters. They facilitate:

(a) monitoring of income and expenditure, including efficiency and wider financial performance against the assumptions underlying our periodic review;

(b) future periodic reviews and other regulatory decisions;

(c) assessment of financial position including the regulatory asset base and debt; and

(d) monitoring of capital investment.

This information is more relevant for regulatory purposes than the information contained in statutory financial statements. This is because the statements are set out in a format consistent with our relevant policies and regulatory framework. By contrast, statutory financial statements are prepared following the requirements of the Companies Act and relevant statutory financial reporting standards.

These guidelines have been developed in consultation with Network Rail following the conclusion of our 2023 periodic review ('PR23') including the publication of our policy position for holding Network Rail to account, financial framework and outcomes framework. We have looked to make sure that the information that we need is proportionate to fulfil our duties without placing an undue burden on Network Rail. We have taken account of good practice from other economically regulated sectors.

These guidelines may be periodically revised and updated to reflect developments in our regulatory framework.

1. Components of the regulatory financial statements

1.1 Network Rail is required under its network licence to provide us with the following information for each relevant twelve-month period ending 31 March:

(a) regulatory financial statements;

(b) a statement on the sufficiency of resources; and

(c) as appropriate, relevant reports prepared by its auditors and independent reporters.

Contents of the regulatory financial statements

1.2 The regulatory financial statements will include the following:

(a) a directors' review of the company's efficiency and wider financial performance in the year and cumulatively compared to the PR23 assumptions;

(b) a statement of directors' responsibilities;

(c) a statement of accounting policies;

(d) statements on income, expenditure, financial performance, financial position and related matters as set out in these guidelines. Each statement should be supported by explanations of differences compared to the previous year and differences compared to Network Rail's CP7 delivery plan[1]. These statements should be provided for Great Britain, England and Wales, Scotland, each region, and Wales where appropriate;

(e) any other supporting information that Network Rail considers necessary to fairly present its performance; and

(f) sign-off by a director that Network Rail's Board has approved the regulatory financial statements having applied appropriate levels of assurance to ensure the accuracy of the information in the statements.

[1] Which reconciles back to our PR23 financial assumptions.

1.3 If there is a difference between the regulatory financial statements that have been supplied and the requirements of these guidelines, Network Rail must inform us. We will then consider whether to require modifications to be made to the information supplied.

1.4 We have developed supporting templates (available here) that provide guidance to Network Rail about the format of the regulatory financial statements. Network Rail can present the required information in a different format if any changes have previously been agreed with us.

Delivery and publication

1.5 The network licence requires that Network Rail delivers its regulatory financial statements to us as soon as reasonably practical and in any event not later than 1 July following the end of the relevant financial year unless a later date has been approved by us. Unless we have agreed otherwise, Network Rail should publish its regulatory financial statements on the same date.

1.6 An electronic version of the statements should be provided to us in a spreadsheet that clearly shows the flow of information and details of calculations within the statements.

Managing change

1.7 Our managing change policy requires Network Rail to discuss with us any planned significant changes to the requirements of our PR23 final determination. The impact of financial changes should be made clear in the regulatory financial statements, for example, where any funding baselines are different to the CP7 delivery plan.

Quality of reporting

1.8 For us to make informed assessments, we need to have confidence that the information contained within Network Rail's regulatory financial statements is accurate and reliable. Network Rail must therefore be able to show that properly documented records support the regulatory financial statements and that the reporting systems and processes are fit for purpose. This includes being able to show that an adequate number of fully trained individuals are responsible for reporting and appropriate levels of verification have been applied.

1.9 In general, the basis of preparation of the statements should satisfy the following criteria:

- information should be presented on a consistent basis over time;
- accounting policies should be fair and reasonable, and applied consistently and objectively; and
- the high-level principles and income and cost allocation rules as set out in these guidelines should be followed.

1.10 The numbers produced are expected as a minimum to be accurate to within ±5%. In some cases we expect the numbers to be more accurate than this, for example, the amount of network grant received by Network Rail. This evidence on the reporting systems and processes must be provided to us before any outperformance can be recognised, unless otherwise agreed with us.

1.11 Unless otherwise agreed with us, monetary amounts should be presented in £m to zero decimal places. Percentages and ratios should be presented to one decimal place.

Indexation

1.12 Indexation adjustments to the CP7 delivery plan baselines and previous year numbers should be applied for movements in the CPI index. The percentage change for the relevant year 20XX/YY should be calculated by:

- subtracting the value of the CPI index published by the Office for National Statistics for November in the preceding year from the equivalent value for November in the relevant year (20XX/YY)[2];
- dividing the resulting value into the index value for November in the preceding year; and
- expressing the result in percentage form.

1.13 For example, if the CPI index was at 260 in 20XX/YY and 250 in the previous year, then the percentage change would be:

$$\text{CPI percentage change} = \frac{260-250}{250} = 0.04 \quad = 4.0\%$$

[2] As requested by Network Rail, November is used to calculate the inflation uplift rather than September for consistency with Network Rail's calculation of the uplift to charges in track access charges, for which November is used.

Statement of sufficiency of resources

1.14 The network licence requires Network Rail to act in a manner calculated to ensure that it has sufficient resources to enable it to properly and efficiently carry on its permitted business. It also requires Network Rail to make a statement, approved by a resolution of its Board of Directors, certifying the sufficiency of its resources for a twelve-month period starting on the date of the statement. The purpose of the statement of sufficiency of resources is to provide us and other interested parties with assurance about the future financial position of Network Rail.

1.15 The prescribed formats for the statement of sufficiency of resources are set out in Annex C.

1.16 An auditors' report on the statement of sufficiency of resources should be provided along with the statement of sufficiency of resources at the same time as the regulatory financial statements.

Role of the auditors and independent reporters

1.17 The network licence requires Network Rail to obtain reports from its auditors on certain statements in the regulatory financial statements and its statement on the sufficiency of its resources.

1.18 The format for the auditors' report will be set out in a terms of engagement letter. This letter forms part of the contract of appointment with the auditors, which Network Rail must obtain under the network licence. The auditors' report will be addressed to ORR and state whether, in the auditors' opinion, the regulatory financial statements present fairly the financial performance and financial position of Network Rail and whether they have been prepared in accordance with these guidelines. The report should identify any material circumstances or areas of judgement that appear to be relevant. The auditor should seek to place reliance on the findings from their statutory audit to avoid unnecessary duplication of work.

1.19 Unless agreed by us, the auditors' report should cover each of the regulatory financial statements. Network Rail may use independent reporters to review information included in the regulatory financial statements (independent reporters are industry experts that can be jointly appointed by ORR and Network Rail to provide advice and assurance on regulatory matters, they have a duty of care to both ORR and Network Rail). This will complement the work of the auditors.

Appendix to the regulatory financial statements

1.20 All details reasonably necessary to reconcile items included in the regulatory financial statements with similar items in the statutory financial statements should be included in an appendix to the regulatory financial statements.

1.21 In particular, the appendix should enable a comparison of the:

(a) income and expenditure reported in the regulatory financial statements to the income and expenditure reported in the statutory financial statements; and

(b) annual movement in the value of the RAB with the movement in the fixed assets reported on the balance sheet.

2. Efficiency and financial performance

Introduction

2.1 Different measures can be used to report on a company's financial performance and there is no single right or wrong measure. Different measures are not exclusive and can be complimentary to provide a more rounded assessment. We examined these matters in detail in the development of our PR18 determination which underpins the approach that we are continuing for CP7 (see here).

2.2 Our assessments in CP7 focus on two measures:

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

- **Financial performance**: This compares income and expenditure to the financial assumptions underpinning regions' CP7 funding. The baseline financial assumptions include the efficiency improvements that Network Rail's regions are expected to achieve in CP7. As such, these baselines are described as being post-efficient. If a region has spent less and / or has received more income than the baseline (for what it has delivered), it will report financial outperformance, and vice versa.

2.3 Reporting of efficiency and financial performance gives 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.

2.4 The priorities for our assessments, 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 comparisons of the performance of regions and to aid in future benchmarking;

- move away from measures that aim to be technically precise to a more rounded assessment which draws out key messages about the drivers of performance, makes a clearer link between expenditure and delivery, and examines how efficiencies are being achieved;

- make more informed forward-looking assessments of the efficiencies that regions will likely deliver across the control period;
- support Network Rail's internal performance measurement and staff incentives; and
- provide clear and informative messages about efficiency improvements, recognising that different audiences want different levels of technical detail.

2.5 To deliver these priorities, in CP6 we made the following important changes for Network Rail's reporting, which we are retaining for CP7:

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

Efficiency, inefficiency, headwinds and tailwinds

2.6 Analysis of the reasons for expenditure changes over time is an important component of understanding a company's financial performance.

2.7 Regions should quantify and clearly explain the factors that have affected their changes to expenditure. This analysis should include the effectiveness of efficiency initiatives compared to those set out in their CP7 business plans[3] and the effects of other cost drivers including inefficiencies and factors considered to be outside of regions' control (headwinds and tailwinds).

2.8 Unless we decide otherwise, the basis for reporting efficiency in CP7 should be consistent with the approach used in PR23, i.e. the £3.7bn of efficiency improvements that Network Rail needs to deliver in CP7.

[3] If these plans are consistent with the PR23 determination and changes agreed through the managing change process.

2.9 Network Rail uses the terms ‘headwinds’ and ‘tailwinds’ to describe external uncontrollable cost changes. An example of a headwind was the costs that Network Rail incurred in managing the impact of COVID-19 on its business in CP6.

2.10 If there is any disagreement about how a cost variance should be treated, Network Rail must use our interpretation in its reporting to us.

Unit costs

2.11 Movements in unit costs are a useful way to understand changes to the economy and productivity of repeatable activities such as maintenance and renewals. Unit cost analysis is well established in many industries, and it is relatively easy for stakeholders to understand.

2.12 Network Rail’s renewals projects are not uniform in nature because of factors such as the geographic location and differing nature of the work at each site. This means that the cost of specific projects may vary for reasons other than efficiency. However, the effect of these factors should be much reduced when comparing entire programmes of work over time. This is because there will be variations within programmes but, due to aggregation, there should be less variation across programmes as a whole.

2.13 We consider that for most of Network Rail’s maintenance and renewals activities it should be possible to identify and record the main factors that lead to cost differences across programmes of work over time. It should then be possible to quantify unit cost changes due to efficiency changes and due to other reasons.

2.14 We require Network Rail and its regions to report the unit costs and volumes of work for each of the company’s main renewals activities. Network Rail will also need to continue to develop its management information systems to support robust maintenance unit cost and volume reporting.

Forward looking assessment

2.15 Our experience in CP5 was that Network Rail was over-optimistic about the efficiency improvements that it could achieve, and that this over-optimism remained through most of the company’s financial forecasts during the control period. To address this issue, our CP6 annual efficiency and finance assessments included a forward-looking assessment which provided greater confidence about whether Network Rail’s regions were on track to deliver the efficiencies that were set out in their delivery plans.

2.16 We are retaining our CP6 approach for our forward-looking assessments. This means that they will be a rigorous process of challenging regions about the progress of their initiatives to deliver efficiency improvements. To support our assessments, regions will need to have well documented plans for how they intend to deliver efficiency improvements and clear tracking of progress in delivering these plans.

2.17 There are wider leading indicators of performance that we will also draw on to provide our independent view about the efficiency improvements that Network Rail is likely to achieve by the end of CP7. For example, the proportion of work that has been tendered can help us to understand the stability of planned work and the certainty of associated costs. These indicators will enable us to report our confidence about Network Rail's forecast efficiency improvements.

2.18 We could prescribe the indicators that we will use. However, as was the case in CP6, we recognise that this information is also useful for Network Rail's own management, that much of it should already be available, and that it can evolve over time to be more useful. We therefore intend to continue our CP6 approach of working with Network Rail for it to report the indicators that we together consider to be the most suitable.

Financial performance

2.19 We will monitor the financial performance of regions' income and expenditure compared to Network Rail's CP7 delivery plan. This will generate either an aggregate underspend, i.e. a region has spent less than we assumed was necessary to deliver its required outputs, or an aggregate overspend, i.e. it has spent more than we assumed was necessary to deliver its required outputs.

2.20 Financial performance should be calculated as follows for each region:

(a) categories of income and expenditure that are not controllable should be excluded from the calculation. The major categories are set out in Table 2.1;

(b) income and expenditure in annual business plans should be compared to the CP7 delivery plan, adjusted for CPI inflation. The reasons for variances should be explained;

(c) actual income and expenditure should be compared to the annual business plan / budget. The reasons for variances should be explained;

(d) the output from steps (b) and (c) should be combined to produce an aggregate comparison of actual income and expenditure to the CP7 delivery plan for the year; and

(e) the same calculation should be performed for the cumulative financial performance in CP7.

Table 2.1 The major items of income and expenditure that are excluded from FPM

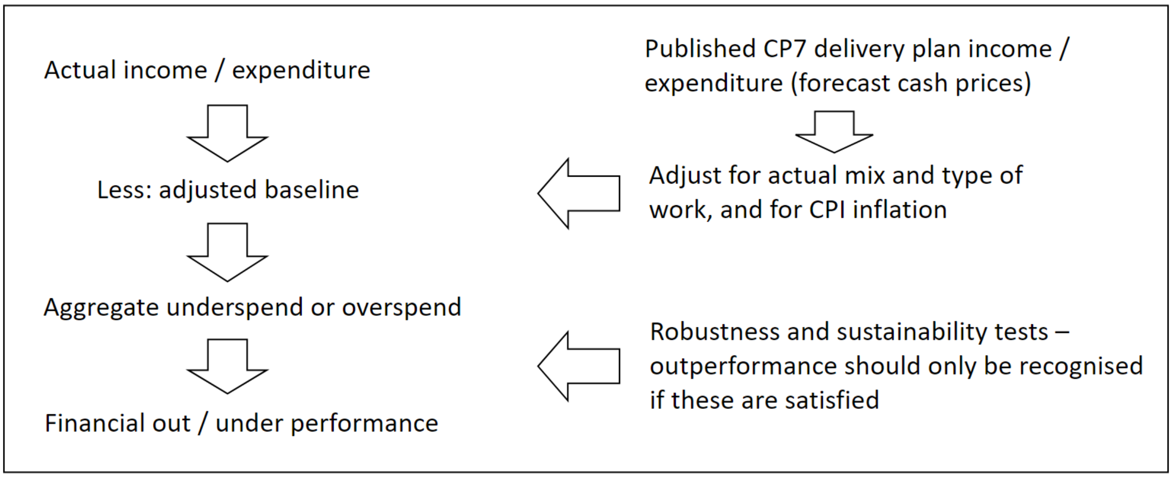
Financial performance does not include
Grant income
Fixed track access charges
Traction electricity income received from train operations
Traction electricity costs paid on behalf train operators
Business rates
Licence and safety fees
Rail Safety and Standards Board ('RSSB') costs
Auditors and reporters' fees

2.21 In deciding its financial performance, each region will need to assess whether it has delivered the outputs specified in our PR23 determination. We define this as the '*robustness*' test. It will also need to assess whether it has done enough maintenance and renewal work to counter the wear, degradation and ageing of its assets over time. This is to ensure that the condition and performance of the network infrastructure is sufficient to enable the PR23 outputs to be achieved for the forecast level and mix of use in the medium and long term. We define this as the '*sustainability*' test.

2.22 The burden of proof is on Network Rail to show that any claimed financial outperformance is consistent with the robustness and sustainability tests. Network Rail will also need to explain how any underspend has been achieved. In the absence of such an explanation, underspend should not be assumed to be financial outperformance.

2.23 Figure 2.1 summarises the approach for calculating FPM.

Figure 2.1 Approach for calculating FPM



Neutral expenditure variances

2.24 Income and expenditure can vary for reasons other than better or worse financial performance compared to the CP7 delivery plan. This is particularly relevant for renewals expenditure where an underspend may be due to planned work not being undertaken. Such expenditure variances need to be clearly reported alongside financial performance to enable a full understanding of income and expenditure variances. Annex B provides further guidance about the treatment of deferral and how Network Rail's financial performance does not benefit if this happens.

Treatment of material one-off changes to Network Rail's income and expenditure

2.25 Our general approach is that if a category of income or expenditure is considered controllable by Network Rail then it should be included in the reporting of financial performance. This applies to unforeseen material one-off changes (both positive and negative) that are considered controllable.

2.26 However, we may consider material one-off changes on an individual basis as we do not want to incentivise Network Rail to make poor value for money decisions. For example, an exception to our general approach applies for a material buy or lease decision. Providing that Network Rail has adequately shown that a change in a buy or lease decision is economically beneficial in the long term, we will hold Network Rail neutral to the financial performance impact of the change within the control period.

Regulatory financial sanctions

2.27 As set out in our holding Network Rail to account policy, ORR's Board may decide to issue a financial sanction in response to a licence breach decision. The financial sanction would apply as a deduction in the reported financial performance (i.e. FPM) of the relevant Network Rail region or central function (such as the System Operator). So the financial performance reported in Network Rail's regulatory financial statements, and therefore scorecards would include the financial sanction.

2.28 The amount of the deduction and the regions/functions to which it applies will be directed by ORR.

Detailed guidance for the calculation of financial performance

2.29 Detailed guidance for the calculation of financial performance is set out in Network Rail's internal FPM guidance[4]. Consistent with our approach in CP6, we consider that it is right for the technical details to be set out in Network Rail's internal guidance. However, our requirements, as may change from time to time, override Network Rail's internal guidance and must be followed. For example, if Network Rail was to update its internal guidance that we do not agree with, we will instruct Network Rail on how it should report in its regulatory financial statements.

[4] Network Rail's guidance is set out in an internal FPM handbook.

3. Regulatory Asset Base (RAB)

Introduction

3.1 This chapter sets out our policies relating to the reporting of the Regulatory Asset Base (RAB). It outlines the background, general approach and specific policies relating to RAB roll forward, renewals and enhancements expenditure, and amortisation.

General approach

3.2 In CP7, the RAB is calculated as the CP6 closing RAB:

- plus an inflation adjustment to the opening RAB;
- plus efficient renewals and enhancements expenditure; and
- less amortisation[5].

3.3 The assessment of the RAB is a cumulative assessment for CP7, for example, an overspend in year one could be offset by underspend in year two. This means that it will only be possible to finalise the value of the RAB once CP7 is completed. All annual calculations of the RAB during CP7 in the regulatory financial statements will therefore be provisional.

Process for calculating renewals additions to the RAB

3.4 The process for deciding whether Network Rail has underspent or overspent our PR23 renewals assumption is firstly to calculate the baseline determination by indexing the PR23 renewals assumption to the price base in the relevant year as described in Chapter 1.

3.5 The indexed baseline number should then be adjusted for any deferral or acceleration of expenditure.

3.6 Any underspend against this baseline will be considered efficient if Network Rail has met the robustness and sustainability tests described in Chapter 2.

[5] As set out in our PR23 financial framework document, the amortisation will ordinarily be the same as renewals expenditure incurred in CP7. Enhancements expenditure will ordinarily be cash funded and so not added to the RAB.

3.7 If there is an overspend, Network Rail will need to show that the overspend is not manifestly inefficient. Manifestly inefficient renewals expenditure does not meet the following criteria:

(a) within the scope of the network licence;

(b) within the scope of the Department for Transport (DfT) and Transport Scotland HLOS requirements (if relevant);

(c) meets a customer reasonable requirement; or

(d) adds economic value to the railway.

3.8 We would expect a key element of Network Rail's justification that renewals expenditure is not manifestly inefficient would be evidence that internal project management and investment authorisation controls had been properly applied.

Enhancements to the network

3.9 We currently expect that all DfT and Transport Scotland specified enhancements will be government grant funded in CP7. This means that we do not expect any RAB additions for enhancements expenditure in CP7.

Treatment of asset disposals

3.10 Ordinarily, RAB deductions should be valued as an amount equal to actual sales proceeds because of the objectivity and transparency associated with this approach. In exceptional circumstances we will consider an alternative approach. For example, we accepted a bespoke treatment for the disposal of assets by Network Rail to Transport for Wales as part of the process of devolving responsibility for the Core Valley Lines in CP6. In this case, we referred to a depreciated replacement value as a starting point for finding a value for the assets concerned.

Presentation of the RAB in the regulatory financial statements

3.11 Regions' regulatory financial statements will include a statement summarising the changes to the RAB during the year.

Annex A: Required statements and disclosures

A.1 The required statements and disclosures in Network Rail's regulatory financial statements are included in the spreadsheet: 'Template regulatory financial statements for CP7', which is available on the ORR website.

Annex B: Guidelines for preparing the regulatory financial statements

General

B.1 Network Rail should apply the following high-level principles when preparing its regulatory financial statements:

(a) **Causality:** Income and expenditure should be allocated in relation to the activities which cause the income to be earned or the expenditure to be incurred;

(b) **Objectivity:** The regulatory financial statements should be prepared without unduly prejudicing Network Rail or any part of Network Rail or any other entity;

(c) **Consistency:** The regulatory financial statements should be prepared on a consistent basis from year to year. Where there are changes, the previous year's regulatory financial statements will be restated on a consistent basis; and

(d) **Transparency:** The methods used to prepare the regulatory financial statements should be made clear.

B.2 Unless we agree otherwise, income and expenditure should be recorded on the same basis as they were treated in the PR23 determination, using the same definitions of activities as Network Rail's PR23 submissions.

B.3 If the basis of allocating income or expenditure between income or expenditure sub-categories changes, the change should be shown in the narrative to the regulatory financial statements.

Income

B.4 Total income consists of franchise access income, grant income and other income.

B.5 Other income includes the following:

(a) property income - revenue generated from Network Rail’s non-operational property portfolio, including the proceeds of disposals and any adjustments for commercial operational expenditure;

(b) freight income - net income from track and other charges paid by freight train operators;

(c) open access income - net income from track and other charges paid by passenger train operators not operating under any form of franchise agreement;

(d) stations income - net income from station access agreements (for managed stations and franchised stations);

(e) depots income - net income from depot access agreements;

(f) finance and facility charges;

(g) income from operating the HS1 concession; and

(h) other.

Expenditure

Maintenance and renewals

B.6 Maintenance expenditure relates to activities that counter the wear, degradation or ageing of the existing infrastructure so that the required standard of performance is achieved.

B.7 Maintenance expenditure generally includes:

(a) expenditure incurred in repairing (but not replacing) infrastructure assets and routine overhauls;

(b) the cost of preventative work designed to protect assets from future failure;

(c) the cost of asset inspection; and

(d) the cost of all small-scale replacement work excluded from the definition of renewals expenditure.

B.8 Renewals expenditure relates to activities where an existing infrastructure asset has deteriorated so that it can no longer be maintained economically and must be replaced as a whole or in part. Such expenditure does not result in any change or enhancement of the performance of the original asset.

B.9 Network Rail's Cost and Volume handbook defines the accounting treatment (i.e. maintenance or renewal) for specific asset interventions.

Treatment of financial variances as financial performance or neutral expenditure variances

B.10 Maintenance and renewals expenditure can vary for reasons other than better or worse financial performance compared to the CP7 delivery plan. The following are relevant examples for the reporting of financial performance and neutral expenditure variances:

- **Slippage of work due to poor weather**: Work planned to be undertaken near to the end of one year may be postponed to the next year due to poor weather restricting site access. The resulting underspend is not financial outperformance as the output in the CP7 delivery plan has not been delivered. If the work is later caught up and there has been no impact on the robustness or sustainability of the network, the underspend in the first year should therefore be treated as neutral (deferral) in the reporting of financial performance. If the cost of undertaking the work increases because of the delay, the additional cost will be reported as financial underperformance when that work is undertaken.

- **Change in usage**: A change in usage of a part of the network might lead to more or fewer renewals being needed than included in the CP7 delivery plan. For example, if a decrease in freight traffic no longer requires a siding to be renewed. The resulting underspend is not financial outperformance as the output in the delivery plan has not been delivered. However, there has been no impact on the robustness or sustainability of the network as the output in the delivery plan is no longer needed, so there is no financial underperformance. The underspend should therefore be treated as neutral in the reporting of financial performance.

- **Change in asset knowledge**: Better asset information or a change in asset policy might result in more or less work being needed than that which was included in the CP7 delivery plan. For example if improved asset information shows that asset condition is better than previously thought, less work can be undertaken to maintain the robustness and sustainability of the network. The resulting underspend should be treated as financial outperformance as the same output has been delivered for less than the delivery plan. Conversely, new asset information may show that asset condition is worse than previously thought. This would require more work to maintain the robustness and sustainability of the network. The resulting overspend should be treated as financial underperformance as the required output has cost more than the CP7 delivery plan.

- **Repackaging of work**: Network Rail may find an opportunity to repackage renewals so that the work can be delivered more efficiently as a whole, for example, by coordinating possessions to minimise network disruption. In the situation where work is delayed, the underspend is not financial outperformance as the work still needs to be undertaken. The underspend should be treated as a neutral deferral if the delay to the work being undertaken does not affect the robustness or sustainability of the network. When the repackaged work is undertaken, financial outperformance will be reported if the expected benefit (lower cost) has been achieved.

B.11 Such expenditure variances need to be clearly reported alongside financial performance to enable a full understanding of income and expenditure variances.

Enhancements

B.12 Enhancement expenditure is incurred to undertake activities to improve capacity or capability of the rail network. Expenditure on enhancements to the network must be separately reported from expenditure on renewals to the network.

Regional reporting

B.13 Network Rail's income and expenditure are classified into the following three main categories dependent upon how the items are managed[6]:

(a) *directly attributed*. Income and expenditure in this category is managed at a region level. As there is a clear alignment between management responsibility and the region, such items are relatively straightforward to account for at a region level;

(b) *centrally managed - attributable*. Income and expenditure in this category is not managed at a region level, however, the income is earned and / or

[6] The accounting policies note to Network Rail's CP5 regulatory financial statements includes detailed definitions.

expenditure are incurred locally. Apportionment may be required for activities that span region; and

(c) *centrally managed - network wide*. Income and expenditure in this category is incurred for the company as a whole (for example, external insurance costs). These items are allocated to regions using a relevant metric.

B.14 The split across the above three categories should be made clear in regions' reporting of income and expenditure.

Network Rail (High Speed) Limited

B.15 HS1 Limited has a contract with Network Rail (High Speed) Limited for it to operate, maintain and renew the High Speed 1 line on HS1's behalf. Most of the resources that Network Rail (High Speed) Limited uses to conduct these activities are provided by Network Rail. Therefore, it is important that the charges that Network Rail makes to Network Rail (High Speed) Limited are transparent and cost reflective and that there is no cross-subsidy as these costs are not remunerated through Network Rail's access charges reviews.

B.16 To help ensure that the charges are transparent and cost reflective, Network Rail will provide an up to date detailed description of its methodology for allocating/charging its costs to Network Rail (High Speed) Limited and will keep an up to date register of the assets that are being used to provide services to HS1 together with the methodologies used to recover the costs of those assets.

Annex C: Format of the statement of sufficiency of resources

C.1 The statement of sufficiency of resources shall be in one of the following forms:

(a) "After making enquiries, and subject to the outcome of any access charges review which is due to be concluded within the twelve-month period referred to in this statement, the directors of the licence holder have a reasonable expectation that the licence holder will have available to it, after taking into account in particular, but without limitation:

i. any dividend or other distribution, loan repayments or other sums due which might reasonably be expected to be declared or paid by the licence holder;

ii. any mortgage, charge, pledge, lien or other form of security or other encumbrance; and

iii. any indebtedness or guarantee;

sufficient resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents, and facilities, on such terms and with all such rights, to enable the licence holder to: (a) properly and efficiently carry on the Permitted Business; and (b) comply in all respects with its obligations under the Act and under its network licence, for the period of 12 months referred to in this statement."

or:

(b) "After making enquiries, and subject to the outcome of any access charges review which is due to be concluded within the twelve-month period referred to in this statement, the directors of the licence holder have a reasonable expectation, subject to the factors set out below, that the licence holder will have available to it, after taking into account in particular, but without limitation:

i. any dividend or other distribution, loan repayments or other sums due which might reasonably be expected to be declared or paid by the licence holder;

ii. any mortgage, charge, pledge, lien, or other form of security or other encumbrance; and

iii. any indebtedness or guarantee;

sufficient resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents, and facilities, on such terms and with all such rights, to enable the licence holder to: (a) properly and efficiently carry on the Permitted Business; and (b) comply in all respects with its obligations under the Act and under its network licence, for the period of 12 months referred to in this statement. However, they would like to draw attention to the following factors which may cast doubt on the ability of the licence holder to do this."

or:

(c) "In the opinion of the directors of the licence holder, the licence holder will not have available to it sufficient resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents, and facilities, on such terms and with all such rights, to enable the licence holder to: (a) properly and efficiently carry on the Permitted Business; and (b) comply in all respects with its obligations under the Act and under its network licence, for the period of 12 months referred to in this statement."

This publication is available at orr.gov.uk

Any enquiries regarding this publication should be sent to us at orr.gov.uk/contact-us