# Annual efficiency and finance assessment of Network Rail 2025




## Executive summary

In this report, we focus on the financial and efficiency performance of Network Rail in the first year of Control Period 7 (CP7). Network Rail's funding and requirements for this five-year control period were set out in our 2023 periodic review (PR23). In this we determined what Network Rail should deliver in respect of operating, maintaining, and renewing its network, and the funding necessary to do this for the period from 1 April 2024 to 31 March 2029.

Network Rail delivered £325 million of efficiency improvements in the first year of CP7 (April 2024 to March 2025). Nevertheless, the company financially underperformed by £243 million against its

CP7 delivery plan. This means, that, net of income, Network Rail spent £243 million more than originally planned, despite delivering efficiency improvements. We explain the reasons for this difference later in the report.

This efficiency and financial performance are against a backdrop of £14.5 billion of total expenditure on the national rail infrastructure in the last year, £9.9 billion if we focus on operations, support, maintenance and renewals alone.

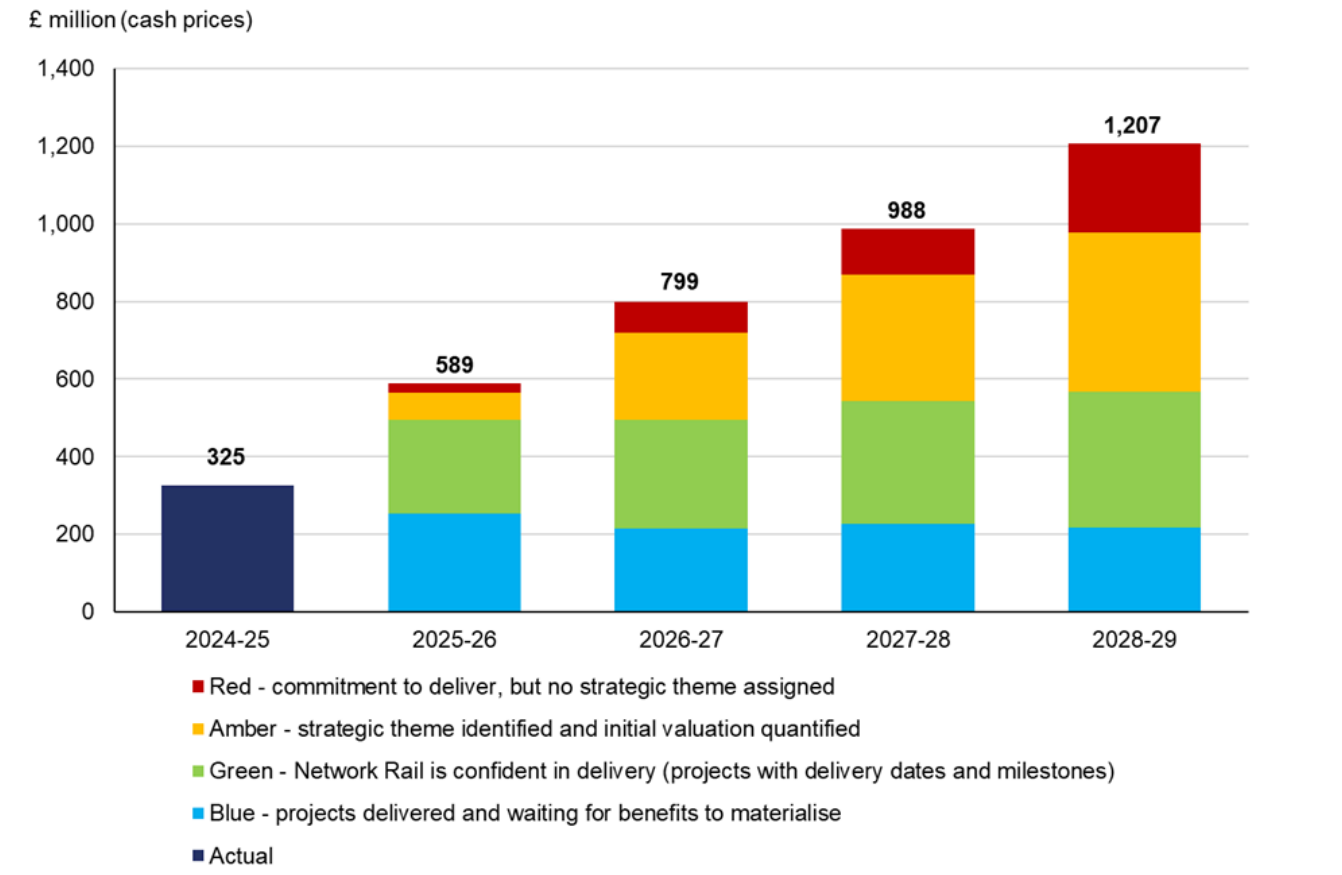
## Key findings

The key findings from our assessment are:

### 1. Network Rail outperformed our efficiency target for Year 1 of CP7, but faces significantly higher targets for the remainder of the control period

Network Rail delivered £325 million of efficiency improvements in the first year of CP7, 24% ahead of our PR23 target of £263 million. These efficiencies are discussed in Chapter 2.

Figure 1: Network Rail's actual and latest CP7 forecast efficiency improvements, April 2024 to March 2029

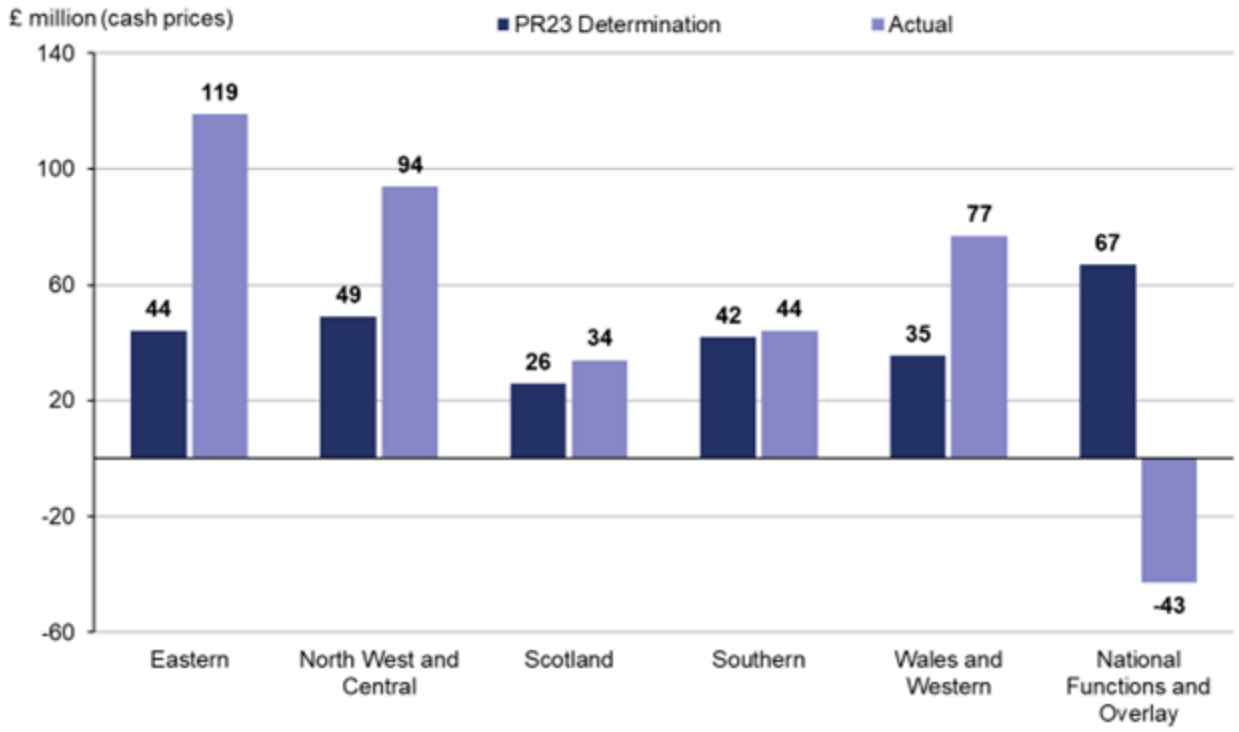



*Source: ORR analysis of Network Rail's data*

Our PR23 determination set Network Rail a target to deliver £3.9 billion (cash prices) of efficiency improvements in CP7. At the start of Year 1 we commissioned Nichols Group to assess Network Rail's preparedness to deliver its efficiency plans. Nichols found that Network Rail was well positioned to deliver Year 1 and Year 2 efficiency targets, but that it should aim to go further to de-risk delivery of the significantly more challenging targets for Years 3 to 5 (see Figure 1).

As shown in Figure 2, all five of Network Rail's regions exceeded their Year 1 efficiency targets.

**Figure 2: Regional contributions to efficiency improvements in April 2024 to March 2025**




*Source: ORR analysis of Network Rail's data*

We use leading indicators, prepared by Network Rail to evaluate the company's readiness for its efficiency delivery for the year ahead (Year 2). Overall, these point to Network Rail being in a good position to deliver on the Year 2 targets, consistent with the direction of travel from the Nichols report published last year. Regional plans show that 84% of initiatives have either been delivered or have well developed plans (see blue and green markers for Year 2 in Figure 1). However, Network Rail is facing financial pressures that pose a risk to delivering its efficiency plans for later in the control period – which we explain further in this report.

### 2. Network Rail has financially underperformed due to inflationary pressures, additional maintenance activities and compensation payments for declining train performance

While Network Rail outperformed its efficiency target for the first year, it underperformed on the financial performance measure (FPM) by £243 million. This means that, net of income, the company spent £243 million more on what it delivered (in terms of operating, maintaining and renewing the railway) than it was funded to deliver (approximately 2% of its annual expenditure). This compares to an annual financial underperformance of around £550 million in CP6 (in cash prices).

Despite exceeding its efficiency targets, Network Rail's financial performance was affected by several factors including:

- renewals projects experienced higher than expected inflationary pressures. Cost increases were also associated with delivery issues across several major signalling schemes from project delays, access constraints and reprioritisation of projects. These factors collectively contributed £259 million to financial underperformance;
- maintenance costs also exceeded budget. This included additional reactive maintenance activities and staff recruitment costs, and unplanned costs arising from training delays. Pay awards for front line staff were also higher than CPI inflation. These contributed £106 million to financial underperformance;
- poor train performance resulted in £71 million of underperformance in Schedule 8 compensation payments to train operators. This was a result of higher than expected cancellations, delays, trespass and cable thefts throughout the year;
- However, these negative trends were partially offset by financial outperformance on Schedule 4, the incentive regime for managing planned disruption (£122 million), support costs (£69 million) and enhancements (£47 million).

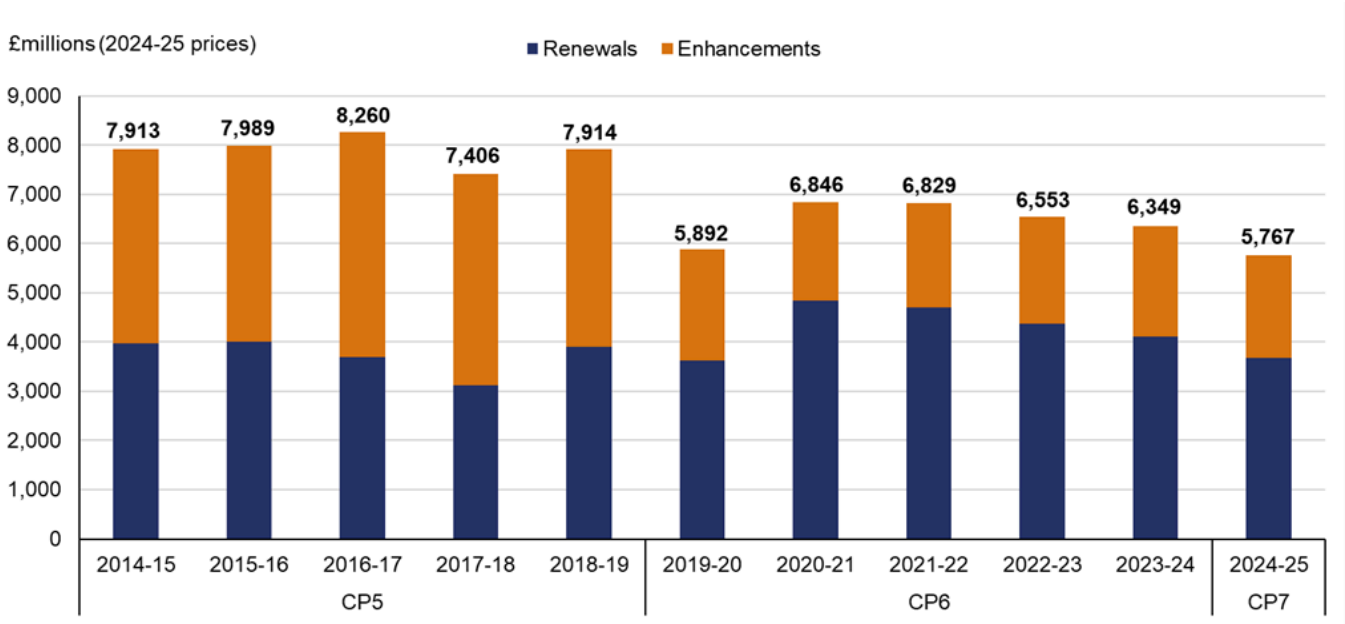
Exceeding the efficiency target but underperforming on FPM – as happened this year and in CP6 – can be explained by the structural differences between the two measures which are explained in Annex B. Most significantly, FPM encompasses most of Network Rail's income and expenditure, and assesses whether Network Rail has delivered its required activities for more or less than it was funded to deliver them. Efficiency examines the drivers of cost changes over time (and not changes to income – which is part of FPM) in the areas of operations, support, maintenance and renewals (but not enhancements – which are also part of FPM).

### 3. Capital expenditure has reduced and uncertainty about volumes of work in CP7 is causing concerns for Network Rail's supply chain

Network Rail spent £5.8 billion on renewals and enhancements in the first year of CP7. As shown in Figure 3, this represents a 9% year-on-year decrease.

The reduction in capital expenditure was primarily driven by lower than planned expenditure on the European Train Control System (ETCS) programme (which aims to replace traditional lineside signals with in-cab signalling), delays to traditional signalling renewals and lower property investment – all of which we explain in Chapter 2.

Figure 3: Renewals and enhancement expenditure, April 2014 to March 2025




*Source: ORR analysis of Network Rail'sdata*

Network Rail's supply chain has expressed concerns about lower than anticipated renewals and enhancement work commissioned by Network Rail since the start of CP7. We have discussed these concerns with Network Rail and reiterated the importance of the company communicating effectively and consistently with its supply chain during the control period.

Strong supplier relationships are crucial for Network Rail both in terms of delivering its major capital programmes but also in terms of delivering future efficiencies. Approximately half of Network Rail's annual expenditure is with suppliers and around £1.3 billion of efficiency improvements are expected to be achieved in CP7 through supply chain initiatives.

### 4. Network Rail faces difficult financial pressures in the rest of CP7

Our PR23 final determination provided for £1.7 billion of funding to cover unforeseen financial risk in CP7 (£1.5 billion for England and Wales and £0.2 billion for Scotland). Network Rail drew down and allocated 55% of this funding for unexpected cost pressures that it now expects to incur in CP7 (these include national insurance contributions, higher input prices and Schedule 8 payments). This means that Network Rail has substantially less risk funding available for other unforeseen financial risks that may emerge in the remaining four years of CP7.

Alongside these pressures, Network Rail's CP7 delivery plan had a funding gap for England & Wales, which means that the company has identified that there is insufficient funding in CP7 to deliver its planned expenditure. In response to our concerns about this matter, Network Rail has made

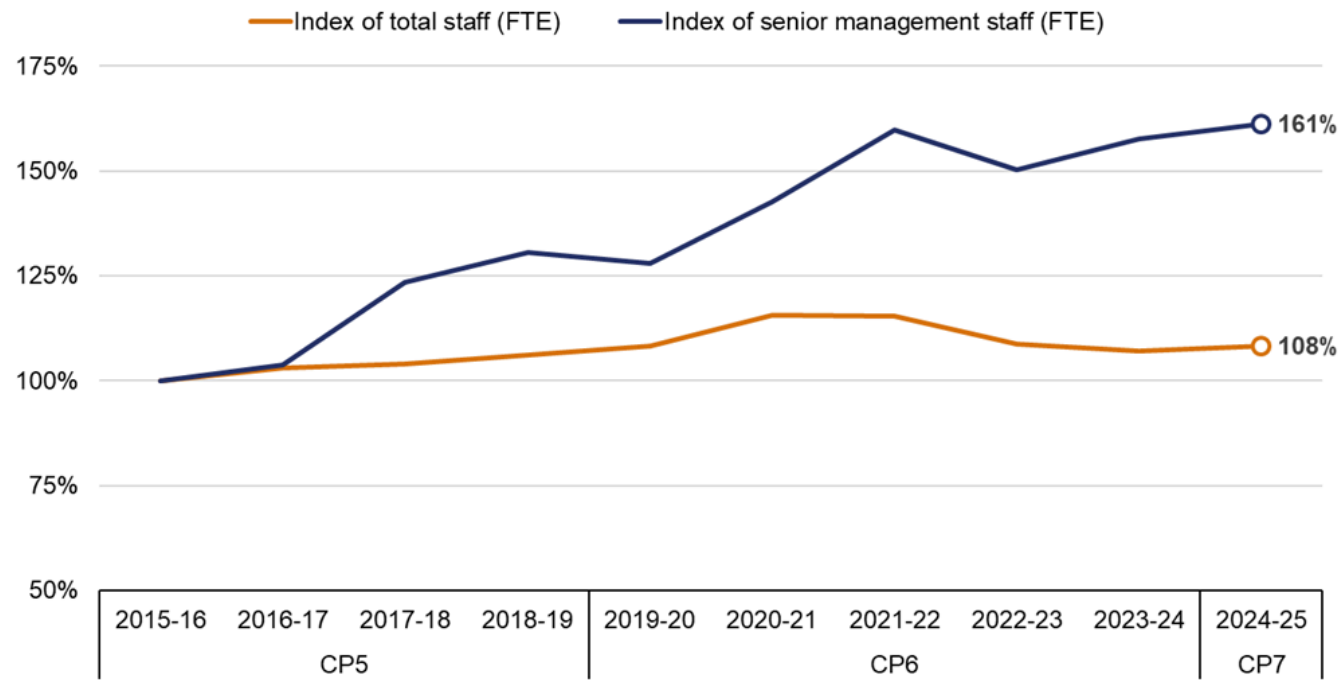
progress to reduce this funding gap. However, the funding gap at the end of Year 1 was close to £500 million and remains a concern, particularly due to inflationary pressures. Our January letter provides further details. We will continue to engage with Network Rail to ensure the gap is closed and that Network Rail looks at all available options for resolving the funding gap before it considers cutting back on planned renewals for core assets. These matters are explained further in Chapter 3.

### 5. Senior management headcount has continued to increase and staff costs have increased

At the end of Year 1, total headcount was 41,702 full time employees, a 1% annual increase. However, these changes included a 4% reduction in maintenance staff.

Network Rail had 661 employees working in senior management grades (director and Band 1) in the last year. As shown in Figure 4, headcount in senior management grades increased by 2%, continuing a longer-term trend that has seen senior management headcount increase substantially over recent years. This is in contrast to total headcount which has changed little over the same period.

**Figure 4: Change in total staff (FTE) and senior management (FTE) headcount, April 2015 to March 2025**




*Source: ORR analysis of Network Rail's data*

Over the last year, total staff costs rose by 0.7% in real terms (i.e. above CPI inflation) to £3.0 billion. This represents 21% of the company's annual expenditure, compared to 20% the prior year.

The average employment cost for a full-time employee (excluding agency staff) was £64,351, an annual increase of 0.2% and total reward for senior managers was £167,927 (including pensions, bonuses and allowances) an annual increase of 5%.

The increase in senior management headcount and remuneration indicates a shift in workforce structure and cost management over recent years. This growth in the cost and number of senior roles indicates a potential need for Network Rail to review its staffing strategy and cost of its senior management.

### 6. A stable plan in Scotland should support its CP7 delivery requirements, though significant risk funding has been required to manage cost pressures

Network Rail Scotland made a good start to CP7, exceeding its efficiency plans by 32% for Year 1 which was above the average for Network Rail nationally. However, to manage the various cost pressures it has faced (such as National Insurance Contributions and input prices), Network Rail Scotland drew down and allocated a large portion (56%) of its £234 million of its CP7 risk funds to cover these costs.

In contrast to England and Wales, Network Rail Scotland's CP7 delivery plan does not have a funding gap. We consider that this is likely to increase the stability of Network Rail Scotland's delivery plan and, in turn, may put it in a stronger position than England and Wales regions to deliver its asset management outcomes for CP7.

- → Next 1. Introduction

# 1. Introduction

1.1 Our annual efficiency and finance assessments provide our view of how Network Rail has financially performed each year. This 2025 publication covers the first year of the control period 7 (CP7), April 2024 to March 2025. 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 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 2024-25 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.

1.4 Chapter 3 reports on financial risk management and budgetary flexibility.

1.5 Chapter 4 reports on the financial performance and efficiency of Network Rail's activities in Scotland.

1.6 Chapter 5 compares the financial performance and efficiency of Network Rail's five geographical regions. These are Eastern, North West and Central (NW&C), Scotland, Southern and Wales and Western (W&W). The chapter also examines the financial performance of Network Rail's national functions.

1.7 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.

1.8 Annex B explains the efficiency and financial performance measures used in our assessments.

1.9 Annex C presents detailed figures on Network Rail's five largest efficiency initiatives in the year.

# How we calculate Network Rail's financial performance and efficiency

1.10 Our assessments in CP7 focus primarily on two measures:

- **Financial performance:** This compares income and expenditure to the financial assumptions underpinning CP7 funding. The efficiency improvements that regions are expected to achieve are embedded in the financial assumptions in their CP7 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. It excludes external factors such as inflation, input price changes, and volume changes, focusing instead on cost drivers and internal improvements.

1.11 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 the company and its regions to become more efficient.

## Financial performance

1.12 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 CP7 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 CP7 regulatory accounting guidelines explain further how FPM is calculated.

## Efficiency

1.13 We required Network Rail's reporting in CP7 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 CP7. 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.

## Baseline for assessment

1.15 Network Rail developed a CP7 delivery plan which set out how it intended to deliver the

requirements of our PR23 determination within the funding available. For the purpose of comparing Network Rail's financial performance to our PR23 funding assumptions, we use Network Rail's CP7 delivery plan as the funding baseline in this assessment.

1.16 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

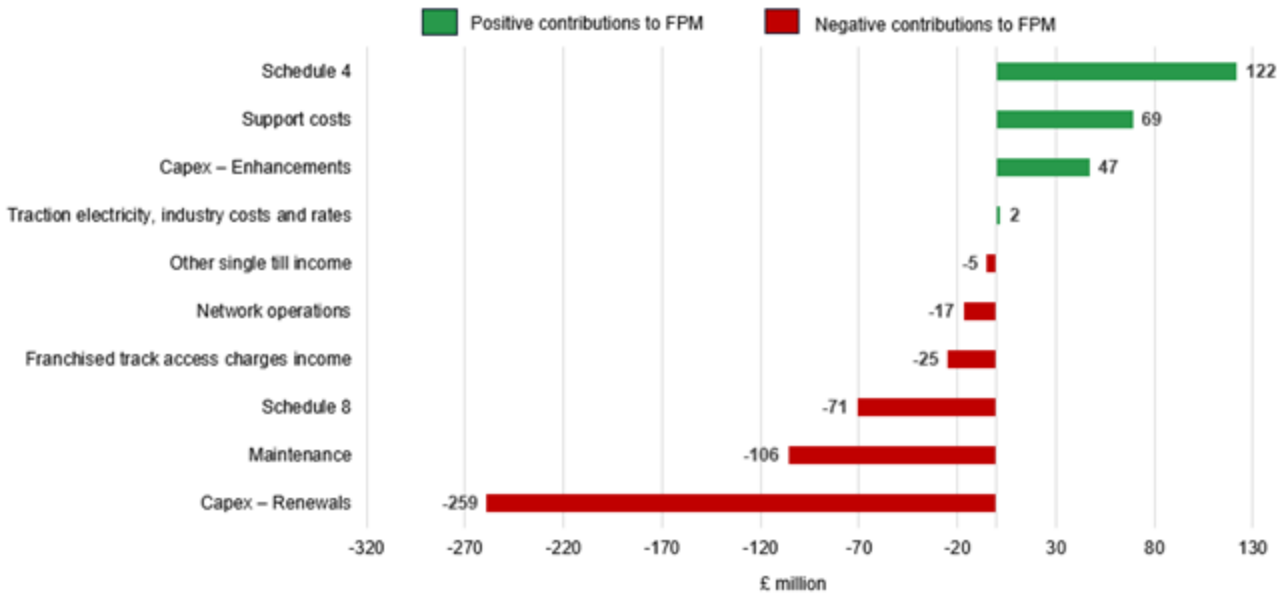
- ← Previous Annual efficiency and finance assessment of Network Rail 2025
- → Next 2. Network Rail's financial performance and efficiency

# 2. Network Rail's financial performance and efficiency

## Financial performance

2.1 Due to financial pressures in the year, Network Rail reported a £243 million underperformance against its CP7 delivery plan. This means, net of income, Network Rail spent £243 million more than originally planned. Figure 2.1 illustrates the factors contributing to Network Rail's underperformance in the year.

Figure 2.1: Contributions to Network Rail's financial underperformance in April 2024 to March 2025




*Source: ORR analysis of Network Rail data*

Table 2.1: Network Rail's financial performance, Great Britain, April 2024 to March 2025

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performance | % of FPM contribution |
|---|---|---|---|---|---|
| Network grant income | 7,607 | 7,807 | (200) | - | - |
| Franchised track access charges | 3,358 | 3,394 | (36) | (25) | (10%) |

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performance | % of FPM contribution |
|---|---|---|---|---|---|
| Other single till income | 759 | 762 | (3) | (5) | (2%) |
| **Total income** | **11,724** | **11,963** | **(239)** | **(30)** | **(12%)** |
| Network operations | 892 | 875 | (17) | (17) | (7%) |
| Support costs | 1,099 | 1,210 | 111 | 69 | 28% |
| Traction electricity, industry costs and rates | 1,322 | 1,354 | 32 | 2 | 1% |
| Maintenance | 2,504 | 2,373 | (131) | (106) | (44%) |

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performance | % of FPM contribution |
|---|---|---|---|---|---|
| Schedule 4 | 270 | 395 | 125 | 122 | 50% |
| Schedule 8 | 118 | 47 | (71) | (71) | (29%) |
| **Total operating expenditure** | **6,205** | **6,254** | **49** | **(1)** | **(0%)** |
| Capex – Renewals | 3,683 | 4,010 | 327 | (259) | (107%) |
| Capex – Enhancements | 2,084 | 2,194 | 110 | 47 | 19% |
| **Total capital expenditure** | **5,767** | **6,204** | **437** | **(212)** | **(87%)** |

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performance | % of FPM contribution |
|---|---|---|---|---|---|
| Risk expenditure | - | 31 | 31 | - | - |
| Financing costs and other | 2,498 | 2,687 | 189 | - | - |
| **Total expenditure** | **14,470** | **15,176** | **706** | **(213)** | **(88%)** |
| **Financial performance measure (FPM)** | - | - | - | **(243)** | **(100%)** |

*Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding. Note that total income does not equal total expenditure, this is because of the timing of recognition of income and expenditure (particularly in relation to financing costs) as explained in Network Rail's regulatory financial statements.*

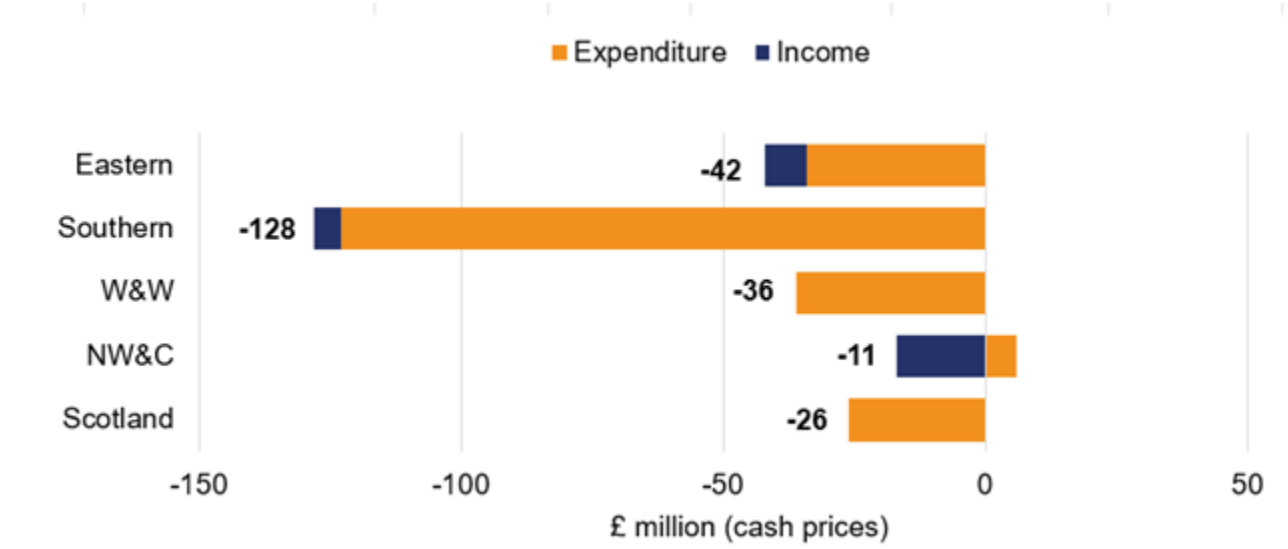
2.2 Table 2.1 shows Network Rail's actual performance against its budgeted income and expenditure, set out in its CP7 delivery plan. The table also shows FPM for each budget line, which indicates how much Network Rail has out/underperformed taking account of what it was expected to deliver.

2.3 Network Rail's financial underperformance in April 2024 to March 2025 was driven primarily

by renewals, where delays and delivery issues, including inflationary cost increases, led to significant underperformance. Additional maintenance activity and higher payments under the financial performance incentive regime (Schedule 8) to train operators also contributed.

2.4 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, April 2024 to March 2025**

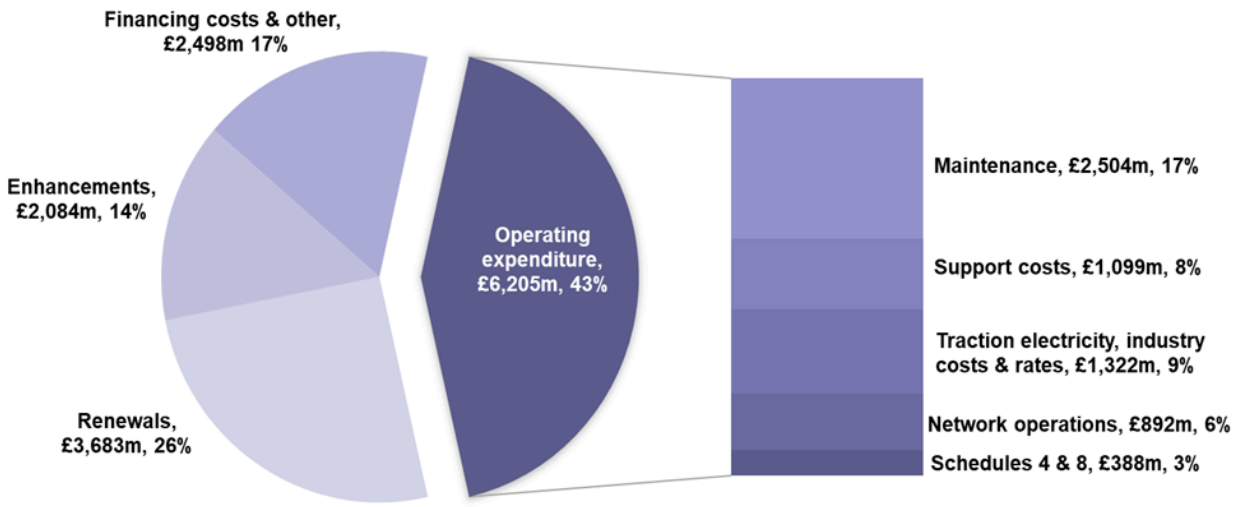



*Source: ORR analysis of Network Rail's data*

# Expenditure

2.5 Network Rail spent £14.5 billion from April 2024 to March 2025, a 5% year on year decrease (£15.2 billion previously) Figure 2.3 shows the main categories of Network Rail's expenditure.

**Figure 2.3: Network Rail's expenditure from April 2024 to March 2025**




*Source: ORR analysis of Network Rail's data*

## Operating expenditure

2.6 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

2.7 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 £2,504 million maintaining its network in April 2024 to March 2025, underperforming by £106 million. The overspend was a result of additional works undertaken on the network including higher than expected reactive maintenance activities, recruitment costs and training delays reducing the expected benefits of the maintenance modernisation programme. Additionally, pay awards for front line staff were higher than CPI inflation.

## Network operations

2.8 Network operations expenditure relates to activities such as signalling and operating Network Rail's managed stations. Network Rail spent £892 million operating the network in April 2024 to March 2025, with a £17 million underperformance. This was primarily due to the pay awards previously outlined, as well as additional recruitment to improve resilience, reducing reliance on

overtime and replenishing the workforce.

### Support costs

2.9 Support costs relate to activities that facilitate Network Rail's core business activities including corporate functions and IT services. Support costs were £1,099 million in the year, with an outperformance of £69 million. The financial outperformance was driven by a higher proportion of project support expenditure being treated as capital investment, and savings across a number of areas such as Route Services – Digital Data & Technology, Insurance, System Operator and regionally-managed activities.

### Traction electricity, industry costs and rates

2.10 Network Rail purchases electricity to provide power for electrically powered trains, and for its own usage. The traction electricity costs are largely matched by an equal amount of income from train operators. 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.

2.11 These items are largely passthrough costs which do not contribute to Network Rail's financial performance.

### Schedule 4 and Schedule 8

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.

2.13 Schedule 4 costs were £270 million, with an outperformance of £122 million. Network Rail's delivery plan included performance risk contingencies for planned engineering disruptions, which were largely offset by higher Schedule 8 costs (see below). Schedule 4 outperformance was mainly a result of more productive engineering possessions during the year including, better coordination, improved planning, and optimised use of resources, which reduced disruption. Additionally, there were fewer impactful weather events, which further contributed to the cost

savings.

2.14 However, Schedule 8 costs were £118 million, with an underperformance of £71 million. This was driven by higher than forecast train cancellations, delays, trespassing and cable thefts.

## Renewals

2.15 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.

2.16 Network Rail spent £3,683 million renewing the rail network in April 2024 to March 2025 with an underspend of £327 million against its CP7 delivery plan.

2.17 The underspend was driven by the reprioritisation of funding to other activities by regions and the reprofiling of signalling schemes across the control period, mainly the ETCS programme (which aims to replace traditional lineside signals with in-cab signalling to enhance safety, capacity, and reliability).

2.18 Network Rail invested less on its property portfolio in the year than expected. This was largely driven by the delay in establishing its new Platform 4 business which aims to consolidate and strengthen land and property development across the UK rail estate. Network Rail is aiming to achieve £1,615 million of property income in CP7, a 109% increase from CP6.

2.19 Alongside the underspend, Network Rail underperformed by £259 million on its renewals activities meaning that it spent more for what it delivered than planned. This was most notably in signalling activities (which accounted for 53% of the total renewals' underperformance) where delivery issues across several major schemes resulted in project delays with associated additional costs.

## Enhancements

2.20 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 the Department for Transport (DfT) and Transport Scotland (TS) under their 'pipeline' approaches for releasing funding as individual projects progress.

2.21 Network Rail spent £2,084 million on government-funded enhancements in April 2024 to March 2025. Expenditure on the main schemes is summarised in Table 2.2.

2.22 Overall financial performance on enhancements was strong, with a £47 million outperformance, with the largest contributions coming from the East West Rail programme (which was £40 million) and the TransPennine Route Upgrade (which was £29 million).

Table 2.2: Network Rail's enhancements expenditure in April 2024 to March 2025

| £ million, cash prices | Actual | CP7 delivery plan | FPM out/ (under) performance |
|---|---|---|---|
| TransPennine Route Upgrade | 842 | 832 | 29 |
| East Coast Digital Programme (South) | 230 | 215 | 0 |
| Midland Main Line Programme | 101 | 119 | 9 |
| Access for All | 96 | 96 | 0 |
| Cambridge South Station | 87 | 87 | (4) |

| £ million, cash prices | Actual | CP7 delivery plan | FPM out/ (under) performance |
|---|---|---|---|
| Northern Powerhouse Rail (NPR) | 62 | 88 | 0 |
| ECML Upgrades (IRP schemes) | 60 | 49 | 0 |
| East West Rail Programme | 57 | 110 | 40 |
| Wigan to Bolton Electrification | 50 | 47 | 1 |
| Other DFT funded schemes | 321 | 391 | (28) |
| Transport Scotland funded schemes | 154 | 160 | 0 |
| Other capital expenditure | 24 | 0 | 0 |

| £ million, cash prices | Actual | CP7 delivery plan | FPM out/ (under) performance |
|---|---|---|---|
| Total Network Rail-funded enhancements | 2,084 | 2,194 | 47 |
| Third party-funded enhancements (including HS2) | 435 | - | - |
| Total enhancements | 2,519 | 2,194 | 47 |

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

# Employment costs

2.23 In April 2024 to March 2025, Network Rail employed an average of 41,702 staff, a 1% annual increase (on a full time equivalent (FTE) basis). Total staff costs increased by 0.7% to £3.0 billion, representing 21% of the company's annual expenditure.

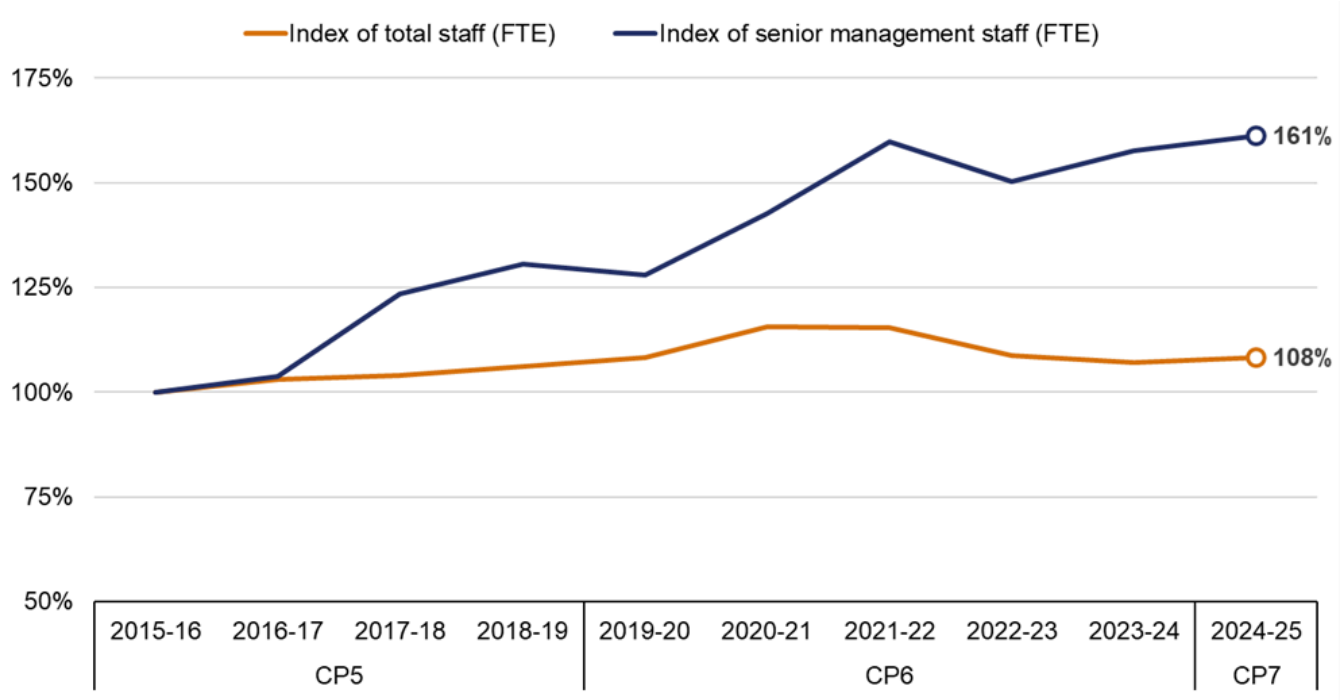
2.24 Maintenance headcount reduced by 4% to around 14,241 FTEs during the year and reduced by around 9% compared to the end of Year 1 of CP6.

2.25 The average employment cost for a full-time employee (excluding agency staff) was £64,351, an annual increase of 0.2%, of which 25% was from overtime, allowances, performance related pay and employer pension contributions.

2.26 However, headcount in senior management grades (Director and Band 1 levels) increased by 2% during the year, continuing a longer-term trend that has seen senior management headcount

increase by 26% over the last five years and by 61% over the last decade (see Figure 2.4). Including pensions, bonus and allowances the average total reward for these senior managers was £167,927, an increase of 5% from last year.

**Figure 2.4: Change in total staff (FTE) and senior management (FTE) headcount, April 2015 to March 2025**




*Source: ORRanalysis of Network Rail's data*

2.27 The increase in senior management headcount and remuneration suggests a shift in workforce and cost management priorities. While the average cost per employee has only marginally increased, the proportionally higher growth in senior roles may indicate an opportunity to review the staffing strategy and cost efficiency opportunities.

2.28 Network Rail's agency staff FTE reduced by 11% in the year to 755 people. This represents an 18% decrease from the end of Year 1 of CP6.

# Efficiency

2.29 In determining the funding that Network Rail would need to deliver its required outputs in CP7 we assessed the efficient level of expenditure that it required. Network Rail is expected to deliver £3.9 billion of efficiency improvements in CP7 (in cash prices). The detailed assumptions

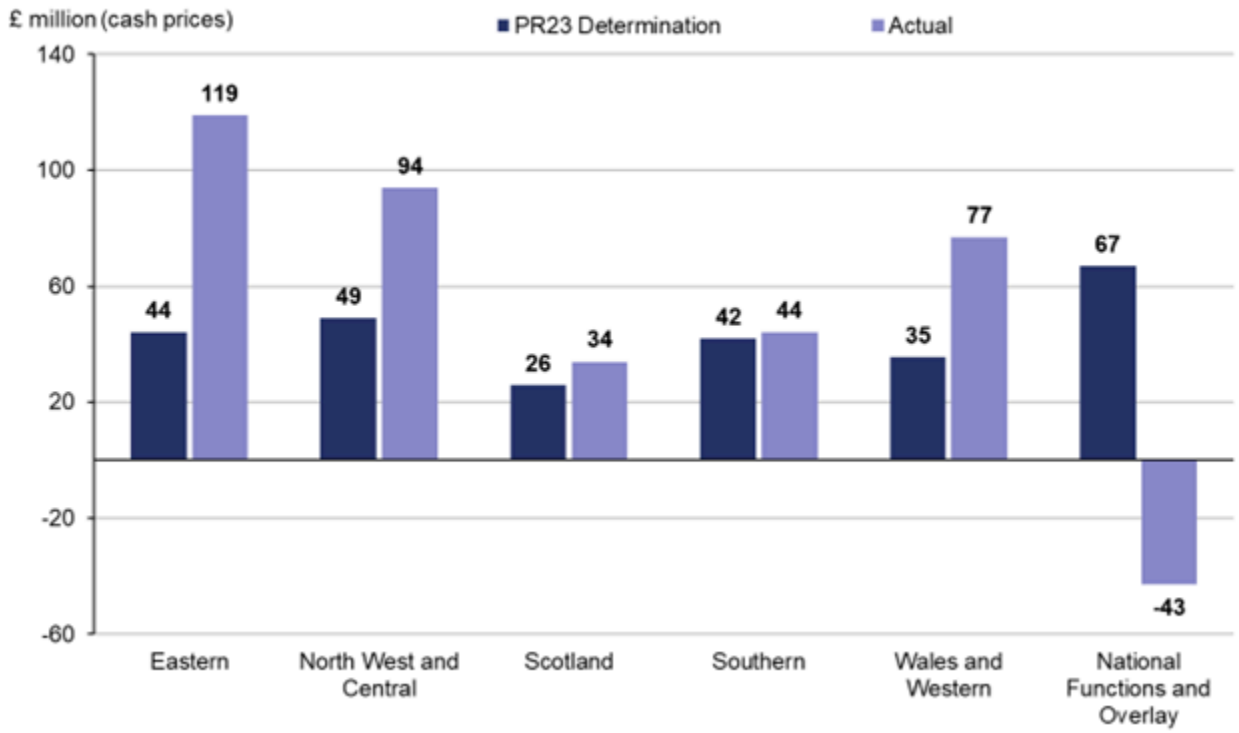
regarding expenditure and efficiency that informed these forecasts are outlined in our PR23 determination.

2.30 In the year April 2024 to March 2025 Network Rail delivered £325 million of efficiency improvements, 24% ahead of our PR23 target of £263 million.

2.31 We 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. Overall, Nichols' assessment found Network Rail's efficiency plans for Years 1 and 2 of CP7 were reasonable. Nichols suggested that Network Rail should look to overdeliver early in the control period to de-risk the achievement of the significantly more challenging efficiency targets for Years 3 to 5.

2.32 As shown in Figure 2.5, all five of Network Rail's regions exceeded their Year 1 efficiency targets. The efficiencies delivered by a region are influenced by the nature of the planned work, the region's size, and its distinct geographical characteristics.

Figure 2.5: Regional contributions to efficiency improvements, from April 2024 to March 2025



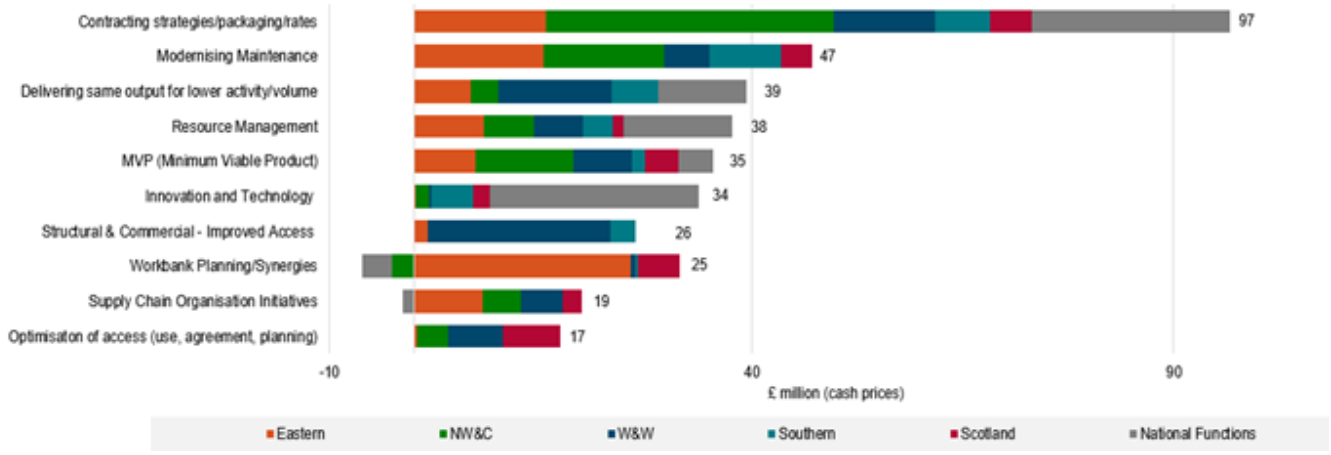

*Source: ORR analysis of Network Rail's data*

2.33 Network Rail's Group Finance applied an overlay/reduction to total reported efficiency for

some initiatives where internally reported amounts could not be fully validated. Network Rail's range of reported Year 1 efficiency was £295 million to £352 million. More details on regional efficiencies can be found in Chapter 5.

2.34 Network Rail achieved efficiency improvements in the first year of CP7 from a number of initiatives. The top ten initiatives are shown in Figure 2.6.

Figure 2.6: Top ten efficiency initiatives in April 2024 to March 2025




*Source: ORR analysis of Network Rail's data*

2.34 The largest efficiency initiatives that Network Rail delivered in April 2024 to March 2025 were:

### 1. Contracting strategies / packaging / rates (£97 million)

Contracting strategies, packaging and rates focuses on commercial delivery methods, including negotiating contracts with improved terms or rates, enhancing market research and monitoring contracts more effectively. Network Rail states that it has enhanced collaboration between regions and the central supply chain organisation to consolidate duplicate contracts, strengthen supplier relations and share expert knowledge. Examples of efficiency savings are cost decreases associated with new contracting methods, packaging of works, and savings realised from competitive tendering for Network Rail's framework contracts.

### 2. Modernising Maintenance (£47 million)

This includes a programme focused on reviewing and streamlining processes within Maintenance

Delivery Units (MDUs), enabling these units to carry out their activities with more effective deployment of staff. Efficiencies are achieved through optimising rostering, setting correct team sizes for work and managing subcontractor usage, driven by the implementation of the Modernising Maintenance programme. This results in cost savings through enhanced productivity.

### 3. Delivering same output for lower activity/volume (£39 million)

This initiative involves Network Rail reviewing programme deliverables to identify opportunities to streamline processes, using automation, and enhancing performance by reducing volume or specification without affecting outcomes.

### 4. Resource Management (£38 million)

This initiative is part of Network Rail's broader effort to improve workforce planning and deployment by using data, modernising team structures, and embedding efficiency into daily operations. For example, opportunities to reduce costs associated with the use of contractors such as moving them to permanent roles or the use of enforced leave over Christmas periods.

### 5. MVP (Minimum Viable Product) (£35 million)

This initiative focuses on delivering projects from the concept stage through to delivery, aiming to meet essential project objectives efficiently and cost effectively while satisfying minimum requirements.

### 6. Innovation and Technology (£34 million)

This efficiency grouping includes several initiatives aimed at modernising and improving the railway through the use of new technologies and smarter ways of working. This includes smarter engineering methods to extend asset life, better use of IT equipment, digital tools that help predict and prevent faults, and using lineside building wraps (LSB wraps) to upgrade structures instead of demolishing and rebuilding them.

### 7. Structural and Commercial – Improved Access (£26 million)

This efficiency initiative aims to reduce costs and boost efficiency by improving how track access is planned and used, and by streamlining commercial arrangements with suppliers. Efficiency is driven by improved access strategy, in collaboration with train operators.

### 8. Workbank Planning/ Synergies (£25 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, while reducing risk of rework and failures on delivery. Cost decreases are related to internal business actions surrounding the scheduling of works and the potential for a joined-up approach to project planning.

### 9. Supply Chain Organisation (SCO) initiatives (£19 million)

This initiative focuses onimproving the operational and logistical performance of Network Rail's supply chain aiming to make the railway's supply chain more reliable, efficient and cost-effective. This is achieved by improving how Network Rail buys materials, strengthening supplier partnerships, cutting costs, and ensuring that materials required for rail maintenance and upgrades arrive on time. Efficiencies associated with SCO initiatives include national contracts which result in larger discounts through economies of scale.

### 10. Optimisation of access (use, agreement, planning) (£17 million)

This initiative is designed to improve how and when access to the railway network is planned and agreed. It aims to reduce disruption, increase efficiency, and deliver better value by coordinating access more effectively with industry partners, using smarter planning and streamlined agreements. Examples include use of blockades, using a shorter access window than would have previously been requested due to better use of time or preparations, or multiple renewals projects utilising the same access.

## Headwinds, tailwinds, scope changes and input prices

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

Figure 2.7: Network Rail GB's cost drivers in April 2024 to March 2025




*Source: ORR analysis of Network Rail's data*

2.37 Network Rail recorded £26 million in additional costs due to scope changes during the year. Increases in the scope of work (£194 million) and increased complexity (£24 million) were substantially offset by changes in the volumes of work (£67 million) and an overlay (£126 million), a buffer included in cost forecasts, used to help manage uncertainty and expected changes in costs.

2.38 Input prices totalled £327 million for the year, mainly driven by inflation (£218 million) and additional market-specific pricing pressures (£109 million).

2.39 Network Rail identified £94 million in headwinds in Year 1. The largest contributors were: pay and benefits (£22 million), primarily due to alignment with management pay award settlements; policy and legislation changes (£4 million); the impact of weather and environmental conditions (£4 million); and other costs (£60 million), which included incremental and prolonged project costs.

2.40 Network Rail benefited from £91 million in tailwinds during the year, mainly due to lower support costs as a result of reduced work supporting the development of HS2's future connection to the national rail infrastructure.

# Leading indicators of efficient delivery

2.41 This section provides an update on Network Rail's preparations to deliver efficiently in April 2025 to March 2026 (Year 2 of CP7). Effective planning plays a key role in strengthening the

resilience of the rail network and supporting a stable workload for Network Rail's supply chain. It also enables the organisation to meet the growing efficiency challenge over the remainder of CP7.

2.42 Network Rail's renewals planning for Year 2 is in a strong position. This will help to manage costs and maintain a stable workload for the supply chain. So far, 68% of renewal projects have been authorised, in line with Year 1 performance. Additionally, 87% of remits have been accepted and 85% of access secured—both improvements compared to the previous year. As shown in Table 2.3, Network Rail considers that over 80% of its regional 2025 to 2026 target efficiency will be achieved from projects that have already been delivered or have clear project plans (blue and green in Table 2.3 below). The remainder (less than 20%) have no clear project plans or have plans in place but low confidence in delivery.

Table 2.3: Network Rail's assessment of the maturity of its April 2025 to March 2026 efficiency plans

| | Eastern | NW&C | Scotland | Southern | W&W |
|---|---|---|---|---|---|
| Project delivered, waiting for benefits to be realised | 49% | 57% | 22% | 29% | 39% |
| Project in place with delivery plan and milestones | 39% | 28% | 53% | 57% | 59% |
| Strategic theme applied, commitment to | 13% | 13% | 23% | 14% | 2% |

| | Eastern | NW&C | Scotland | Southern | W&W |
|---|---|---|---|---|---|
| deliver but no plan in place | | | | | |
| Unknown | 0% | 2% | 2% | 0% | 0% |
| | 100% | 100% | 100% | 100% | 100% |

*Source: ORR analysis of Network Rail's data*

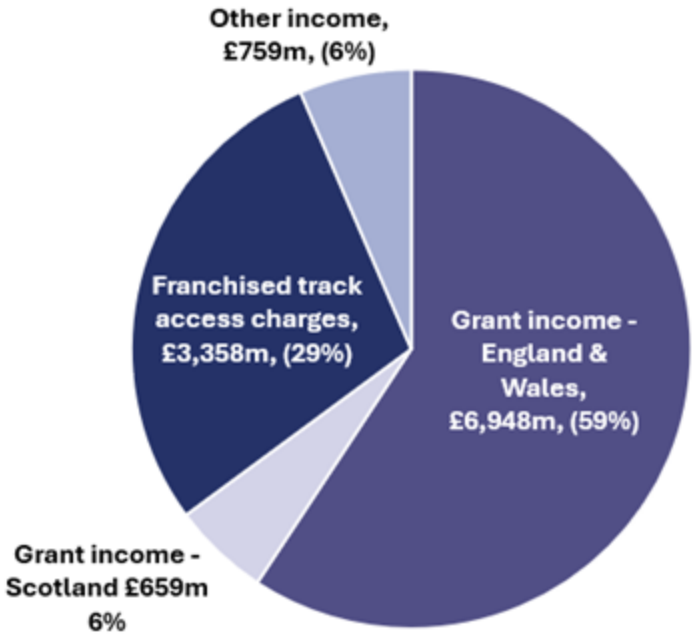
2.43 Chapter 5 provides a more detailed regional analysis of these leading indicators.

# Income

2.44 For the year April 2024 to March 2025 Network Rail received £11.7 billion of income, a 7% year on year decrease (£12.7 billion previously). This excludes funding for enhancements which are funded separately by government on a project by project basis (Network Rail spent £2.1 billion on enhancements).

2.45 Figure 2.8 provides a breakdown of the main sources for this income. Overall income is lower than the previous year reflecting lower Network grants for the new control period and higher property disposals income in 2023-24, partly offset by higher traction electricity income this year.

**Figure 2.8: Breakdown of Network Rail's £11.7 billion of income (excl. enhancements) for April 2024 to March 2025**




*Source: ORR analysis of Network Rail's data*

## Grant Income

2.46 Grant income refers to the funding received from the Government to support operations and projects across the rail network. Network Rail received £7,607 million of grant income (£6,948 million for England & Wales and £659 million for Scotland) in April 2024 to March 2025. This was £200 million less than set out in the delivery plan reflecting lower overall expenditure this year compared to the budget, particularly in renewals.

2.47 DfT funded £6,948 million for Network Rail's England and Wales regions while Network Rail Scotland received £659 million for the Scotland region. This was split between £488 million in network grant funding by Transport Scotland and £171 million funded by DfT to pay for Network Rail Scotland's share of financing costs, British Transport Police and corporation tax.

2.48 As grants are used to fund Network Rail's operations, they reflect changes in expenditure rather than financial performance. Therefore, any differences between actual and budgeted grant income are considered neutral when assessing financial performance.

## Franchised track access charges income

2.49 Franchised track access charges income comes from fees paid by train operating companies (excluding freight operators) to use its rail infrastructure. Franchised track access charge income

was £3,358 million from April 2024 to March 2025, £36 million less than set out in the delivery plan, with £25 million underperformance recorded. This was mostly due to running fewer trains than anticipated and reduced traction electricity income, which was driven by lower unit costs, resulting in lower traction electricity, industry costs and rates expenses.

### Other income

2.50 Other income includes revenue from freight operators including traction electricity, stations, property rentals and sales, and depot operations. Other income in year was £759 million broadly in line with the delivery plan, with £5 million of financial underperformance recognised.


- ← Previous 1. Introduction
- → Next 3. Future financial risks and opportunities


# 3. Future financial risks and opportunities

3.1 Network Rail faces heightened financial pressures as it navigates reduced risk funding, ongoing inflationary pressures and the need to deliver core renewals within tighter budgetary constraints and the need to close the funding gap. This chapter examines the challenges surrounding risk funding and the funding gap. It also covers other matters such as R&D and Industry Performance Improvement Fund which may provide Network Rail with opportunities to make further performance improvements and efficiency savings, and Network Rail's financial flexibilities withing the Government's budgetary processes.

# Risk funding

3.2 The financial challenges faced by Network Rail during CP6, such as managing input price risk and other unplanned costs, highlight the importance of allocating funding appropriately to efficiently manage unforeseen financial risks over a five-year control period. In our PR23 final determination, we required Network Rail to set aside £1.7 billion (cash prices) for risk funding (£1.5 billion for England and Wales and £0.2 billion for Scotland) to help manage such pressures.

3.3 Network Rail has drawn down and allocated 55% of its CP7 risk fund to address unexpected cost pressures that it has identified across the control period. These include increased National Insurance Contributions, higher input prices from increases in construction costs in excess of CPI inflation and Schedule 8 payments related to lower train performance (Years 1 and 2 only). As a

result, only 45% (£760 million) of risk funding remains uncommitted within Network Rail budget as it enters Year 2.

3.4 Network Rail's reduced risk fund comes when it is facing significant financial risks including performance challenges (which affects Schedule 8 payments), high inflation and a funding gap in its England & Wales delivery plan (see next section).

# Funding gap

3.5 Our assessment of Network Rail's CP7 delivery plan identified a gap in funding for core asset requirements for England & Wales. At the start of CP7 we wrote to Network Rail to ask it to resolve the funding gap without compromising the delivery of essential core renewals and maintenance activities. Over the course of the year significant effort has been made to reduce the gap down to £488 million. However, further inflationary pressures have made this more difficult and the remaining gap at the end of March 2025 remains a concern.

3.6 As outlined in our January 2025 letter to Network Rail on the funding gap, we recognise the scale of the financial challenge and have acknowledged that time is needed to make the right decisions. However, the combination of reduced risk funding and a remaining funding gap presents a threat to delivery confidence. Without decisive action, there is a risk that Network Rail may be forced to scale back or delay core renewals work, compromising long-term asset sustainability and reliability.

3.7 We will continue to engage with Network Rail to ensure that the funding gap is closed and that Network Rail looks at all available options for resolving the funding gap before it considers cutting back on planned renewals for core assets.

# Research and development expenditure

3.8 Our PR23 determination included £165 million of funding (£147 million in England & Wales and £18 million in Scotland) for Network Rail to spend on research and development (R&D) activities in CP7.

3.9 Network Rail spent £31 million on R&D in Year 1 of CP7, £4 million less than planned. This investment supports the development of innovations and new approaches that are expected to deliver efficiency improvements. Through its CP7 R&D programme, Network Rail has identified

£223 million of potential efficiency savings across the control period with additional further savings being explored.

3.10 Third party funding is used to support the R&D programme alongside the direct funding of £165 million set at PR23. Network Rail secured an additional £8 million of third-party funding over the year and aims to raise a further £66 million over the control period. While the use of third-party funding can generate cost savings, these are not recorded as part of routes' and regions' efficiency savings.

3.11 At the end of Year 1, Network Rail had 65 projects at different stages of readiness for deployment, with 10 projects deploying on the network.

3.12 We remain concerned about Network Rail's ability to use the R&D fund effectively. The limited information and assurance provided this year has added to these concerns. While there are clear opportunities for innovation and savings, the challenge lies in getting new technologies adopted across regions. This issue was evident in CP6, where promising projects were not fully adopted, and the expected cost savings were not realised. We believe this issue could persist in CP7. We suggest that Network Rail's R&D team continues to work closely with the regions to encourage uptake and simplify the process of embedding new technologies, which many regions find challenging.

### Industry Performance Improvement Fund

3.13 Recognising the importance of improving performance our PR23 determination included £40 million (cash prices) of funding for an industry Performance Improvement Fund in the CP7 plans (for England and Wales). As examined in our Network Rail Annual Assessment, progress to date has been good.

3.14 Network Rail Scotland's CP7 plan includes £53 million (cash prices) for a targeted performance fund. Good progress has been made with setting up this fund, which has attracted proposals from the industry with allocated funding. See Chapter 4 for further details.

## Budget flexibility

3.15 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 reprofile expenditure across years within a control period and limit the extent to which spending can be switched between resource and capital budgets.

3.16 For CP7, the UK Government has confirmed that the same budgetary processes that applied in CP6 will continue.

3.17 No budget rollover was permitted for England and Wales as of 31 March 2025 following the conclusion of the three-year Government Spending Review announced in October 2021. It is anticipated that similar constraints will apply to 2025–26.

3.18 Oversight of the flexibility of grant payments within Scotland continues to fall within the remit of Transport Scotland and the Scottish Government's budgetary process for CP7. Transport Scotland confirmed that the budgetary flexibilities available in CP6 will broadly continue for CP7.

3.19 Further details on the budget flexibility rules for CP7 are explained in our PR23 financial framework document.

## Regulatory asset base, net debt and gearing

3.20 Network Rail's regulatory asset base (RAB) increased by £2.3 billion to £89.8 billion in the year April 2024 to March 2025. The increase was due to indexation plus renewals added to the RAB offset by the amortisation of existing assets and a £16 million deduction for property sales.

3.21 Network Rail no longer issues debt to fund its capital expenditure. However, it continues to hold legacy debt (£60.2 billion), including financial instruments issued to investors before the company's reclassification to the public sector. It incurred £2.5 billion of financing costs in the year, including £1.3 billion of financing costs on index-linked debt. Network Rail's current gearing (net debt relative to RAB) is at 67%.


- ← Previous 2. Network Rail's financial performance and efficiency
- → Next 4. Network Rail Scotland's financial performance and efficiency

# 4. Network Rail Scotland's financial performance and efficiency

## Financial performance

4.1 Over April 2024 and March 2025, Network Rail Scotland spent £1.4 billion on operating, maintaining, renewing, enhancing and financing the rail infrastructure. Due to financial pressures in the year, it reported a £26 million of financial underperformance against its CP7 delivery plan, as shown in Table 4.1. This means, net of income, Network Rail Scotland spent £26 million more than originally planned.

4.2 As explained in Chapter 1, the financial performance measure (FPM) for Network Rail compares its income and expenditure to the CP7 delivery plan (set in 2024). 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.

4.3 Table 4.1 shows that Network Rail Scotland's underperformance in the year was largely driven by Renewals, Network Operations and Maintenance activities. Further details on expenditure and financial performance in each of the different categories in Table 4.1 are examined below.

Table 4.1: Network Rail Scotland's financial performance April 2024 to March 2025

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performa |
|---|---|---|---|---|
| Grant income | 659 | 667 | (8) | 0 |

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performa |
|---|---|---|---|---|
| Franchised track access charges | 516 | 517 | (1) | 2 |
| Other income | 56 | 59 | (3) | (2) |
| **Total income** | **1,231** | **1,243** | **(12)** | **0** |
| Network operations | 85 | 77 | (8) | (8) |
| Support costs | 120 | 130 | 10 | 5 |
| Traction electricity, industry costs and rates | 130 | 133 | 3 | (2) |

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performa |
|---|---|---|---|---|
| Maintenance | 242 | 229 | (13) | (7) |
| Schedule 4 | 16 | 14 | (2) | 0 |
| Schedule 8 | (2) | 0 | 2 | 2 |
| **Total operating expenditure** | **591** | **583** | **(8)** | **(10)** |
| Renewals | 422 | 460 | 38 | (16) |
| Enhancements | 154 | 160 | 6 | 0 |

| £ million, cash prices | Actual | CP7 delivery plan | Variance | FPM out / (under) performa |
|---|---|---|---|---|
| Total capital expenditure | 576 | 620 | 44 | (16) |
| Other costs | 0 | 31 | 31 | 0 |
| Financing costs | 253 | 273 | 20 | 0 |
| Total expenditure | 1,420 | 1,507 | 87 | (26) |
| Financial performance measure (FPM) | | | | (26) |

*Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding. Note that total income does not equal total expenditure, this is because of the timing of recognition of income and expenditure (particularly in relation to financing costs) as explained in Network Rail's regulatory financial statements.*

# Expenditure

## Network operations costs

4.4 Network Rail Scotland spent £85 million on network operations activities (mostly signalling and stations management), representing 6% of the region's total expenditure. It financially underperformed by £8 million due to increased signaller costs and additional expenditure on performance initiatives to improve passenger experience.

4.5 Other contributing factors included high costs from increased recruitment efforts to reduce reliance on overtime and address the challenges of an ageing skilled workforce. Additionally, pay awards for frontline staff were higher than expected, exceeding CPI.

## Support costs

4.6 Support costs refer to auxiliary activities Network Rail needs to undertake to facilitate the core business such as human resources, finance and other corporate services.

4.7 Support costs in Scotland were £120 million in Year 1, representing 8% of total expenditure, with £5 million of financial outperformance recognised. Overall support costs were lower than the delivery plan forecast due to marginal savings across several areas, including one-off legal and restructuring costs.

## Traction electricity, industry costs and rates

4.8 Network Rail Scotland spent £130 million in Year 1 on traction electricity, industry costs, rates, British Transport Police, ORR fees, the railway safety levy, RDG membership, and independent reporters' fees. This represented 9% of total expenditure. This was in line with its plan and was largely offset by operator income for traction electricity. These costs are mostly outside Network Rail Scotland's control and influenced by government policy and wider economic conditions and therefore are mostly not reflected in FPM.

## Maintenance

4.9 Network Rail Scotland spent £242 million on maintenance in Year 1 of CP7, representing 17% of total expenditure and recorded £7 million underperformance.

4.10 The financial underperformance was driven by higher work volumes, greater-than-expected reactive maintenance needs, fewer than anticipated benefits of the maintenance modernisation programme, and above-inflation increases in material and contractor costs. Additionally, pay awards for front line staff were higher than CPI inflation.

## Schedule 4 and Schedule 8

4.11 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.

4.12 Schedule 4 costs in Scotland were £16 million, £2 million higher than the delivery plan, mainly from delivering additional renewals works, requiring extra possessions. No financial outperformance or underperformance was recorded, indicating delivery was in line with planned financial expectations.

4.13 Network Rail Scotland received £2 million of Schedule 8 income from train operators, outperforming by £2 million. This was because although train performance was worse than delivery plan, a higher proportion of these delays were due to industrial action and fleet issues affecting train operators which resulted in compensation payments to Network Rail.

## Renewals

4.14 In Year 1 of CP7, Network Rail Scotland spent £422 million on renewals, representing 30% of total expenditure.

4.15 There was a £38 million renewals underspend versus the delivery plan due to reprofiling of some activity to later years in the control period. The £16 million financial underperformance recorded was largely driven by track and signalling renewals, where actual costs exceeded delivery plan assumptions.

4.16 Track renewals were impacted by higher material costs and reduced productivity during possessions following safety concerns. Measures to protect track workers led to lower volumes without a corresponding reduction in costs. This resulted in increased unit rates. Additionally, worse-than-expected asset conditions required additional site preparation and surveys.

4.17 Signalling renewals also experienced cost pressures due to additional cabling needs arising

from poor asset condition, higher-than-estimated material costs for the Blair Atholl to Dalwhinnie project, additional surveys for the Ayrshire signalling scheme, and increased costs associated with level crossing projects.

## Enhancements

4.18 In Year 1 of CP7, Network Rail Scotland spent £154 million on enhancement projects funded by Transport Scotland, delivering new infrastructure capabilities. An additional £6 million was spent on schemes funded by third parties.

4.19 These costs accounted for 11% of total expenditure and were broadly in line with the delivery plan, with no financial outperformance or underperformance recorded, indicating delivery was in line with planned financial expectations.

4.20 Key enhancement projects undertaken in the year included East Kilbride and Barrhead Rail Enhancement scheme (£74 million), Feeder Stations programme (£44 million) and the Fife Decarbonisation programme (£15 million).

## Risk Funding

4.21 Network Rail Scotland set aside £234 million of ring-fenced risk funding for unplanned costs in CP7. To date, 56% of this fund has been allocated across Network Rail Scotland's plan for CP7 to manage financial pressures, mostly relating to increased National Insurance contributions (Years 2 to 5), Schedule 8 costs (years 1 and 2) and input prices expectations for the control period. This leaves Network Rail Scotland with £102 million (44%) of risk funding to manage additional financial risks over the remainder of CP7.

4.22 While the remaining level of risk funding is a concern, Network Rail's Scotland's stable delivery plan positions them well for continued delivery. This contrasts with England and Wales, where regions are reducing planned renewal volumes and face additional stretch to address a funding gap.

## National functions & centrally managed expenditure

4.23 Costs incurred by Network Rail's National Functions teams are re-charged to regions in proportion to their use of services provided by these functions and in accordance with the ORR's CP7 regulatory accounting guidelines.

4.24 Around £370 million (10%) of national functions costs were recharged to Scotland in Year 1 of CP7, of which £253 million related to financing costs. Centrally managed costs allocated to Scotland were 11% lower than delivery plan. These reductions were related to savings across a number of central functions, with a share of these saving apportioned to Scotland.

Table 4.2: Allocation of centrally managed income and expenditure to Scotland

| £ million (cash prices) | Actual | Delivery plan | Variance Better/ (Worse) | Of which financial / (under) performa |
|---|---|---|---|---|
| Network operations | 2 | 2 | 0 | 0 |
| Maintenance | 8 | 13 | 5 | 5 |
| Support costs | 71 | 82 | 11 | 6 |
| Traction electricity, industry costs and rates | 8 | 8 | 0 | 0 |
| Schedule 4 | 1 | 2 | 1 | 1 |

| £ million (cash prices) | Actual | Delivery plan | Variance Better/ (Worse) | Of which financial / (under) performa |
|---|---|---|---|---|
| Schedule 8 | 0 | 0 | 0 | 0 |
| **Operating expenditure** | **90** | **107** | **17** | **12** |
| Renewals | 27 | 37 | 10 | 7 |
| Enhancements | 0 | 0 | 0 | 0 |
| **Capital expenditure** | **27** | **37** | **10** | **7** |
| Financing costs | 253 | 273 | 20 | 0 |

| £ million (cash prices) | Actual | Delivery plan | Variance Better/ (Worse) | Of which financial / (under) performa |
|---|---|---|---|---|
| Taxation | 0 | 0 | 0 | 0 |
| Other | 253 | 273 | 20 | 0 |
| Total centrally managed expenditure | 370 | 417 | 47 | 19 |

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

# Efficiencies

4.25 Network Rail Scotland reported £34 million of efficiency improvements, exceeding its 2024 delivery plan target of £26 million by 32%. As shown in Figure 4.1, the largest three initiatives within the year included:

### 1. Optimisation of access (use, agreement, planning) (£7 million)

Delivered through industry collaboration and data-driven strategies to improve efficiency while minimising disruption. Key actions included modernising access approaches and aligning with passenger demand.

## 2. Contracting strategies / packing / rates (£5 million)

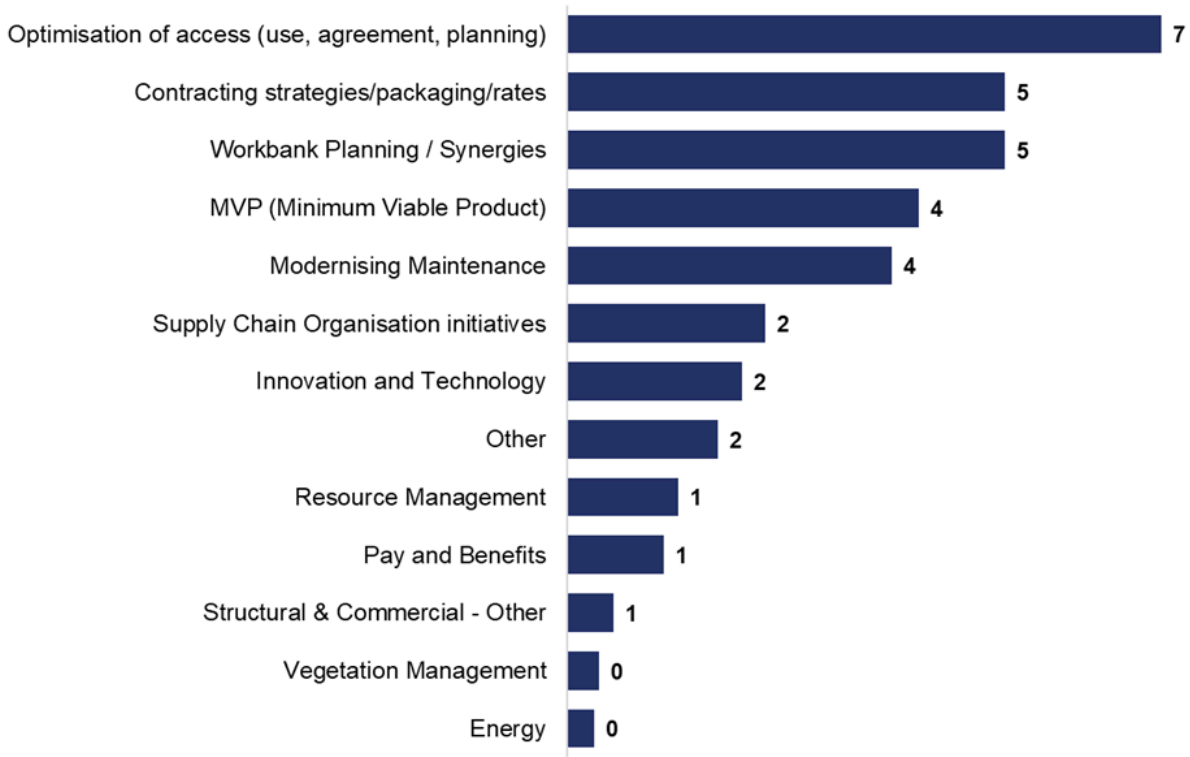
Achieved through centralised sourcing, enhanced market engagement, and contract consolidation. This relied on close collaboration with routes and a strategic, performance-focused approach to tendering and contract management.

## 3. Workbank Planning / Synergies (£5 million)

Focused on optimising delivery through structured work packaging and maintaining a steady workbank to avoid peaks and troughs. Cross-organisational collaboration enabled effective resource planning, supported by early supply chain engagement

4.26 As explained in Chapter 2, at the start of the year we commissioned Nichols Group to undertake an independent assessment of Network Rail Scotland's preparedness to deliver its efficiency plans in the first two years of CP7. Overall, Nichols found the plans to be reasonable. They recommended that Network Rail Scotland aim to overdeliver in the early years to help mitigate the risk associated with the more challenging efficiency targets set for Years 3 to 5.

**Figure 4.1: Network Rail Scotland's main efficiency initiatives in 2024-25 (£million)**



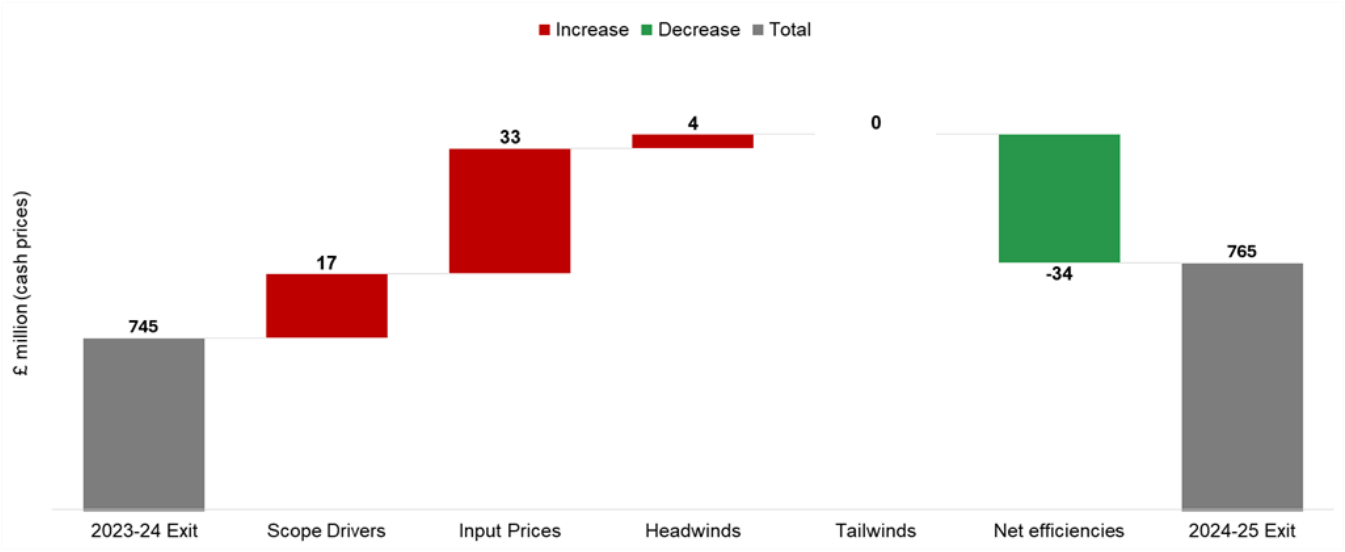

*Source: ORR analysis of Network Rail's data*

4.27 Whilst Network Rail Scotland has generally made good progress at improving its efficiency in CP7, as shown earlier in the chapter it has underperformed on FPM. This is largely due to the structural differences between the two measures, as explained in Annex B.

## Efficiencies, headwinds, tailwinds, scope changes and input prices

4.28 Figure 4.2 demonstrates all the drivers impacting Network Rail Scotland's costs in the last year.

Figure 4.2: Network Rail Scotland's cost drivers April 2024 to March 20




*Source: ORR analysis of Network Rail's data*

4.29 Efficiencies are only one type of cost driver:

- Scope drivers refer to one-off events or changes to standards, legislation and scope since the CP6 Year 5 (2023-24) exit. Key scope changes in Year 1 were in structures and earthworks, the asset improvement programme and additional examinations of civil infrastructure arising from the Civil Examination Framework Agreement (CEFA).
- Inflation and Input prices refer to impacts of general price inflation and specific pricing pressures on costs beyond general price inflation.
- Headwinds encompass other cost drivers which increase the cost of delivery, which are beyond Network Rail's immediate control. Headwinds in Year 1 included capital delivery underutilisation due to a downturn in enhancements, management pay awards and a sinkhole at Caldercruix.

- Tailwinds refer to cost drivers which decrease the cost of delivery, which are beyond Network Rail's immediate control. As shown in the chart above, no tailwinds were recorded for the last year.

# Leading indicators of efficient delivery

4.30 At the beginning of the control period, Network Rail as a whole, targeted £3.9 billion (cash prices) of efficiencies for CP7, £389 million (cash prices) of which was to be achieved by Network Rail Scotland.

4.31 This section provides an update on Network Rail Scotland's preparations to deliver efficiently in April 2025 to March 2026 (Year 2 of CP7).

4.32 Network Rail Scotland is forecasting £62 million in efficiencies for the period April 2025 to March 2026. Of this, 75% is expected to come from projects that were either already underway or had well-defined plans by the end of the first year of the control period. The remaining 25% relates to initiatives that either lacked clear project plans or had plans in place but with low confidence in delivery. These confidence ratings were slightly lower than those observed in other regions.

4.33 At the end of Year 1, Network Rail Scotland scored well on our wider suite of leading indicators of possessions and renewals planning: 88% of disruptive access to undertake planned engineering work in Year 2 had been booked (ahead of the national average of 85%), 89% of its renewals remits for Year 2 had been issued and accepted by its supply chain (in line with other regions) and 67% of Year 2 renewals projects had been internally authorised (close to the national average of 68%)

# Income

4.34 Network Rail Scotland received £1.2 billion of income in April 2024 to March 2025 (excluding enhancement grants and increases in financing costs related to indexed linked debt).

## Grant funding

4.35 Network Rail Scotland received £488 million in network grant funding in Year 1, consistent with its CP7 delivery plan. Network grant income is higher than the previous year, reflecting funding and outputs required for CP7.

4.36 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. Network Rail Scotland received £171 million for these, £8 million less than set out in the delivery plan for the year, reflecting lower financing costs, and so less grant was required to meet these expenses.

4.37 Network Rail Scotland also receives enhancement grant funding (although this is not included under 'income' in Table 4.1). The Scottish Government funded £154 million of enhancements to Network Rail's infrastructure in Scotland, with an additional £6 million of funding for enhancements form other third parties.

4.38 Oversight of the flexibility of grant payments within Scotland continues to fall within the remit of Transport Scotland and the Scottish Government's budgetary process for CP7. Transport Scotland confirmed that the budgetary flexibilities available in CP6 will broadly continue for CP7.

4.39 Grants are classified outside of Network Rail control and are therefore treated as neutral when assessing financial performance.

### Franchised track access charges

4.40 Franchised track access charges income comes from fees paid by train operating companies (excluding open access and freight operators) to use Network Rail Scotland's rail infrastructure.

4.4 Track access charges income was £516 million, broadly in line with budget, with £2 million outperformance. Franchised track access charges are lower than the previous year mainly due to reduced Infrastructure cost charges as a higher proportion of the funding to run the network came via Network grants from Transport Scotland instead. This is consistent with our PR23 determination.

### Other income

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

4.43 Network Rail Scotland received £56 million of other income, with £2 million of financial underperformance due to lower than expected franchised stations lease income.


- ← Previous 3. Future financial risks and opportunities
- → Next 5. Regional performance

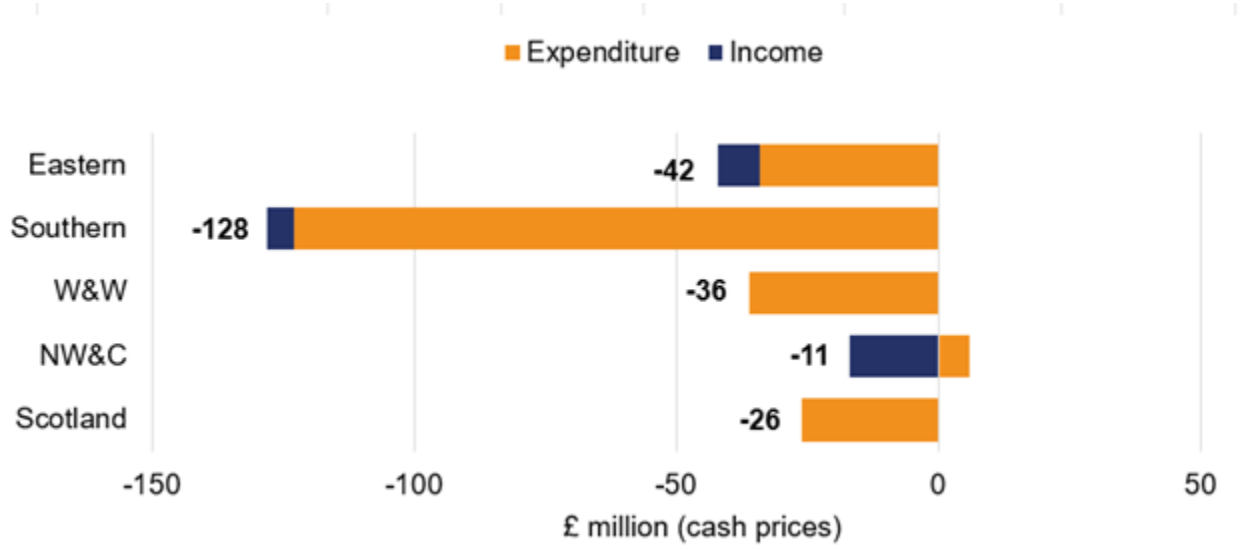
# 5. Regional performance

5.1 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, 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

5.2 As shown in Figure 5.1, all regions financially underperformed compared to their delivery plan for the year. Annex A provides detailed financial tables for each region.

**Figure 5.1: Regional contributions to Network Rail's financial underperformance, April 2024 to March 2025**




*Source: ORR analysis of Network Rail's data*

5.3 The key categories of out- and under-performance across each of the regions are examined in further detail below. Differences from the net FPM for each region is due to focussing on the main drivers of financial out- under-performance.

## Eastern

5.4 Eastern underperformed by £42 million compared to its delivery plan. The region attributes this underperformance largely to:

- **Renewals (£59 million underperformance)**. This was due to prolongation costs associated with signalling projects arising from delays and concerns over safety and reliability issues.
- **Schedule 8 (£30 million underperformance)**. This was due to poor train performance and higher than planned number of service cancellations resulting in additional compensation payments to train operators.
- **Maintenance Costs (£13 million underperformance)**. This was due to reactive maintenance requirements for civils and buildings and above CPI pay awards for non-management staff.

5.5 Eastern's underperformance was partially offset, by outperformance largely relating to:

- **Schedule 4 (£48 million outperformance)**. This was due to fewer impactful weather events, productive engineering possessions, better workbank planning and strong project volume delivery.
- **Enhancements (£20 million outperformance)**. This was largely due to strong delivery on the TransPennine Route Upgrade program.

## North West and Central

5.6 North West and Central underperformed by £11 million. The region attributes this underperformance largely to:

- **Maintenance costs (£42 million underperformance)**. This was due to additional use of agency staff to support delivery while recruitment and training was taking place, above CPI pay rises for non-management staff, higher reactive maintenance activity and increased structures inspection costs.
- **Renewals (£25 million underperformance)**. This was due to issues in track delivery as a result of lower utilisation of work delivery teams increasing costs, access constraints and sunk costs from cancelled projects.
- **Schedule 8 (£25 million underperformance)**. This was due to poor train performance resulting in additional compensation payments to train operators.

5.7 North West and Central's underperformance was offset by outperformance largely relating to:

- **Support Costs (£41 million outperformance)**. This was due to savings being made in the following areas such as, Route Services - Digital Data & Technology, Insurance, system operator and regionally managed activity.
- **Enhancements (£43 million outperformance)**. This was due to improvements in planning and delivery of the East West Rail project.

### Southern

5.8 Southern underperformed by £128 million. This was the largest underperformance amongst all regions. The region attributes this underperformance largely to:

- **Renewals (£131 million underperformance)**. This underperformance was largely due to delays in major signalling projects leading to project prolongation costs. There was also underperformance from higher material and sunk costs from workbank reprioritisation.
- **Maintenance (£25 million underperformance)**. This was due to additional use of agency staff to support delivery while recruitment and training was taking place along with above CPI pay rises for non-management staff.
- **Schedule 8 (£24 million underperformance)**. This was due to poor train performance and higher than planned number of service cancellations resulting in additional compensation payments to train operators.

5.9 Southern's underperformance was partially offset by outperformance relating largely to:

- **Schedule 4 (£32 million outperformance)**. This outperformance was due to fewer impactful weather events and productive engineering possessions.
- **Support Costs (£27 million outperformance)**. This has been driven by a higher proportion of project expenditure being treated as capital investment, savings in insurance and utility costs, along with a favourable settlement of a commercial claim.

### Wales and Western

5.10 Wales and Western underperformed by £36 million. The region attributes this underperformance largely to:

- **Renewals (£28 million underperformance)**. This was due to signalling issues relating to Port Talbot access and further access constraints across the region.

- **Maintenance costs (£19 million underperformance)**. This was due to additional use of agency staff to support delivery while recruitment and training was taking place, above CPI pay rises for non-management staff and performance improvements schemes.
- **Enhancements (£10 million underperformance)**. This was largely due to project prolongation costs on the Oxford corridor capacity works.

5.11 Wales and Western's underperformance was partially offset by outperformance largely relating to:

- **Schedule 4 (£22 million outperformance)**. This was due to fewer impactful weather events on the network, better workbank planning and stronger project volume delivery.

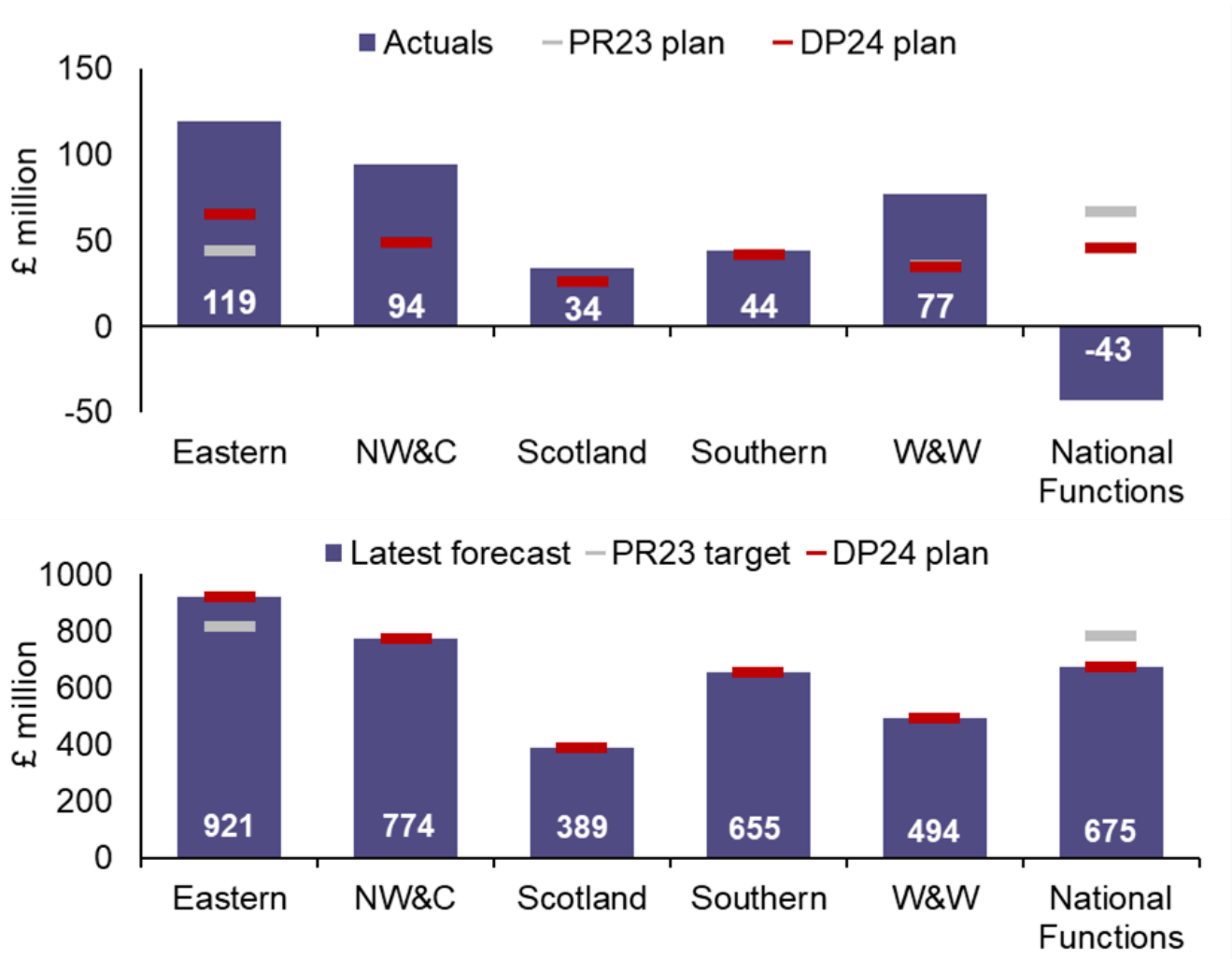
### Scotland

5.12 Detailed information on Network Rail Scotland's financial performance can be found in Chapter 4.

## Efficiencies

5.13 As shown in Figure 5.2, all regions exceeded their delivery plan (DP24) efficiency targets in April 2024 to March 2025. Reporting of efficiency improvements is not a precise discipline, and judgement is required in assessing whether all costs and benefits have been captured. Network Rail's Group Finance has applied an overlay/reduction to Network Rail's total reported efficiency. This adjustment is recorded under 'National Functions and Overlay' and it reflects initiatives where internally reported figures could not be fully validated or where assurance processes are still ongoing.

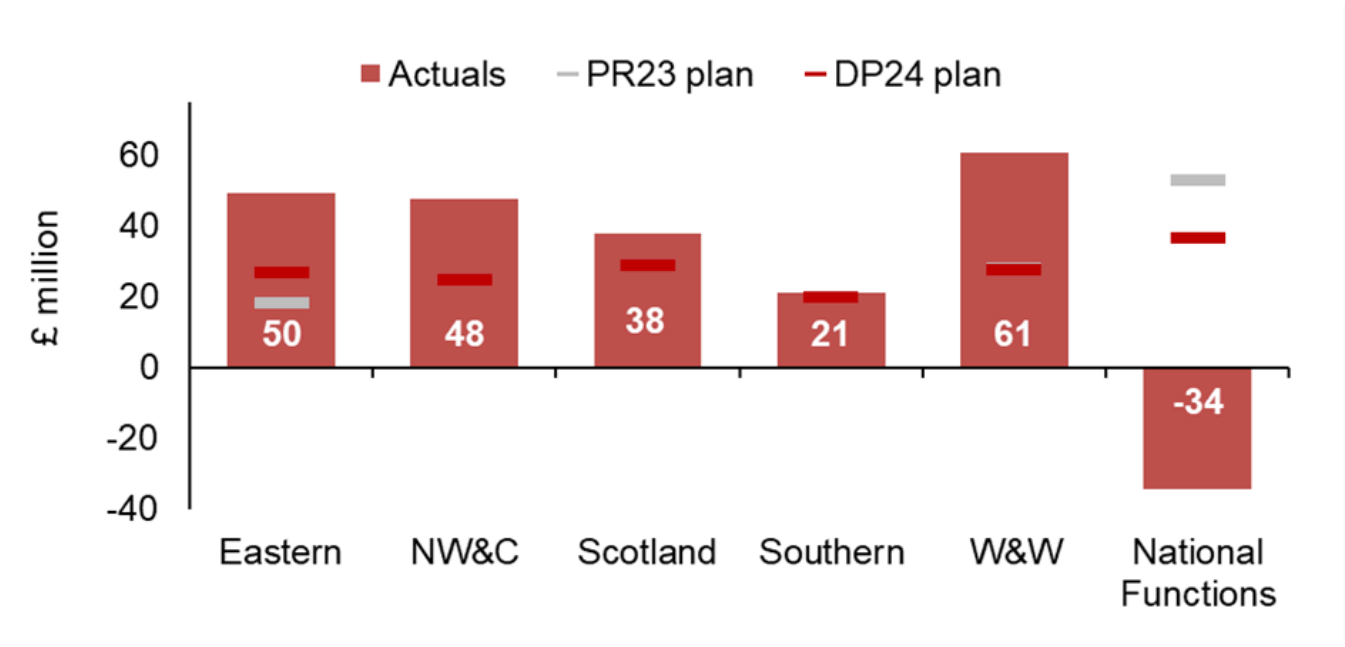
**Figure 5.2: Regional contributions in efficiency April 2024 to March 2025 and CP7 efficiency forecast**

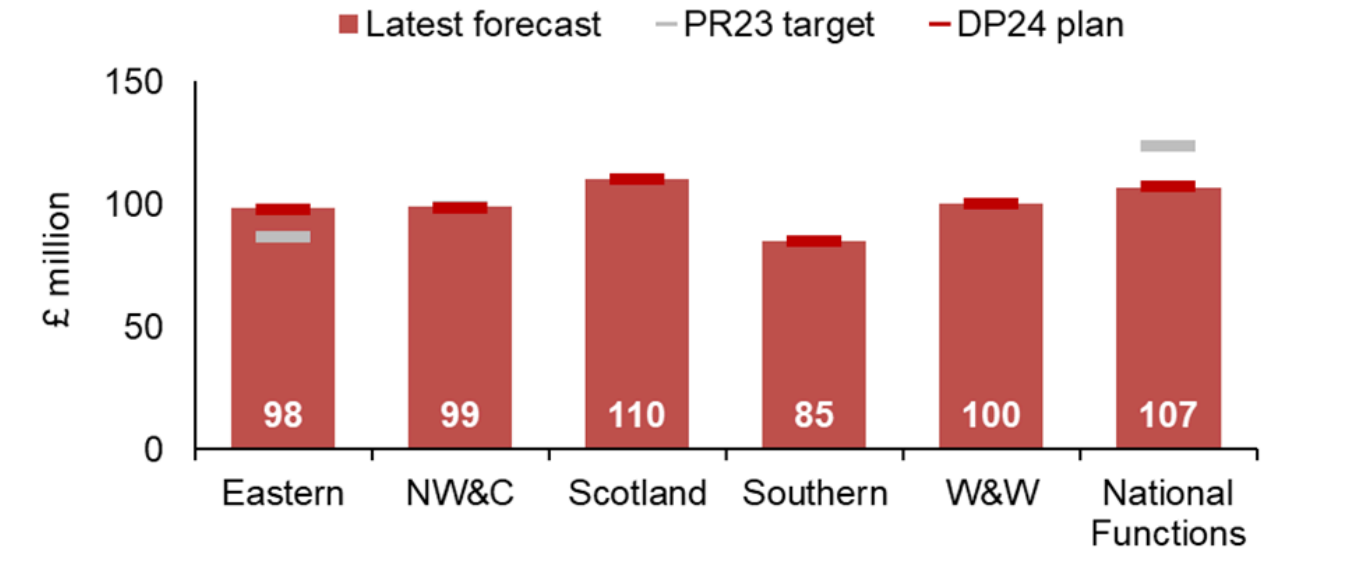



*Source: ORR analysis of Network Rail's data*

5.14 Figure 5.3 normalises the information in Figure 5.2 by adjusting each region's efficiency contribution relative to its total OSMR (Operations, Support, Maintenance and Renewals) expenditure. This normalisation reflects the different sizes and operational characteristics of each region.

**Figure 5.3: Regional efficiencies in April 2024 to March 2025 and CP7, normalised by OSMR expenditure (£ million per £ billion OSMR)**

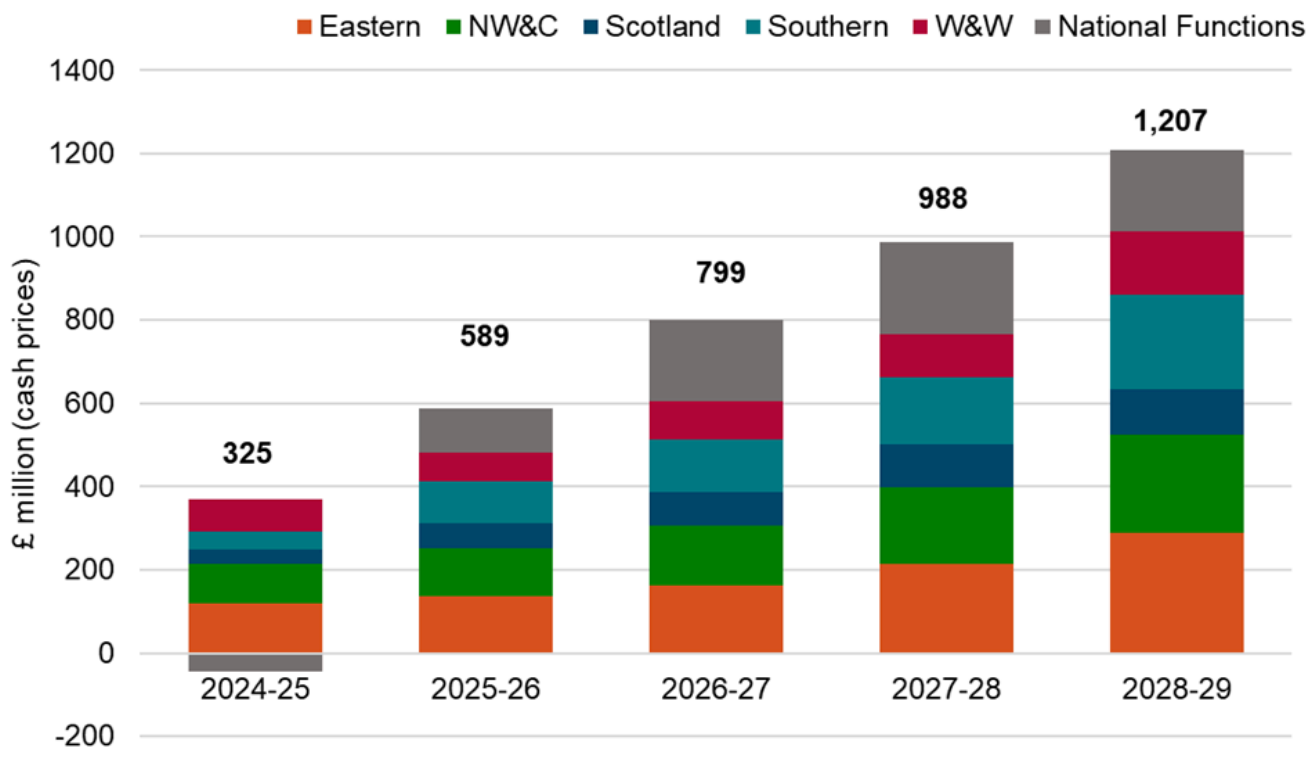



*Source: ORR analysis of Network Rail's data*

5.15 Regional contributions to Network Rail's CP7 efficiency trajectory are shown in Figure 5.4.

**Figure 5.4: Regional contributions to actual and forecast efficiency in each year of CP7**




*Source: ORR analysis of Network Rail's data*

### Eastern

5.16 Eastern reported £119 million of efficiency improvements in April 2024 to March 2025, exceeding its delivery plan of £65 million by 83%. It is aiming to deliver £921 million of efficiency improvements in CP7.

5.17 The largest efficiency initiative for the region in the year was Workbank Planning and Synergies (£26 million). Key drivers of this efficiency were improved recruitment controls, continued workforce attrition and voluntary severance schemes. Other top performing initiatives included Contracting Strategies, Packaging and Rates (£16 million) and Modernising Maintenance (£15 million).

### North West and Central

5.18 North West and Central reported £94 million of efficiency improvements in April 2024 to March 2025, exceeding its delivery plan of £49 million for the year by 92%. It is aiming to deliver £774 million of efficiency improvements in CP7.

5.19 The largest efficiency initiative for the region in the year was Contracting Strategies,

Packaging and Rates (£34 million). Benefits from this initiative arose from enhanced collaboration between routes leading to stronger supply chain relations and sharing of expert knowledge. Other top performing initiatives included Modernising Maintenance (£14 million) and Minimum Viable Product (£12 million).

### Scotland

5.20 Detailed information on Network Rail Scotland's efficiency delivery can be found in Chapter 4.

### Southern

5.21 Southern reported £44 million of efficiency improvements in April 2024 to March 2025, exceeding its delivery plan of £42 million by 5%. While this represents an outperformance, it lags behind the levels of outperformance achieved by other regions. Southern is aiming to deliver £655 million of efficiency improvements in CP7.

5.22 The largest three efficiency initiatives for the region in the year were Modernising Maintenance (£9 million), Contracting Strategies, Packing and Rates (£6 million) and Delivering Output for a Lower Activity and Volume (£6 million).

### Wales and Western

5.23 Wales and Western reported £77 million of efficiency improvements in April 2024 to March 2025, exceeding its plan of £35 million for the year by 120%. It is aiming to deliver £494 million of efficiency improvements in CP7.

5.24 The largest three efficiency initiatives for the region in the year were Structural & Commercial – Improved Access (£22 million), Delivering the Same Output for Lower Activity and Volume (£13 million) and

Contracting Strategies, Packing and Rates (£12 million).

5.25 Detailed information on Network Rail's five largest efficiency initiatives across regions in Year 1 can be found in Annex C.

# Leading indicators of efficient delivery

5.26 This section examines regions preparedness for efficient delivery of Year 2 of CP7. Effective planning is important because it improves the robustness of the rail network and helps to provide a stable profile of work for Network Rail's supply chain. Better planning will also help Network Rail to deliver the increasing efficiency challenge over the remainder of CP7. Better documentation is also important to evidence that efficiencies have been delivered and are likely to be delivered in future.

5.27 Overall, Network Rail either exceeded or was close to delivering its leading indicator targets for April 2025 to March 2026 (Year 2). While there are still some improvements which could be made, based on the evidence that we have reviewed, we consider that Network Rail seems to be reasonably well prepared to deliver the remainder of its CP7 target efficiencies. However, the company will need to carefully manage the risks associated with delivery, particularly given the increase in efficiency targets over the remainder of the control period.

5.28 In the below charts (Figures 5.5 to 5.9) the national columns relate to the national average and not the National Functions business unit.

## Disruptive access for April 2025 to March 2026

Figure 5.5: Disruptive access



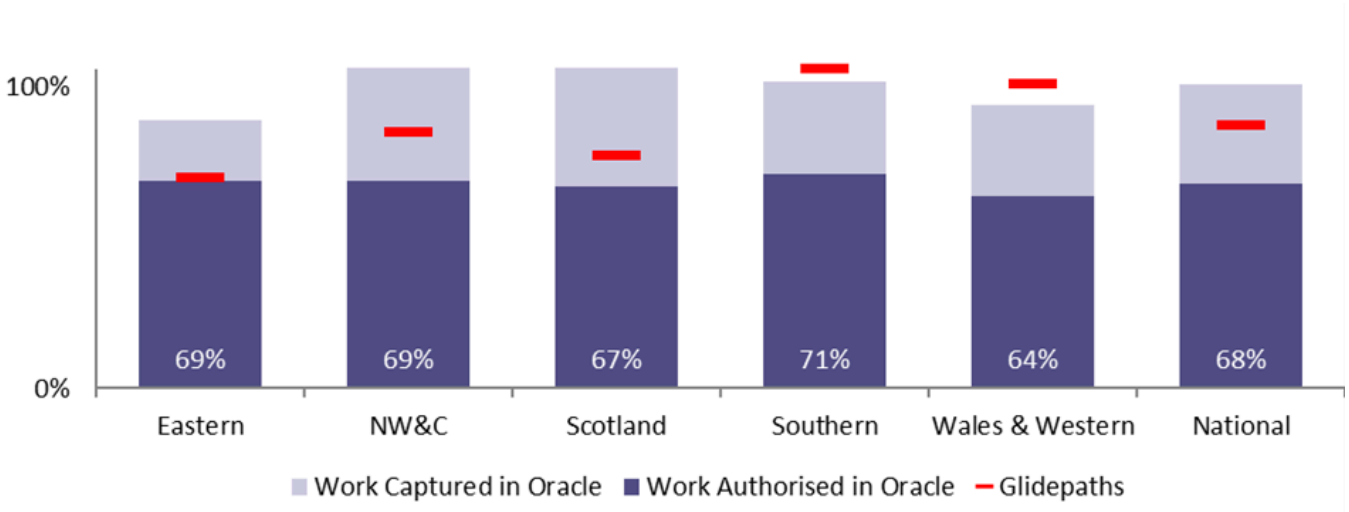

*Source: ORR analysis of Network Rail's data*

5.29 As shown in Figure 5.5, 85% of the disruptive access for engineering works have been secured

for Year 2 of CP7. This is above its glidepath of 80%. On this basis, all regions would exceed their glidepath targets during the year, except for Wales & Western. Both Wales and Western and Scotland have collaborated with suppliers to reduce the risk of disruptive access and ensure more efficient works.

## Financial authorisations for April 2025 to March 2026

**Figure 5.6: Financial authorisations**




*Source: ORR analysis of Network Rail's data*

5.30 shown in Figure 5.6, Network Rail's authorised spend on renewals projects as a percentage of planned spend is 68%. This is below the national glidepath target of 87%. All regions do not appear to have authorised enough work during the year to achieve their glidepath.

## Renewal remits for April 2025 to March 2026

**Figure 5.7: Renewals remits issued and accepted**

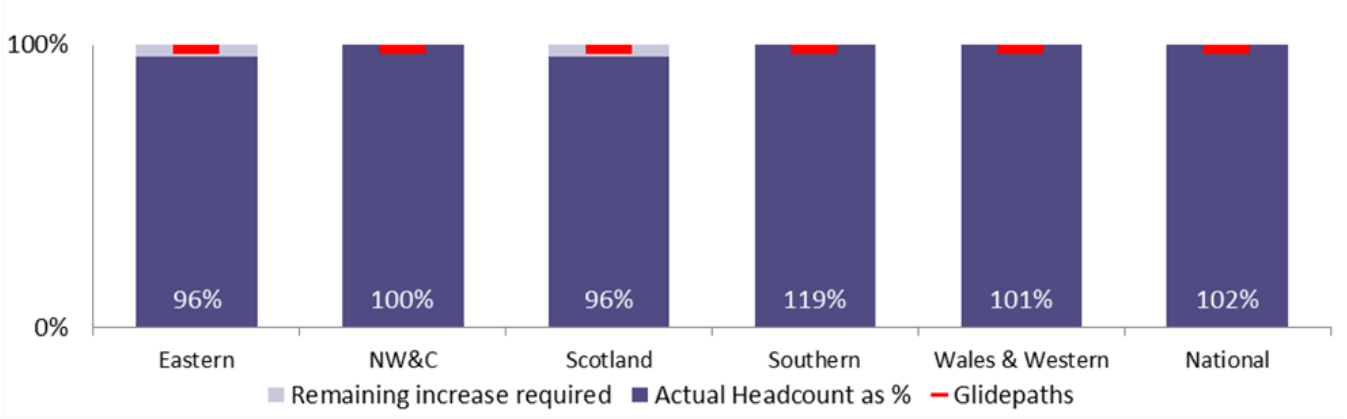



*Source: ORR analysis of Network Rail's data*

5.31 Financial authorisations only provide a partial picture of renewals workbank planning, while remits issued and accepted by the supply chain show progress made at an earlier stage of the planning lifecycle. This indicator shows the value of renewals remits accepted and issued to deliverers as a percentage of the value of remits required. Nationally, 92% of workbank remits have been issued while 87% have been accepted. This level of alignment represents a positive position and indicates good engagement with the supply chain.

## Maintenance headcount for April 2025 to March 2026

**Figure 5.8: Maintenance headcount**

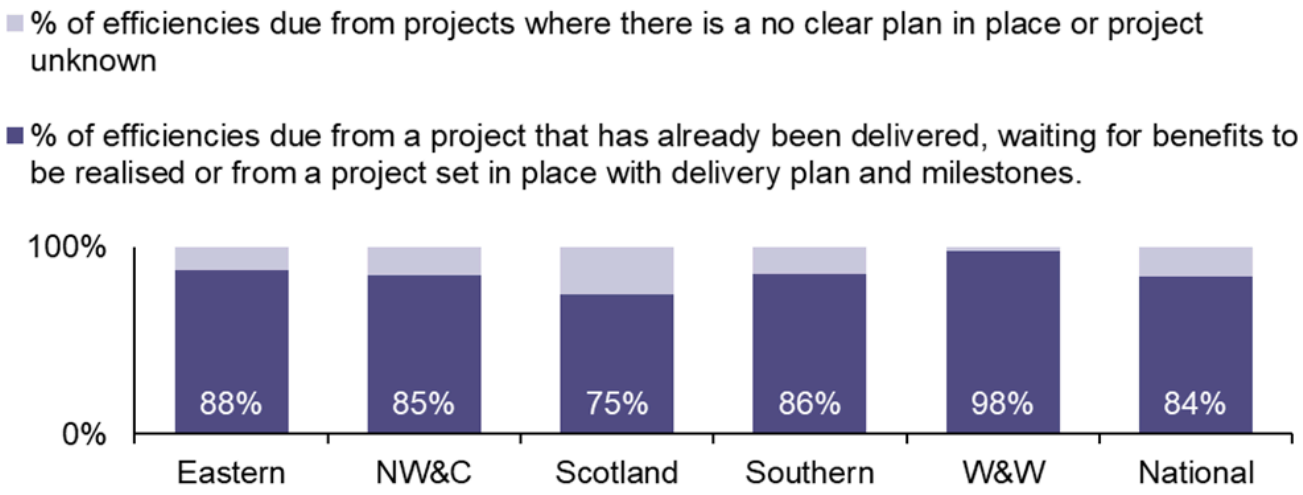



*Source: ORR analysis of Network Rail's data*

5.32 Direct maintenance headcount has increased during the year across the majority of regions. Nationally, maintenance headcount is at 102%, above the projected glidepath of 98%. This indicates a good level of readiness to deliver maintenance work effectively in Year 2. North West and Central, Southern and Wales and Western are all above the glidepath due to maintenance recruitment occurring earlier than anticipated. Eastern and Scotland both finished below the glidepath achieving 96% due to complications with modernising maintenance and slower recruitment.

## Efficiency plans Blue Red Amber Green (BRAG) Ratings for April 2025 to March 2026

**Figure 5.9: Maturity of Network Rail's Year 2 efficiency plans Source: ORR analysis of Network Rail's data**




*Source: ORR analysis of Network Rail's data*

5.33 As shown in Figure 5.9, Network Rail considers that 84% of its regional Year 2 target efficiency will be achieved from projects that have already been delivered or have clear project plans. The remaining 16% have no clear project plans or have plans in place but low confidence in delivery. These confidence ratings vary across regions. We consider that Network Rail seems reasonably well prepared to deliver its Year 2 target efficiencies.


- ← Previous 4. Network Rail Scotland's financial performance and efficiency
- → Next Annex A: Summary of key financial information

# Annex A: Summary of key financial information

# Great Britain 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 7,607 | 7,807 | (200) |
| Franchised track access charges | 3,358 | 3,394 | (36) |
| Other single till income | 759 | 762 | (3) |
| Total income | 11,724 | 11,963 | (239) |
| Operating expenditure | A | B | C=B-A |
| Network operations | 892 | 875 | (17) |
| Support costs | 1,099 | 1,210 | 111 |
| Traction electricity, industry costs and | 1,322 | 1,354 | 32 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| rates | | | |
| Maintenance | 2,504 | 2,373 | (131) |
| Schedule 4 compensation payments | 270 | 395 | 125 |
| Schedule 8 compensation payments | 118 | 47 | (71) |
| Total operating expenditure | 6,205 | 6,254 | 49 |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 3,683 | 4,010 | 327 |
| Enhancements | 2,084 | 2,194 | 110 |
| Total capital expenditure | 5,767 | 6,204 | 437 |
| Risk (Centrally held) | - | - | - |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Risk (Route-controlled) | - | 31 | 31 |
| Input prices | - | - | - |
| Total risk expenditure | - | 31 | 31 |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 2,498 | 2,687 | 189 |
| Corporation tax | - | - | - |
| Total other expenditure | 2,498 | 2,687 | 189 |
| Total expenditure | 14,470 | 15,176 | 706 |
| **Other information** | | | |
| RAB | 89,839 | n/a | n/a |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Net debt | 60,232 | n/a | n/a |
| Gearing (net debt/RAB) | 67% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

## England and Wales 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 6,948 | 7,140 | (192) |
| Franchised track access charges | 2,842 | 2,877 | (35) |
| Other single till income | 703 | 703 | - |
| Total income | 10,493 | 10,720 | (227) |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 807 | 798 | (9) |
| Support costs | 979 | 1,080 | 101 |
| Traction electricity, industry costs and rates | 1,192 | 1,221 | 29 |
| Maintenance | 2,262 | 2,144 | (118) |
| Schedule 4 compensation payments | 254 | 381 | 127 |
| Schedule 8 compensation payments | 120 | 47 | (73) |
| Total operating expenditure | 5,614 | 5,671 | 57 |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 3,261 | 3,550 | 289 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Enhancements | 1,930 | 2,034 | 104 |
| Total capital expenditure | 5,191 | 5,584 | 393 |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |
| Input prices | - | - | - |
| Total risk expenditure | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 2,245 | 2,414 | 169 |
| Corporation tax | - | - | - |
| Total other expenditure | 2,245 | 2,414 | 169 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Total expenditure | 13,050 | 13,669 | 619 |
| Other information | | | |
| RAB | 80,453 | n/a | n/a |
| Net debt | 54,132 | n/a | n/a |
| Gearing (net debt/RAB) | 67% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

## Scotland 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 659 | 667 | (8) |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Franchised track access charges | 516 | 517 | (1) |
| Other single till income | 56 | 59 | (3) |
| Total income | 1,231 | 1,243 | (12) |
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 85 | 77 | (8) |
| Support costs | 120 | 130 | 10 |
| Traction electricity, industry costs and rates | 130 | 133 | 3 |
| Maintenance | 242 | 229 | (13) |
| Schedule 4 compensation payments | 16 | 14 | (2) |
| Schedule 8 compensation payments | (2) | - | 2 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Total operating expenditure | 591 | 583 | (8) |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 422 | 460 | 38 |
| Enhancements | 154 | 160 | 6 |
| Total capital expenditure | 576 | 620 | 44 |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | 31 | 31 |
| Input prices | - | - | - |
| Total risk expenditure | - | 31 | 31 |
| **Other expenditure** | **A** | **B** | **C=B-A** |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Financing costs and other | 253 | 273 | 20 |
| Corporation tax | - | - | - |
| Total other expenditure | 253 | 273 | 20 |
| Total expenditure | 1,420 | 1,507 | 87 |
| **Other information** | | | |
| RAB | 9,386 | n/a | n/a |
| Net debt | 6,100 | n/a | n/a |
| Gearing (net debt/RAB) | 65% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

# Southern 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| **Income** | **A** | **B** | **C=A-B** |
| Grant income (exc. enhancement grant) | 1,604 | 1,647 | (43) |
| Franchised track access charges | 906 | 910 | (4) |
| Other single till income | 251 | 253 | (2) |
| Total income | 2,761 | 2,810 | (49) |
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 215 | 215 | - |
| Support costs | 231 | 267 | 36 |
| Traction electricity, industry costs and rates | 376 | 396 | 20 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Maintenance | 590 | 556 | (34) |
| Schedule 4 compensation payments | 67 | 102 | 35 |
| Schedule 8 compensation payments | 25 | 1 | (24) |
| Total operating expenditure | 1,504 | 1,537 | 33 |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 852 | 893 | 41 |
| Enhancements | 50 | 51 | 1 |
| Total capital expenditure | 902 | 944 | 42 |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Input prices | - | - | - |
| Total risk expenditure | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 572 | 614 | 42 |
| Corporation tax | - | - | - |
| Total other expenditure | 572 | 614 | 42 |
| Total expenditure | 2,978 | 3,095 | 117 |
| **Other information** | | | |
| RAB | 19,682 | n/a | n/a |
| Net debt | 13,791 | n/a | n/a |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Gearing (net debt/RAB) | 70% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

## Wales and Western 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 1,234 | 1,211 | 23 |
| Franchised track access charges | 471 | 470 | 1 |
| Other single till income | 106 | 102 | 4 |
| Total income | 1,811 | 1,783 | 28 |
| Operating expenditure | A | B | C=B-A |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Network operations | 136 | 132 | (4) |
| Support costs | 182 | 187 | 5 |
| Traction electricity, industry costs and rates | 129 | 122 | (7) |
| Maintenance | 356 | 336 | (20) |
| Schedule 4 compensation payments | 31 | 51 | 20 |
| Schedule 8 compensation payments | 11 | 17 | 6 |
| Total operating expenditure | 845 | 845 | - |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 614 | 625 | 11 |
| Enhancements | 139 | 160 | 21 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Total capital expenditure | 753 | 785 | 32 |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |
| Input prices | - | - | - |
| Total risk expenditure | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 479 | 515 | 36 |
| Corporation tax | - | - | - |
| Total other expenditure | 479 | 515 | 36 |
| Total expenditure | 2,077 | 2,145 | 68 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Other information | | | |
| RAB | 16,218 | n/a | n/a |
| Net debt | 11,543 | n/a | n/a |
| Gearing (net debt/RAB) | 71% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

## Eastern 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 2,382 | 2,458 | (76) |
| Franchised track access charges | 715 | 721 | (6) |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Other single till income | 185 | 186 | (1) |
| Total income | 3,282 | 3,365 | (83) |
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 262 | 264 | 2 |
| Support costs | 320 | 330 | 10 |
| Traction electricity, industry costs and rates | 388 | 393 | 5 |
| Maintenance | 759 | 741 | (18) |
| Schedule 4 compensation payments | 83 | 129 | 46 |
| Schedule 8 compensation payments | 32 | 2 | (30) |
| Total operating expenditure | 1,844 | 1,859 | 15 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 954 | 1,057 | 103 |
| Enhancements | 1,549 | 1,552 | 3 |
| Total capital expenditure | 2,503 | 2,609 | 106 |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |
| Input prices | - | - | - |
| Total risk expenditure | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 664 | 715 | 51 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Corporation tax | - | - | - |
| Total other expenditure | 664 | 715 | 51 |
| Total expenditure | 5,011 | 5,183 | 172 |
| **Other information** | | | |
| RAB | 25,244 | n/a | n/a |
| Net debt | 16,010 | n/a | n/a |
| Gearing (net debt/RAB) | 63% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

# North West and Central 2024 to 2025

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| **Income** | **A** | **B** | **C=A-B** |
| Grant income (exc. enhancement grant) | 1,728 | 1,824 | (96) |
| Franchised track access charges | 750 | 776 | (26) |
| Other single till income | 161 | 162 | (1) |
| Total income | 2,639 | 2,762 | (123) |
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 194 | 187 | (7) |
| Support costs | 246 | 296 | 50 |
| Traction electricity, industry costs and rates | 299 | 310 | 11 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Maintenance | 557 | 511 | (46) |
| Schedule 4 compensation payments | 73 | 99 | 26 |
| Schedule 8 compensation payments | 52 | 27 | (25) |
| Total operating expenditure | 1,421 | 1,430 | 9 |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 841 | 975 | 134 |
| Enhancements | 192 | 271 | 79 |
| Total capital expenditure | 1,033 | 1,246 | 213 |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Input prices | - | - | - |
| Total risk expenditure | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 530 | 570 | 40 |
| Corporation tax | - | - | - |
| Total other expenditure | 530 | 570 | 40 |
| Total expenditure | 2,984 | 3,246 | 262 |
| **Other information** | | | |
| RAB | 19,309 | n/a | n/a |
| Net debt | 12,788 | n/a | n/a |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Gearing (net debt/RAB) | 66% | n/a | n/a |

*Source: Network Rail's regulatory financial statements*

## National functions 2024 to 2025

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

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 7,607 | 7,807 | (200) |
| Franchised track access charges | 89 | 89 | - |
| Other single till income | 23 | 35 | (12) |
| **Total income** | **7,719** | **7,931** | **(212)** |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 26 | 26 | - |
| Support costs | 650 | 749 | 99 |
| Traction electricity, industry costs and rates | 44 | 45 | 1 |
| Maintenance | 119 | 121 | 2 |
| Schedule 4 compensation payments | 15 | 116 | 101 |
| Schedule 8 compensation payments | 4 | - | (4) |
| **Total operating expenditure** | **858** | **1,057** | **199** |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 397 | 622 | 225 |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Enhancements | 24 | - | (24) |
| **Total capital expenditure** | **421** | **622** | **201** |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |
| Input prices | - | - | - |
| **Total risk expenditure** | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 2,498 | 2,687 | 189 |
| Corporation tax | - | - | - |
| **Total other expenditure** | **2,498** | **2,687** | **189** |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Total expenditure | 3,777 | 4,366 | 589 |

*Source: Analysis of Network Rail's regulatory financial statements*

## Wales 2024 to 2025

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

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Income | A | B | C=A-B |
| Grant income (exc. enhancement grant) | 358 | - | - |
| Franchised track access charges | 103 | - | - |
| Other single till income | 11 | - | - |
| Total income | 472 | - | - |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| **Operating expenditure** | **A** | **B** | **C=B-A** |
| Network operations | 52 | - | - |
| Support costs | 64 | - | - |
| Traction electricity, industry costs and rates | 28 | - | - |
| Maintenance | 113 | - | - |
| Schedule 4 compensation payments | 16 | - | - |
| Schedule 8 compensation payments | (7) | - | - |
| Total operating expenditure | 265 | - | - |
| **Capital expenditure** | **A** | **B** | **C=B-A** |
| Renewals | 247 | - | - |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Enhancements | 31 | - | - |
| Total capital expenditure | 278 | - | - |
| Risk (Centrally held) | - | - | - |
| Risk (Route-controlled) | - | - | - |
| Input prices | - | - | - |
| Total risk expenditure | - | - | - |
| **Other expenditure** | **A** | **B** | **C=B-A** |
| Financing costs and other | 134 | - | - |
| Corporation tax | - | - | - |
| Total other expenditure | 134 | - | - |

| £ million, cash prices | Actual | Delivery plan | Variance |
|---|---|---|---|
| Total expenditure | 677 | - | - |
| **Other information** | | | |
| RAB | 5,286 | n/a | n/a |
| Net debt | 3,764 | n/a | n/a |
| Gearing (net debt/RAB) | 71% | n/a | n/a |

*Source: Network Rail's analysis of industry financials*


- ← Previous 5. Regional performance
- → Next Annex B: Link between efficiency and financial performance


# Annex B: Link between efficiency and financial performance

B.1 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.

B.2 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:

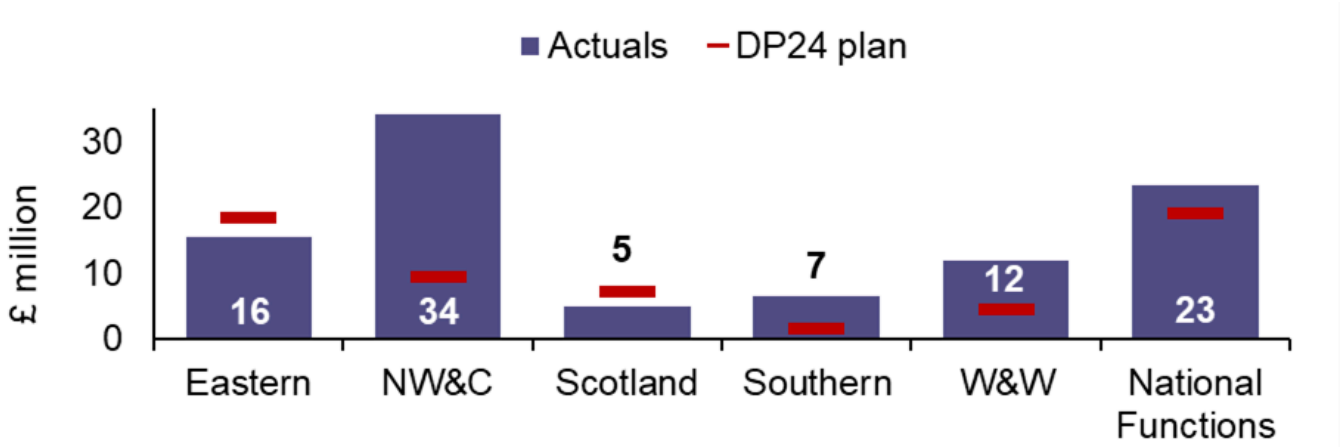
- items of income and expenditure that are included in FPM but not efficiency reporting – such as, for income, access charges; and for expenditure interest payments or insurance costs.
- external factors that can result in cost increases ('headwinds') and cost decreases ('tailwinds') such as changes 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).
- 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
- 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.

B.3 Further information on efficiency and financial performance can be found in our CP7 regulatory accounting guidelines.


- ← Previous Annex A: Summary of key financial information
- → Next Annex C: Network Rail's five largest efficiency initiatives in Year 1 of CP7

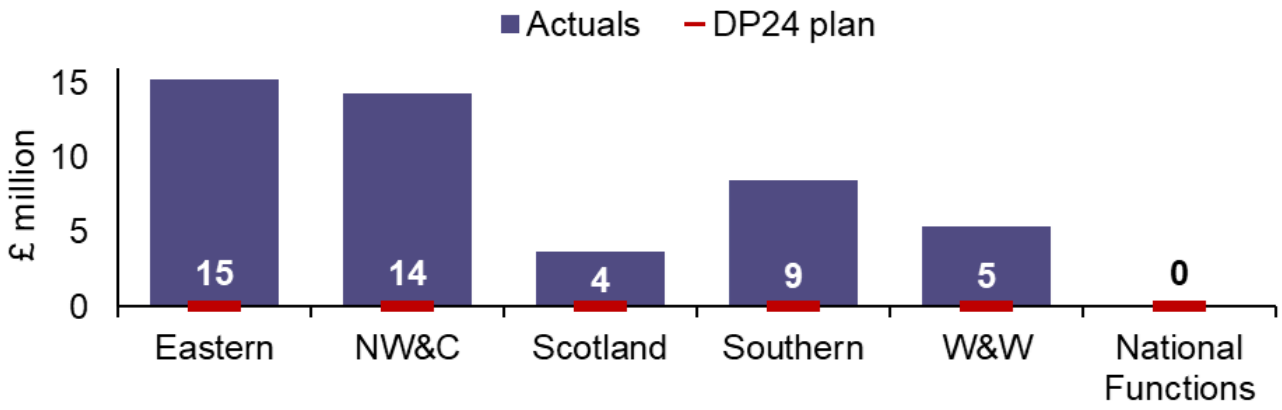
# Annex C: Network Rail's five largest efficiency initiatives in Year 1 of CP7

Figure C.1: Efficiencies due to Contracting Strategies, Packaging, Rates (GB total: £97 million



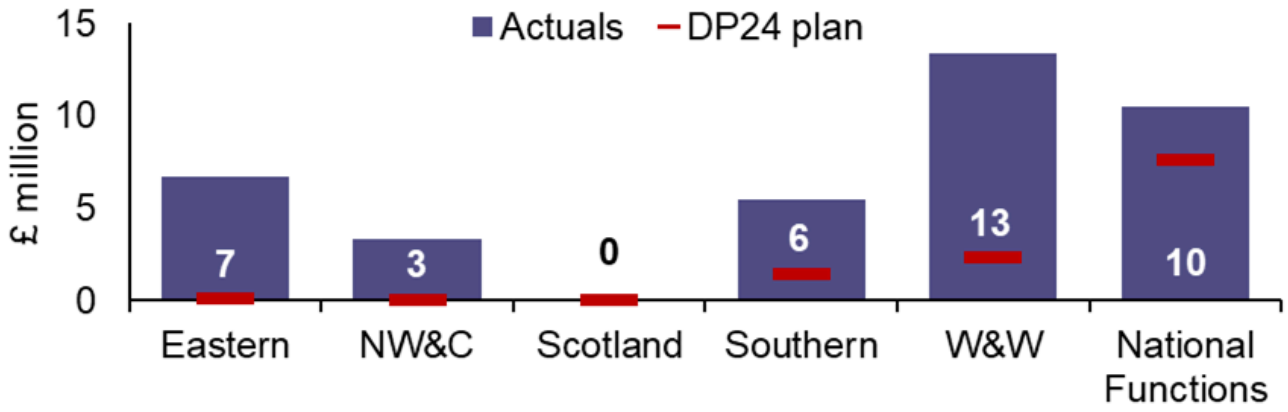

*Source: ORR analysis of Network Rail's data*

Figure C.2: Efficiencies due to Modernising Maintenance (GB total: £47 million)



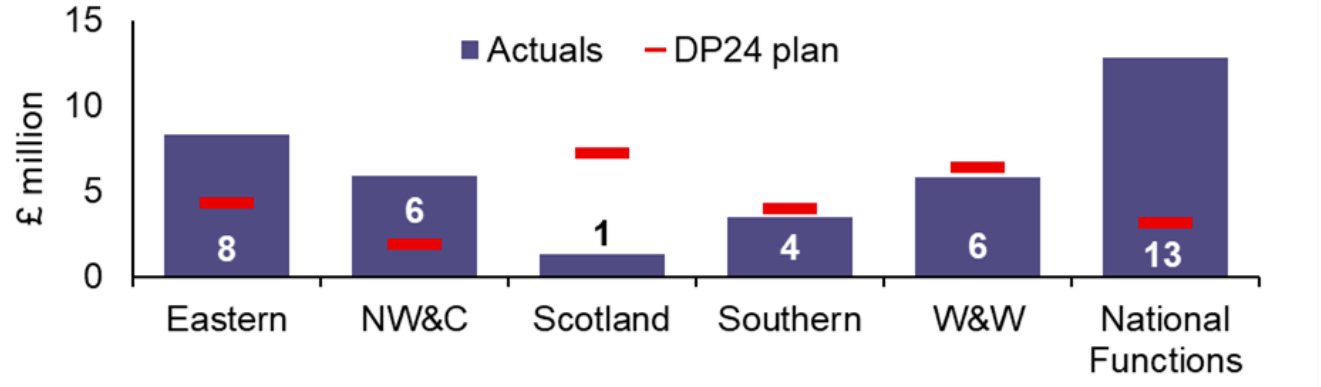

*Source: ORR analysis of Network Rail's data*

Figure C.3: Efficiencies due to Delivering same output for lower activity / volume (GB total: £39 million)



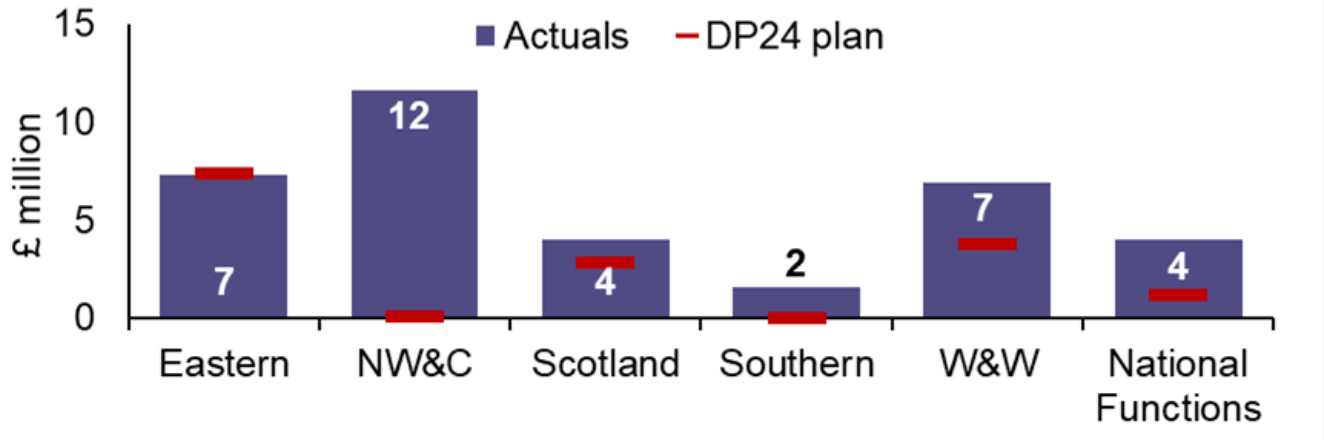

*Source: ORR analysis of Network Rail's data*

Figure C.4: Efficiencies due to Resource Management (GB total: £38 million)




*Source: ORR analysis of Network Rail's data*

Figure C.5: Efficiencies due to Minimum Viable Product (GB total: £35 million)




*Source: ORR analysis of Network Rail's data*

- ← Previous Annex B: Link between efficiency and financial performance
- → Next 1. Introduction