

**Railways Act 1993 (as amended)  
Network Licence held by Network Rail  
Infrastructure Limited  
Condition 22 – Regulatory accounts**

## **Regulatory Accounting Guidelines**

**April 2007**



# Contents

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<b>1. Overview</b> .....	<b>1</b>
Introduction.....	1
Purpose of regulatory financial statements and key policy issues .....	2
Regulatory good practice.....	3
Accounting period.....	5
Basis of preparation.....	5
Consolidation.....	5
Auditors .....	6
Delivery and publication – process .....	6
Components of this document .....	6
<b>2. Components of the regulatory accounts</b> .....	<b>9</b>
Introduction.....	9
Licence Conditions 22 and 29 .....	9
Regulatory financial statements.....	9
Statement of adequacy of resources .....	12
Auditors' reports and opinion .....	12
Other statements/notes .....	13
<b>3. Policies</b> .....	<b>15</b>
Introduction.....	15
Background .....	15
Indexation .....	16
Calculation of the RAB .....	16
Capitalisation of renewals.....	16
Amortisation allowances .....	17
Incentive mechanisms .....	18
Other adjustments to the RAB.....	19
Capitalised financing .....	19
Treatment of expenditure on investment incurred after 31 March 2004 .....	21
Cost allocation rules .....	25
Disaggregation of the Regulatory Financial Statements.....	26

<b>Annex A: Required statements and disclosures</b> .....	<b>29</b>
Statement 1: GB Regulatory financial performance .....	31
Statement 2a: GB RAB (Regulatory financial position) .....	32
Statement 2b: GB RAB and net debt analysis (Regulatory financial position)	33
Statement 3: GB Analysis of RAB capital expenditure.....	34
Statement 4a: GB Summary analysis of operating, maintenance & renewals expenditure .....	35
Statement 4b: GB Analysis of maintenance expenditure .....	36
Statement 4c: GB Analysis of operating expenditure.....	37
Statement 5: GB Analysis of income.....	38
Statement 6: GB Other information.....	39
Statement 1: Scotland Regulatory financial performance .....	40
Statement 2a: Scotland RAB (Regulatory financial position) .....	41
Statement 2b: Scotland RAB analysis (Regulatory financial position) .....	42
Statement 3: Scotland Analysis of RAB capital expenditure .....	43
Statement 4a: Scotland Summary analysis of operating, maintenance & renewals expenditure.....	44
Statement 4b: Scotland Analysis of maintenance expenditure .....	45
Statement 4c: Scotland Analysis of operating expenditure .....	46
Statement 5: Scotland Analysis of income.....	47
Statement 6: Scotland Other information .....	48
Statement 1: England & Wales Regulatory financial performance.....	49
Statement 2a: England & Wales RAB (Regulatory financial position).....	50
Statement 2b: England & Wales RAB analysis (Regulatory financial position) .....	51
Statement 3: England & Wales Analysis of RAB capital expenditure .....	52
Statement 4a: England & Wales Summary analysis of operating, maintenance & renewals expenditure .....	53
Statement 4b: England & Wales Analysis of maintenance expenditure.....	54
Statement 4c: England & Wales Analysis of operating expenditure .....	55
Statement 5: England & Wales Analysis of income .....	56
Statement 6: England & Wales Other information .....	57

<b>Annex B: Definitions</b> .....	<b>59</b>
Income.....	59
Expenditure .....	61
<b>Annex C: Enhancement reporting template</b> .....	<b>69</b>
<b>Annex D: Conditions 22 and 29 of Network Rail’s Network Licence</b> .....	<b>71</b>
Condition 22: Regulatory Accounts .....	71
Condition 29: Level of Financial Indebtedness .....	78
<b>Annex E: Common costs and income allocation metrics</b> .....	<b>83</b>



# 1. Overview

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## Introduction

- 1.1 These regulatory accounting guidelines ('the Guidelines') are issued pursuant to Condition 22 of the Network Licence ('Condition 22') held by Network Rail Infrastructure Limited ('Network Rail').<sup>1</sup>
- 1.2 Network Rail is the operator of the national railway network. Its main business is the operation, maintenance, renewal and enhancement of the network. It is wholly owned by Network Rail Limited, a company limited by guarantee and owned by members rather than equity shareholders.
- 1.3 Network Rail's regulatory accounts are the primary source of audited information about the company's regulatory financial position and performance and are useful to the Office of Rail Regulation ('ORR'), funders and other interested parties for the purposes of informing the determination of access charges, monitoring compliance with the most recent review of access charges and informing the robust financial monitoring of Network Rail. Good quality accounting information is important to effective regulation and helps ensure that the interests of customers and funders are properly protected.
- 1.4 These Guidelines were re-issued in July 2006 to reflect our approach to disaggregation of Network Rail's price control arrangements to support the devolution of responsibility for rail strategy and funding in Scotland to Scottish Ministers. We are now updating the Guidelines to provide additional detail of operations, operating costs and maintenance costs.
- 1.5 Network Rail is required by paragraph 10 and paragraph 12 of Condition 22 and paragraph 3 of Condition 29 to provide us with the following information:
  - the regulatory financial statements, with such information as may be provided for in the Regulatory Accounting Guidelines, (including the associated narrative explanation set out in more detail in chapter 2);
  - a statement on the adequacy of its financial and management resources;

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<sup>1</sup> Condition 22 is given in full in Annex D to these Guidelines.

- reports prepared by its auditors on the regulatory financial statements and the statement on the adequacy of its resources; and
- a statement under Condition 29 of its Network Licence on its compliance with ORR's set limits on its financial indebtedness.

In these Guidelines, these documents are collectively described as “the regulatory accounts”.

- 1.6 The remainder of this chapter provides an overview of the purpose and key features of the regulatory accounts, and context to the framework for preparing them.

### **Purpose of regulatory financial statements and key policy issues**

- 1.7 Regulatory accounts are designed to provide information about Network Rail's regulated business for use by us, funders, lenders, customers and other stakeholders for the primary purpose of informing our access charges reviews and of monitoring Network Rail's performance against the assumptions underlying the most recent access charges review. The regulatory accounts provide information in special-purpose financial statements. This information is more relevant for regulatory purposes than information contained in statutory accounts, as the statements are set out in a format consistent with the relevant ORR policy and the regulatory framework established in the most recent periodic review of Network Rail's access charges. By contrast, statutory accounts are prepared as required by company law, and in accordance with the Companies Acts and either in accordance with UK Accounting Standards or in accordance with International Financial Reporting Standards and Article 4 of the IAS Regulation.
- 1.8 The regulatory accounts enable the following tasks to be carried out:
- monitoring financial performance against the assumptions underlying ORR's access charges review 2003 ('ACR2003');
  - informing future access charges reviews and other regulatory decisions that require financial information, such as information on expenditure thresholds for interim reviews of access charges;

- assessing the financial position of the regulated business, in particular by reporting on the company's net debt and its regulatory asset base ('RAB'); and
- monitoring ongoing capital investment (particularly enhancements) made by the company in the rail network.

1.9 In developing these Guidelines, we have consulted with Network Rail and sought to minimise the regulatory burden on Network Rail. Network Rail is generally supportive of our revisions to these Guidelines. We expect to update the Guidelines further as part of the present periodic review of access charges. These updates are likely to reflect the way information is collected and analysed during the review.

### **Regulatory good practice**

1.10 Other UK sector regulators require the companies they regulate to prepare annual regulatory accounts for similar reasons to those set out above. This requirement is usually contained within the licences of the regulated companies. We have taken due account of good practice from other sectors in preparing these Guidelines.

1.11 The Department of Trade and Industry's ('the DTI's') Green Paper on utility regulation, *A Fair Deal for Consumers*,<sup>2</sup> published in 1998, suggested that there would be benefits if regulated companies were to produce more standardised regulatory accounts. In particular this would facilitate wider understanding of regulatory issues. Following the Green Paper, an inter-regulatory working group on regulatory accounts was set up to identify and develop areas of consistency within published regulatory accounts. We are a member of the working group and these Guidelines have been designed, in so far as possible, to adopt the set of common regulatory accounting principles agreed by the working group.

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<sup>2</sup> Available from the DTI.

1.12 The main elements of these high-level principles are:

- regulatory accounts will be prepared and audited using the common regulatory accounting framework devised by the working group. Where there are any conflicts between Regulatory Accounting Guidelines and any other GAAP, then the Regulatory Accounting Guidelines will take precedence;
- where practicable there will be consistency between the formats of the regulatory accounts used in the industries regulated by the members of the working group;
- where appropriate, actual performance will be compared to the assumptions underlying price controls;
- the requirements for the audit of the regulatory accounts will become more clearly defined (this is described in more detail in chapter 2); and
- regulatory accounts will be published no later than four months after the regulatory accounting year end; and, where appropriate, the regulatory accounts will include additional information that will enhance understanding of the regulated companies' performance.

1.13 Each regulator has a different emphasis in developing regulatory accounting arrangements depending on the structure of the industry that it regulates. Where there are significant differences between regulators, these derive primarily from the structure of the industry rather than from differences of principle.

1.14 For example, in the telecommunications industry, regulatory accounting arrangements are designed to reflect the development of competition and the importance of monitoring and detecting anti-competitive behaviour such as unfair cross-subsidisation and undue discrimination. In areas where there is currently little competition between networks, such as water and sewerage, the focus is on ensuring that regulatory accounting arrangements provide consistent and transparent financial information in order to monitor performance and support the resetting of price controls.

## **Accounting period**

1.15 Network Rail is required to produce the regulatory accounts annually. All the regulatory financial statements cover a period of twelve months for the relevant year ending 31 March. Network Rail's *Statement of the Adequacy of its Resources* covers a period looking forward 18 months from the date of signature of the regulatory accounts.

## **Basis of preparation**

1.16 A key requirement of the regulatory accounts is that Network Rail's financial position and performance are reported on a consistent basis over time. The baseline for comparison is the ACR2003 determination.

1.17 In general, the basis of preparation by Network Rail should also satisfy the following criteria:

- accounting policies applied by Network Rail should be fair and reasonable and applied consistently and objectively;
- cost allocation rules as set out in paragraphs 3.42 to 3.44, Annex B and Annex E of these Guidelines should be followed; and
- the value of the RAB in the regulatory accounts should be consistent with the basis adopted for the ACR2003 determination.

## **Consolidation**

1.18 The regulatory financial statements Network Rail is required to produce as licence holder "in relation to itself" in accordance with Condition 22 and the Guidelines shall relate only to the company itself, and shall not, without our agreement, be consolidated with any of the company's subsidiaries such as Network Rail (CTRL) Limited, Network Rail Insurance Limited, Network Rail (Spacia) Limited or Network Rail Defined Contribution Pension Scheme Trustee Limited, or with any other company such as Network Rail MTN Finance PLC or Network Rail Infrastructure Finance PLC.

1.19 Net debt should include the investment in Network Rail (CTRL) Limited.

## **Auditors**

1.20 Network Rail is required to obtain from its auditors (under paragraphs 9 and 10 of Condition 22) reports on:

- the regulatory financial statements; and
- Network Rail's statement on the adequacy of its resources.

1.21 The form of these reports has been established following discussion between ORR and Network Rail, together with engagement letters that govern the responsibilities of the auditors and the duty of care owed to both Network Rail and ourselves. Paragraphs 2.15 to 2.19 provide further explanation of the auditors' role.

## **Delivery and publication – process**

1.22 Condition 22 requires that Network Rail delivers to ORR, the regulatory accounts (as set out in paragraph 1.5 above), as soon as reasonably practicable and in any event not later than 1 July following the end of the relevant financial year – or by a later date approved by us.

1.23 This information should be submitted in hard and soft (electronic) copy, with the regulatory financial statements contained in a spreadsheet showing clearly details of calculations undertaken by Network Rail.

1.24 If there is a difference between the regulatory accounts that have been submitted by Network Rail and the requirements of these Guidelines we would consider whether or not to accept those regulatory accounts or require modifications to be made to the information submitted. Subject to any modifications, Network Rail must then publish the information within one calendar month of delivery to ORR.

## **Components of this document**

1.25 The rest of this document covers the following areas:

- chapter 2 describes the content of the regulatory accounts (as set out in paragraph 1.5);
- chapter 3 sets out our policies relating to information required to be submitted in the regulatory accounts; and

- the annexes to these Guidelines contain detailed information required to prepare the accounts such as templates for the regulatory financial statements and definitions of key terms.



## 2. Components of the regulatory accounts

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### Introduction

- 2.1 This chapter sets out details of the financial and other information that Network Rail is required to provide in its regulatory accounts as set out in Condition 22.

### Licence Conditions 22 and 29

- 2.2 As part of a review of Network Rail's network licence we are expecting to make some minor modifications to Licence Conditions 22 and 29 in April 2007. These proposed modifications will not, if implemented, change the legal basis of the Guidelines, and are drafting rather than substantive changes. Annex D includes the present licence conditions 22 and 29. The Guidelines to be used for the 2007-08 regulatory accounts will include the modified licence conditions.

### Regulatory financial statements

- 2.3 Paragraph 2 of Condition 22 requires Network Rail to prepare regulatory financial statements in relation to itself and also in relation to Network Rail Infrastructure Finance (NRIF)<sup>3</sup> in accordance with Condition 22 and with these Guidelines.
- 2.4 In addition to the requirements of Condition 22 Network Rail's regulatory accounts should comprise the following elements for Network Rail and, if required by the ORR, NRIF:
- (a) a statement of regulatory financial performance;

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<sup>3</sup> Network Rail Infrastructure Finance is the special purpose vehicle that Network Rail has established to facilitate the licence holder's long-term debt issuance programme. Paragraph 13 of Condition 22 requires Network Rail to procure an undertaking from NRIF to enable Network Rail's obligations under paragraph 2 of Condition 22 to be performed.

- (b) a summary statement showing the opening RAB and additions or reductions to the RAB in the year and net debt (statement of regulatory financial position);<sup>4</sup>
- (c) a more detailed statement showing additions to the RAB arising from investments in the year;
- (d) a summary expenditure statement;
- (e) a maintenance expenditure statement;
- (f) an operating expenditure statement;
- (g) an income statement;
- (h) an other information statement; and
- (i) supporting notes that amplify and explain the statements where appropriate.

Note: At the moment we do not require any additional accounting information to be provided for NRIF in addition to the requirements of paragraph 2.5.

- 2.5 Appropriate audited statutory financial statements procured by Network Rail from NRIF and Network Rail MTN Finance PLC should also be provided to ORR as soon as reasonably practicable and in any event not later than 1 July following the end of the relevant financial year – or by a later date approved by us.
- 2.6 From 2006-07, as well as the consolidated regulatory financial statements for Great Britain, the regulatory accounts will also include segmented regulatory financial statements for Scotland and England & Wales for each of the elements listed in paragraph 2.4 above. The requirement and approach to producing these segmented statements is explained further in paragraphs 3.45 to 3.50.
- 2.7 The statement of regulatory financial performance is required by paragraph 3(c) of Condition 22 to compare income, expenditure, profits and losses for

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<sup>4</sup> This statement along with the statement of regulatory financial performance are referred to as “primary statements” for the purposes of Condition 22.

the period with the assumptions underlying the most recent access charges review (the 'Determination Assumptions').

- 2.8 Templates, provided in Annex A to these Guidelines, should be followed. Presentation of the required information may be adapted following our agreement, provided it is analysed, aggregated and presented in a form that readily conveys the same information.
- 2.9 Appropriate narrative should also be included with the regulatory financial statements, explaining the material variances from the previous year and from Determination Assumptions, and explaining other features of the year under review which Network Rail considers are relevant to an appreciation of its regulatory financial performance, financial position and future prospects. In previous years' regulatory accounts, this information has included the following elements, which we would expect to be covered as a minimum in the regulatory accounts:
- a Directors' review, including analysis of financial performance in the year and highlighting any material variances from the Determination Assumptions;
  - a statement of the Directors' responsibilities; and
  - a statement of accounting policies.
- 2.10 Information on enhancements over and above that included in regulatory financial statement 3: *Analysis of RAB capital expenditure* (as referred to in paragraph 8 (d) of Condition 22) should follow the template attached as Annex C to these Guidelines.
- 2.11 Regional expenditure statements provided in previous years (also referred to as 'Expenditure statements by Business Unit') are no longer required as part of the regulatory accounts, but should instead be provided at the same time as part of Network Rail's annual return submission for the relevant year (submitted under Condition 15 of Network Rail's Network Licence).<sup>5</sup>

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<sup>5</sup> As there is no requirement for these statements to be audited at present, ORR considers they should be included in the annual return.

### **Statement of adequacy of resources**

- 2.12 Condition 12 of Network Rail's Network Licence includes a requirement that the licence holder must, at all times, act in a manner calculated to secure that it has sufficient management resources, financial resources and financial facilities to enable it to carry on the permitted business and comply with its obligations under the Railways Act 1993 (as amended) and its Network Licence. In addition, under Condition 22, Network Rail is required to make a statement, approved by a resolution of the board of directors, certifying the adequacy of its resources for a period of 18 months commencing on the date of the statement. The form of this statement is prescribed in paragraph 5 of Condition 22 (see Annex D).
- 2.13 The statement of adequacy of resources should be submitted along with the auditors' report on the statement of adequacy of resources at the same time as the regulatory accounts, i.e. as soon as reasonably practicable and in any event not later than 1 July following the end of the financial year to which they relate (or by a later date approved by us).
- 2.14 The purpose of this statement is to provide us and other interested parties with assurance on the future financial position of Network Rail.

### **Auditors' reports and opinion**

- 2.15 In common with statutory accounts, regulatory accounts are audited. The format for the audit of the regulatory accounts will be set out in a terms of engagement letter. This engagement letter forms part of the contract of appointment with the auditors, which Network Rail is required to obtain under paragraph 11 of Condition 22.
- 2.16 Paragraph 9 of Condition 22 requires Network Rail to procure a report by the auditors addressed to ORR stating whether, in their opinion, the regulatory financial statements present fairly the financial performance and financial position of Network Rail and of NRIF (and any of NRIF's subsidiaries) and have been prepared in accordance with Condition 22, including these Guidelines. This audit opinion should identify material areas of judgement and any other material circumstances which appear to the auditors to be relevant having regard to these Guidelines and to the scope of work agreed with ORR.

- 2.17 The audit report should also state whether the information on enhancement expenditure produced in accordance with sub-paragraph (d) of paragraph 8 of Condition 22 has been prepared in accordance with the Guidelines and is consistent with such expenditure presented in the primary financial statements (see Annex C).
- 2.18 Paragraph 10 of Condition 22 requires that each statement made by Network Rail under paragraph 4 of Condition 22 (the statement on the adequacy of resources) shall be accompanied by a report from the auditors stating whether or not they are aware of any inconsistencies between that statement and the regulatory financial statements or any information obtained by the auditors in the course of their audit work for Network Rail, and, if so, what these inconsistencies are.
- 2.19 From 2006-07 onwards the disaggregated regulatory financial statements of Scotland and England & Wales will be audited as part of the audit report on the regulatory financial statements.

**Other statements/notes**

- 2.20 A note should be included to show all details reasonably necessary to reconcile items included in the primary statements with any similar items in the accounts prepared under the Companies Act 1985 for the same period. In particular, the note should enable comparison of the movements in fixed assets on the company's balance sheet over the year with movements in the value of the RAB over the corresponding year.
- 2.21 Any other statements and supporting notes as required to present fairly the financial performance and financial position of the licence holder in accordance with Condition 22 and these Guidelines should be provided.



## 3. Policies

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### Introduction

- 3.1 A key objective of these Guidelines is to establish regulatory accounts that are fully consistent with the regulatory framework established by the ACR2003. The key elements of this regulatory framework that are relevant to the regulatory accounts, and resulting regulatory accounting policies, are set out in this chapter.

### Background

- 3.2 The ACR2003 established the regulatory framework under which Network Rail would operate for the five years between April 2004 and March 2009, including the revenue requirement, the financial framework and the incentive framework.
- 3.3 In assessing Network Rail's revenue requirement, we adopted the standard 'building block' methodology used by other economic regulators and the Competition Commission. Under this approach, the total amount of money that Network Rail should receive in income is calculated as the sum of forecast expenditure on operating and maintaining the network, plus an allowance for amortisation of the RAB and an overall return on the RAB, less other income received through the single till arrangements.
- 3.4 This methodology differs from that adopted in our periodic review 2000 ('PR2000') in one important respect. Whereas expenditure on renewals was previously funded pound-for-pound in the year that the expenditure was to be incurred, Network Rail will finance a proportion of new investment in the renewal and improvement of the network through borrowing.
- 3.5 This move to capitalisation of renewals spend has implications for future determinations of the valuation of the RAB, and future additions to the RAB because, at the end of one control period, there will be a balance included in the RAB (i.e. gross efficient investment expenditure less amortisation) which will be amortised over future control periods.

## Indexation

- 3.6 Appropriate indexation should be applied to all figures carried forward from previous years to ensure that all figures are presented in a consistent price base. Indexation adjustments should be calculated with reference to the Retail Price Index ('the RPI') published by the Office of National Statistics ('the ONS') and based on the index RPI CHAW, available from the ONS website.<sup>6</sup>
- 3.7 Using the RPI CHAW index, for the year 2006-07 to convert to 2006-07 prices, indexation of 12.851% should be applied to all figures expressed in 2002-03 prices, indexation of 10.071% should be applied to all figures expressed in 2003-04 prices, indexation of 6.402% should be applied to all figures expressed in 2004-05 prices and indexation of 3.874% should be applied to all figures expressed in 2005-06 prices.

## Calculation of the RAB

- 3.8 The calculation of the RAB for the period to 31 March 2009 is given by subtracting the total forecast amortisation for the year (as stated in the ACR2003 final conclusions) from the opening RAB for the year, then adding the ACR2003 forecast renewals and forecast enhancements expenditure plus any further adjustments approved by us and an appropriate adjustment for inflation (see paragraphs 3.6 to 3.7), as well as any other adjustments as set out in the regulatory financial statements template.

## Capitalisation of renewals

- 3.9 A key purpose of the regulatory accounts is to monitor the RAB during the control period.
- 3.10 Under the ACR2003 methodology, the ACR2003 forecast expenditure incurred in renewing and enhancing the network is added to the RAB for the period 1 April 2004 to 31 March 2009. This expenditure is remunerated as part of ACR2003 through the allowance for amortisation. This has important implications for how renewals expenditure is recorded in the regulatory accounts.
- 3.11 Broadly speaking, the ACR2003 established a fixed-price, fixed output framework. This means that we set a revenue allowance based on the

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<sup>6</sup> See <http://www.statistics.gov.uk/STATBASE/tsdataset.asp?vlnk=229&More=Y>.

expenditure that an efficient company would incur in delivering the specified baseline outputs. Under this approach, generally deviations from the expenditure allowance are retained/borne by the company as out/under-performance, provided Network Rail has delivered the required outputs. This approach is used widely in other regulated industries and represents a key feature of the incentive framework established by the ACR2003.

- 3.12 In order to maintain this incentive, the value of the RAB in the regulatory accounts for the period to 31 March 2009 is set using the renewals expenditure forecasts contained within the ACR2003 determination, and not with reference to the actual renewals expenditure incurred by Network Rail. Actual expenditure should be recorded separately in the regulatory financial statements to enable performance against the determination to be monitored. An appropriate adjustment for actual expenditure (for example to adjust for deferral of renewals) will be made as part of control period 4 ('CP4') and reflected in regulatory accounts from 2009-10 onwards.

### **Amortisation allowances**

- 3.13 As discussed earlier in this document, the ACR2003 introduced a new approach to the remuneration of capital expenditure, moving from the original pay-as-you-go approach to the more standard capitalisation approach used widely in other regulated utilities. Under this approach renewals and enhancement expenditure is added to the RAB and there is a reduction in the value of the RAB to reflect amortisation (or depreciation) of the assets over time. A corresponding amortisation payment is received by Network Rail as part of its revenue requirement to remunerate it for the expenditure.
- 3.14 The amortisation revenues allowed in the regulatory settlement comprise two parts: amortisation of the opening RAB, and amortisation of renewals and enhancements expenditure incurred after 31 March 2004. A full discussion of our amortisation rules is contained within the ACR2003 final conclusions document (chapter 12).<sup>7</sup> The key points regarding the structure of the remuneration and the recording of the revenue are discussed below (see the template regulatory financial statements 2a and 2b in Annex A for more details).

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<sup>7</sup> *Access Charges Review 2003: final conclusions*, Office of Rail Regulation, London, December 2003, available at [www.rail-reg.gov.uk/upload/pdf/184.pdf](http://www.rail-reg.gov.uk/upload/pdf/184.pdf).

*Amortisation of existing RAB*

- 3.15 The amortisation of the existing RAB (as at 1 April 2004) remunerates Network Rail for spend incurred before 1 April 2004. We explained in the ACR2003 that, for 2004-5 to 2008-09, the amortisation of the existing RAB would be on a reducing balance basis at 7% per annum.
- 3.16 The reductions in the existing RAB as a result of amortisation for the five years to 31 March 2009 were stated in the ACR2003 final conclusions document.

*Amortisation of capital expenditure incurred after 31 March 2004*

- 3.17 The ACR2003 determined that, for 2004-5 to 2008-09, all investment expenditure incurred after 31 March 2004 will be amortised on a straight-line basis over a common period of 30 years, which represents an approximate average asset life. Therefore, in the regulatory accounts expenditure on renewals and enhancements incurred after 31 March 2004 will be amortised on a straight-line basis over a common period of 30 years.

**Incentive mechanisms**

- 3.18 The ACR2003 determination contained a number of financial incentives to incentivise efficiency and good performance by Network Rail. A number of these incentives reward Network Rail for outperformance through adjustments to revenue, such as payments received through Schedules 4 and 8 of the track access agreements. Any revenues/payments resulting from these incentives will need to be recorded in the regulatory accounts.
- 3.19 The ACR2003 also included two incentive mechanisms that would reward Network Rail through a consolidated increase in the RAB. The structure and objective of these incentives (the volume incentive and the asset stewardship incentive) are described in detail in chapter 19 of the ACR2003 final conclusions document.
- 3.20 Any reward payable to Network Rail under these incentives, and therefore any resulting adjustment to the RAB, will be made at the next periodic review (scheduled to take effect in April 2009). On a year-by-year basis, the regulatory accounts will therefore monitor Network Rail's performance against these incentive measures. The financial effect of the performance in Scotland and England & Wales will be logged up on a year-by-year basis in the

relevant RAB statement, with no actual or projected adjustments made to the RAB until the end of the relevant control period.

- 3.21 The volume incentive and the asset stewardship incentive index have been disaggregated to form separate measures for Scotland and England & Wales. The regulatory accounts from 2006-07 onwards will present these disaggregated numbers.

### **Other adjustments to the RAB**

3.22 The RAB also includes the following other adjustments:

- (a) the adjustments for the effect of the signalling review which concluded in December 2005;
- (b) the effect of the difference between actual 2003-04 renewals and enhancement expenditure and the ACR2003 assumption;
- (c) the effect of the difference between actual net debt at 1 April 2004 and the ACR2003 assumption. This adjustment was originally made in 2004-05 but was reversed in 2005-06 as Network Rail have reimbursed the government directly;
- (d) the revenue deferral discussed in the paper published on 10 March 2004.<sup>8</sup> This adjustment takes effect on 31 March 2009; and
- (e) the effect of a difference in forecast traction electricity income in 2004-05 and 2005-06.

### **Capitalised financing**

3.23 Under UK GAAP, assets should be initially measured at cost, where cost is the purchase price plus any costs directly attributable to bringing the asset into working condition. It is an option to include the capitalisation of finance costs in the cost of the asset (i.e. in the balance sheet), with any capitalisation commencing when finance costs are being incurred and ceasing when the asset enters use.

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<sup>8</sup> *Access Charges Review 2003: Regulator's approval of Network Rail's proposed financing arrangements*, Office of Rail Regulation, London, 10 March 2004, available at <http://www.rail-reg.gov.uk/upload/pdf/188.pdf>.

3.24 Capitalisation of financing costs in the period 2004-05 to 2008-09 should only be applied to certain items of expenditure incurred by Network Rail that were not funded by the ACR2003 final conclusions. The only categories of expenditure recorded in the regulatory accounts that may include an allowance for capitalised finance are therefore:

- investments not funded through the ACR2003, but approved by us for addition to the RAB;
- the variance on emerging cost enhancements (see paragraph 3.31 below); and
- for the following items relating to other unfunded expenditure adjustments agreed with us:
  - the adjustment for the effect of the signalling review which concluded in December 2005;
  - the effect of the difference between actual 2003-04 renewals and enhancement expenditure and the ACR2003 assumption; and
  - the effect of a difference in forecast traction electricity income in 2004-05 and 2005-06.

3.25 For the purposes of calculating appropriate RAB additions in the regulatory accounts in a transparent manner, any relevant expenditure should be assumed to have been incurred mid-way through the year. The addition should be calculated with reference to the allowed return assumed in the final conclusions of ACR2003, i.e. 6.763% in 2004-05 and 2005-06, and 6.295% for 2006-07 to 2008-09.<sup>9</sup>

3.26 For the designated categories shown in paragraph 3.24, capitalised financing should therefore be applied using the following formulas.

3.27 A) For expenditure in the year:

capitalised finance = expenditure in year x 0.5 x RoR

B) For the opening balance brought forward following the year of expenditure:

capitalised finance = opening balance x RoR

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<sup>9</sup> These return figures represent a mid-year rate of return as opposed to the annual average returns allowed in the ACR2003 of 7.0% and 6.5%.

where:

0.5 reflects the assumption of mid year spend;

RoR represents the appropriate allowed rate of return (i.e. either 6.763% or 6.295%); and

The opening balance is the expenditure and the accumulated capitalised financing brought forward from the previous year.

- 3.28 As described above, the RAB additions for renewals and enhancements expenditure funded through the ACR2003 to be shown in the regulatory accounts for 2004-05 to 2008-09, will simply be the level of forecast spend assumed in the ACR2003 final conclusions regardless of any variances compared to actual expenditure. As described above, the amortisation and financing costs resulting from any deviation from these levels in 2004-05 to 2008-09 is generally assumed to be retained/borne by the company as out/under-performance and it would therefore be inappropriate to change the incentive effects by allowing for capitalised financing on any such expenditure.

### **Treatment of expenditure on investment incurred after 31 March 2004**

#### *General principles*

- 3.29 In October 2005 we published a document setting out our policy conclusions on the framework for investments.<sup>10</sup> This framework is necessary to deal with unforeseen investments that may arise between access charges reviews (or be required by third parties outside the access charges review framework) and clarity is therefore required on the treatment of these new schemes, particularly their funding.
- 3.30 It is important that investment expenditure is monitored, recorded and reported on during the control period. The regulatory accounts support these aims by disclosing Network Rail's expenditure on investments. In the revised regulatory financial statements, investment expenditure should be recorded and added to the RAB in two broad categories: enhancements already funded in the ACR2003, and investment expenditure not funded in the ACR2003 but approved by the ORR.

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<sup>10</sup> *Policy framework for investments: Conclusions*, Office of Rail Regulation, London, October 2005, available at <http://www.rail-reg.gov.uk/upload/pdf/255.pdf>.

*Enhancements funded in ACR2003*

- 3.31 The ACR2003 final conclusions established an allowance for enhancement expenditure relating to work Network Rail is required to carry out during the control period. Almost all schemes were included on a fixed price basis, as noted above. The determination expenditure on these schemes should be recorded as a line item in the regulatory accounts and will usually be added to the RAB, subject to the required outputs being delivered. Similar to the treatment of renewals, the amortisation and financing costs resulting from any deviation from the expenditure allowance is generally retained/borne by the company as out/under-performance.<sup>11</sup>
- 3.32 In the event that an enhancement funded through the access charges review is not required by the relevant customer or funder, Network Rail is required to notify ORR and the relevant reduction in expenditure should be logged up in the regulatory accounts, with the RAB reduced by the appropriate amount in 2009, taking into account any revenue Network Rail had already received for the scheme through a return on the RAB or amortisation.
- 3.33 Where it is necessary to amend the profile of works and spend on a scheme (which would affect the timing of actual spend compared to the ACR2003 assumption), we would not expect to make any changes to the RAB addition set in the ACR2003, providing that the same outputs are still to be delivered within the control period. Details of the outputs delivered and spend on individual schemes are provided as part of the annual reporting on investments (see paragraph 3.41).

*Investments not funded by the ACR2003 but approved by the ORR*

- 3.34 In the course of a five-year control period, there may be some investment schemes that will be required but which were not foreseen at the time of the preceding periodic review. This may be as a result of, for example, changing safety requirements, newly developed enhancements to improve Network Rail's performance, or customer requirements for additional outputs. Efficient expenditure on all such schemes should be logged up by Network Rail for

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<sup>11</sup> The exception to this rule is certain time-critical "transition projects" (such as Southern Region New Trains Programme) sponsored by the Strategic Rail Authority, which are treated on an emerging cost basis such that any over- or underspend is added to the RAB automatically in 2009, based on the actual costs logged up in the regulatory accounts, including any appropriate adjustments for financing costs.

inclusion in the RAB, subject to the criteria set out in the next section. As these schemes are unforeseen, Network Rail is allowed to log up capitalised financing on its efficient costs in accordance with the method detailed in paragraphs 3.23 to 3.28.

3.35 Our October 2005 policy conclusions document on the investment framework explains how we will treat different types of investment scheme. The key categories are:

- schemes within the proposed Network Rail discretionary fund;
- government-sponsored schemes;
- Network Rail-promoted schemes; and
- schemes promoted by third parties.

3.36 Our October 2005 document on investments also described the criteria that we will apply when considering whether or not to make an addition to the RAB in respect of investment expenditure. In summary, we will need to be satisfied that:

- the expenditure has been incurred as a result of a reasonable requirement of government (i.e. Department for Transport ('DfT') or Transport Scotland as appropriate), and that government supports the financial commitment arising<sup>12</sup>;
- the outputs required by the scheme promoter or customer have been delivered;
- the expenditure has been efficiently incurred; and
- the expenditure adds to the economic value of Network Rail's business (or, potentially, to the rail network as a whole).

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<sup>12</sup> Except for self-financing schemes, which satisfy the criteria set out in our *March 2007 Policy framework for investments – update on implementation guidelines* document, which do not require explicit Government approval.

- 3.37 More detail on these criteria is also given in our March 2006 investment guidelines document<sup>13</sup> and our March 2007 Policy framework for investments – update on implementation guidelines document.<sup>14</sup>

*Process for adding investment expenditure to the RAB*

- 3.38 We expect to make additions to the RAB provided the criteria set out in the March 2006 Investment Guidelines document and our March 2007 Policy framework for investments – update on implementation guidelines document are satisfied. These criteria can be satisfied through the provision of appropriate information from the delivery agent (Network Rail in the case of schemes funded through the RAB) and the scheme's customers or funders. Network Rail should in general submit the following information on each scheme for which a RAB addition is sought:

- agreed outputs for the scheme to deliver, with estimated delivery dates;
- the agreed price for delivering the scheme outputs;
- the amount and timing of an agreed RAB addition that the funder is prepared to support, allowing for any financing costs;
- details of any other agreed method of remunerating the outputs;
- the governance arrangements for the scheme, including risk allocation between the parties and remedies in the case of non, or partial, delivery;
- if appropriate, the contingency for unidentified or unquantifiable risks; and
- calculations showing any non-RAB revenues to remunerate Network Rail for the investment and the expected RAB addition.

- 3.39 Once Network Rail (and, if appropriate, the scheme promoter or funder) has confirmed that the scheme outputs have been delivered, Network Rail should then record the expenditure proposed for inclusion in the RAB in statement 3:

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<sup>13</sup> *Policy framework for investments: Guidelines on implementation arrangements & processes*, Office of Rail Regulation, London, March 2006, available at <http://www.rail-reg.gov.uk/upload/pdf/277.pdf>.

<sup>14</sup> *Policy framework for investments – update on implementation guidelines*, Office of Rail Regulation, London, March 2007, available at <http://www.rail-reg.gov.uk/upload/pdf/invest-guide-let-020307.pdf>.

*Analysis of RAB capital expenditure* of the regulatory financial statements. Provided we are satisfied that all required assurances and information have been provided (we will check that the regulatory financial statements record all investment expenditure incurred in accordance with the criteria and processes set out in our policy framework for investments), the relevant amount will enter the regulatory accounts RAB at the agreed time, along with any financing costs.

- 3.40 Similar information on individual schemes put forward for addition to the RAB is also required in the regulatory accounts for monitoring purposes, and this information is set out in the following paragraph.

#### *Reporting of investments*

- 3.41 The regulatory financial statements, Statement 2a: *RAB* and Statement 2b: *RAB and net debt analysis*, include the expenditure on all investment schemes for which Network Rail is seeking an addition to the RAB. The information required on each scheme for which expenditure is put forward for addition to the RAB is set out in Annex C: *Enhancement reporting template*.

#### **Cost allocation rules**

- 3.42 For 2006-7 onwards, Network Rail will be required to attribute its total annual expenditure to five main headings: renewals, maintenance, operating expenditure and enhancements.
- 3.43 As a general principle, the detailed cost attribution and allocation policies that Network Rail adopts should not change from year to year. In particular, in order to compare Network Rail's performance with the Determination Assumptions, it is necessary for Network Rail to prepare its regulatory accounts on a basis that is consistent with the policies it used when preparing its 2002-03 regulatory accounts. In addition:
- costs should be allocated in relation to the way resources are consumed;
  - direct costs should be allocated in the way in which they are incurred;
  - indirect costs should be allocated objectively using a reasonable methodology having regard to the materiality of the allocations; and

- general costs should be allocated to the appropriate heading to which they relate, in line with the way in which resources have been consumed.

3.44 More detail on cost allocation rules is given in Annex B (particularly relating to definitions).

### **Disaggregation of the Regulatory Financial Statements**

#### *Background.*

3.45 In July 2004, the DfT published The Future of Rail White Paper. A major area of change introduced by the White Paper is the devolution of greater powers and responsibilities for specifying high-level railway outputs and funding rail services to devolved administrations. In particular, from 1 April 2006, Scottish Ministers have had responsibility for specifying and funding the network infrastructure in Scotland.

3.46 Following a consultation process, in December 2005 we published a document<sup>15</sup> setting out details of our approach to regulation of the railways in Scotland in response to the new arrangements introduced by the White Paper. One important change to the regulatory framework is that at future access charge reviews, Network Rail's price control will be separated so that we will establish the company's outputs and corresponding revenue requirement separately for Scotland and for England & Wales.

3.47 We are also introducing a greater level of transparency and accountability to the price control arrangements for the remainder of the current control period 3 ('CP3'), which runs from 2004-05 to 2008-09. This will ensure a greater level of monitoring of Network Rail's performance and financial position for Scotland and England & Wales separately, as well as Great Britain as a whole. Therefore, from 2006-7 onwards Network Rail's regulatory financial statements will report separate disaggregated information on the company's financial performance in Scotland and in England & Wales, as well as in Great Britain as a whole.

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<sup>15</sup> *ORR's approach to regulation in Scotland: Conclusions*, Office of Rail Regulation, London, December 2005, available at <http://www.rail-reg.gov.uk/upload/pdf/267.pdf>.

*Allocation of costs and revenues*

- 3.48 A high proportion of Network Rail's expenditure on operating, maintaining, renewing and enhancing the network is directly attributable to specific geographic areas, including Scotland. However, some of the company's costs are incurred centrally (e.g. information systems costs and human resources costs) and it has, therefore, been necessary to establish rules for the allocation of an appropriate share of Network Rail's central costs that are not directly allocated to any geographic area.
- 3.49 A considerable amount of work on allocation of centrally incurred (or common) costs was undertaken by Transport Scotland's consultants during the latter part of 2004 to inform the calculation of the funding settlement that would be necessary between the Secretary of State for Transport and Scottish Ministers as part of the new arrangements. We have subsequently reviewed these cost and revenue allocation rules and discussed them with Network Rail. We consider these metrics to be an appropriate basis to allocate common costs and have used them to establish an indicative disaggregation of Network Rail's revenue requirement for the remainder of the current control period.<sup>16</sup>
- 3.50 These metrics will now be used by Network Rail to allocate common costs and revenues for the remainder of the current control period. Details of each of the relevant metrics and the percentage to be applied to Scotland and to England & Wales are set out in Annex E.

*The regulatory asset base*

- 3.51 Under the price control separation arrangements that we have implemented, it will be necessary for Network Rail to report separately on adjustments and accruals to the element of the RAB allocated to Scotland and the element of the RAB allocated to England & Wales.

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<sup>16</sup> Details of the disaggregated revenue requirements for Scotland and England & Wales are set out in Annex B of *ORR's approach to regulation in Scotland: Conclusions*, Office of Rail Regulation, London, December 2005, available at <http://www.rail-reg.gov.uk/upload/pdf/267.pdf>.

- 3.52 We set out details of our approach to separating the RAB in our June 2005 consultation document on disaggregation issues.<sup>17</sup> Our chosen methodology for disaggregating the RAB is a composite approach that considers the effect of both the underlying value of the assets and the level of use of these assets.
- 3.53 Under the devolution arrangements introduced by the White Paper, Transport Scotland has taken on responsibility for funding the railways in Scotland since 1 April 2006. Therefore, from that date Network Rail's RAB was separated on the basis that 11.17% of the GB opening balance (excluding enhancements) is allocated to Scotland, with the rest allocated to England & Wales.<sup>18</sup> Since the publication of our *approach to regulation in Scotland: conclusions* document in December 2005 we have adjusted the RAB of both Scotland and England and Wales to take account of the adjustments to the RAB described in paragraph 3.22.
- 3.54 Network Rail will report separately on adjustments for capital expenditure and amortisation and other accruals to the element of the RAB allocated to Scotland and the element of the RAB allocated to England & Wales.

#### *Summary*

- 3.55 Taken together, these changes mean that from the financial year 2006-7 onwards, Network Rail will be required to produce separately for Scotland and for England & Wales as well as for Great Britain, the regulatory financial statements described in paragraph 2.4 above.
- 3.56 Templates for these regulatory financial statements are set out in Annex A.

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<sup>17</sup> *Disaggregating Network Rail's expenditure and revenue allowance and the future price control framework: a consultation*, Office of Rail Regulation, London, June 2005, available at <http://www.rail-reg.gov.uk/upload/pdf/238.pdf>.

<sup>18</sup> Under the funding settlement agreed between the Scottish Executive and the DfT, all of the ACR2003 funded enhancements are attributable to the 'England & Wales' RAB. This includes enhancement expenditure incurred in 2004-05 and 2005-06. Therefore, in practice, the opening RAB split for Scotland will be based on 11.17% of the GB RAB at April 2006 less enhancements expenditure in the first two years of the control period. This expenditure will be added to the England & Wales RAB.

# Annex A: Required statements and disclosures

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## Statements

*Primary statements (for Great Britain, Scotland and England & Wales):*

1. Regulatory financial performance - for each year of CP3 and a cumulative total.
2. RAB and net debt analysis (regulatory financial position):
  - (a) Calculation of the regulatory accounts RAB and movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB; and
  - (b) Five-year summary of the calculation of the regulatory accounts RAB and movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB.

*Other statements (for Great Britain, Scotland and England & Wales):*

3. Analysis of RAB capital expenditure.
4. Analysis of operating, maintenance & renewals expenditure:
  - (a) Summary analysis of operating, maintenance & renewals expenditure;
  - (b) Analysis of maintenance expenditure; and
  - (c) Analysis of operating expenditure (a more detailed version of this statement will be provided to the ORR, together with an analysis of operating expenditure by business unit).
5. Analysis of Income.
6. Other information.

**Other required disclosures** (*for Great Britain and where relevant Scotland and England & Wales*):

- 1 Supporting notes as appropriate.
- 2 Accounts prepared under the Companies Act 1985 (including relevant statements procured from Network Rail Infrastructure Finance and Network Rail MTN Finance Plc).
- 3 Reconciliations with statutory accounts (including disclosure of the breakdown of the adjustment for reactive and cyclical maintenance (excluding structures inspections), separately identifying total operational property maintenance and stations maintenance).
- 4 Statement of adequacy of management and financial resources.
- 5 Statement under licence condition 29.
- 6 Auditors' reports.
- 7 Other (see paragraph 2.21).

**Template regulatory financial statements**

The remainder of annex A shows the template regulatory financial statements.

## Statement 1: GB Regulatory financial performance

in £m 2006-07 prices

	Actual	2006-07 ACR2003	Difference
<b>A) Comparison of overall performance</b>			
Operating expenditure	X	X	X
Maintenance expenditure	X	X	X
Schedule 4 (income)/costs	X	X	X
Schedule 8 (income)/costs	X	X	X
Return on the RAB (as per ACR2003)	X	X	X
Amortisation	X	X	X
Gross revenue	X	X	X
Other income	X	X	X
Net revenue	X	X	X
Variable charge income including Schedule 4 and 8 access charges	X	X	X
<b>Total net revenue recovered through fixed track access charges and grants</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>B) Comparison of track access charges and grants</b>			
<b>Split of track access charges as per 10 March 2004 ORR statement</b>			
Variable charges	X	X	X
Fixed charges	X	X	X
<b>Total track access charges</b>	<b>X</b>	<b>X</b>	<b>X</b>
Grants	X	X	X
<b>Total revenue</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>C) Reconciliation to total income:</b>			
Other income	X	X	X
Deferred grants	-	-	-
Schedule 4 income/(costs)	X	X	X
Schedule 8 income/(costs)	X	X	X
Other	X	X	X
<b>Total income (see Statement 5)</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Statement 2a: GB RAB (Regulatory financial position)

in £m 2006-07 prices unless stated

	Movements in the year 2006-07			Total as at 31/03/07
	Indexation	Adjustment	Capitalised financing (return)	
<b>A) Calculation of the regulatory accounts GB RAB at 31 March 2007</b>				
Opening RAB for the year (2005-06 prices)				X
Indexation	X			X
<b>Opening RAB (2006-07 prices)</b>				<b>X</b>
Amortisation on 1 April 2004 RAB		X	-	X
<b>Opening RAB after amortisation</b>				<b>X</b>
<b>Adjustments (see explanatory notes)</b>				
Signalling review (see Statement 2b)		X	X	X
Investments disallowed by ORR		X	X	X
Other adjustments		X	X	X
<b>RAB after prior year adjustments</b>				<b>X</b>
<b>Renewals and enhancements (see Statement 3 for more detail)</b>				
Renewals in ACR2003 <sup>1</sup>		X	-	X
Enhancements in ACR2003		X	-	X
Variance on emerging cost enhancements		X	X	X
Investments not funded in ACR2003 (see Statement 3)		X	X	X
<b>Total enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals and enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on post April 2004 investment in ACR 2003		X	-	X
<b>Net addition to the RAB from renewals and enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
<b>Closing RAB at 31 March 2007</b>				<b>X</b>
<b>B) Movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB</b>				
<b>Balance at 1 April 2006</b>				<b>X</b>
Indexation	X			X
Revenue deferral		X	-	X
Asset stewardship index		X	-	X
Volume incentive		X	-	X
<b>Balance at 31 March 2007</b>				<b>X</b>

<sup>1</sup> The signalling allowance in the ACR2003 is stated after taking account of ORR's signalling review published in December 2005. This has the effect of increasing ACR2003 renewals by £xm for 2006-07 from £xm to £xm.

## Statement 2b: GB RAB and net debt analysis (Regulatory financial position)

in £m 2006-07 prices unless stated

	Five-year summary					Total
	2004-05	2005-06	2006-07	2007-08	2008-09	
<b>A) Calculation of the regulatory accounts GB RAB at 31 March 2007</b>						
Opening RAB for the year <sup>1</sup> (2005-06 prices)	X	X	X	X	X	X
Indexation	X	X	X	X	X	X
<b>Opening RAB (2006-07 prices)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on 1 April 2004 RAB	X	X	X	X	X	X
<b>Opening RAB after amortisation</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Adjustments (see explanatory notes)</b>						
Signalling review	X	X	X	X	X	X
Capex outturn 2003-04	X	X	X	X	X	X
Opening net debt at 1 April 2004	X	X	-	-	-	X
Investments disallowed by ORR	X	X	X	X	X	X
Other adjustments	X	X	X	X	X	X
<b>RAB after prior year adjustments</b>						<b>X</b>
<b>Renewals and enhancements (see Statement 3 for more detail)</b>						
Renewals in ACR2003	X	X	X	X	X	X
Enhancements in ACR2003	X	X	X	X	X	X
Variance on emerging cost enhancements	X	X	X	X	X	X
Investments not funded in ACR2003 (see Statement 3)	X	X	X	X	X	X
<b>Total enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on post April 2004 investment in ACR2003	X	X	X	X	X	X
<b>Net addition to the RAB from renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Closing RAB at 31 March 2007</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>B) Movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB</b>						
<b>Balance at 1 April 2006</b>						<b>X</b>
Revenue deferral	X	X	X	X	X	X
Asset stewardship index	X	X	X	X	X	X
Volume incentive	X	X	X	X	X	X
<b>Balance at 31 March 2007</b>						<b>X</b>
<b>C) Net debt analysis</b>						
<b>Net debt<sup>2</sup></b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Net debt to RAB ratio</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup>The opening RAB at 1 April 2004 (2003-04 prices) was £xm.

<sup>2</sup>Of the total net debt balance detailed above, £xm is owed to Network Rail Infrastructure Finance PLC, the special purpose financing vehicle that Network Rail has established to facilitate its long term Debt Issuance Programme and £xm is owed to Network Rail MTN Finance PLC

## Statement 3: GB Analysis of RAB capital expenditure

in £m 2006-07 prices unless stated

	Net spend in the year		
	Actual	ACR2003	Difference
<b>A) Renewals included in ACR2003</b>	X	X	X
<b>B) Enhancements included in ACR2003</b>			
<b><i>Health and safety schemes</i></b>			
Train protection schemes	X	X	X
Light Maintenance Depot pollution prevention	X	-	X
Other Safety & Environment plan schemes	X	X	X
<i>Total health and safety schemes</i>	X	X	X
<b><i>Emerging cost enhancements (transition schemes)</i></b>			
Power Supply Upgrade ('PSU')	X	X	X
Southern Region New Trains Programme (non PSU)	X	X	X
Channel Tunnel Rail Link blockade	X	-	X
Thameslink 2000 development	X	-	X
<i>Total emerging cost enhancements</i>	X	X	X
Telecoms enhancements	X	X	X
West Coast Route Modernisation enhancements	X	X	X
<b>Total enhancements in ACR2003</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>C) Investments not included in ACR2003 allowance</b>			
<b><i>Government sponsored schemes</i></b>			
Southern Region New Trains Programme (non PSU)	X	-	X
Other	X	-	X
<i>Total government sponsored schemes</i>	X	-	X
<b><i>Network Rail sponsored schemes</i></b>			
Schemes in DfT pot for discretionary spend <sup>1</sup>	X	-	X
Tyseley South	X	-	X
Peterborough-Werrington	X	-	X
Other	X	-	X
<i>Total Network Rail sponsored schemes</i>	X	-	X
<b><i>Schemes promoted by third parties</i></b>			
Project Evergreen 2	X	-	X
Other	X	-	X
<i>Total schemes promoted by third parties</i>	X	-	X
Other enhancement projects	X	-	X
<b>Total investments not included in ACR2003 allowance</b>	<b>X</b>	<b>-</b>	<b>X</b>
<b>Total renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup> Separate notes are provided, in addition to the regulatory accounts, showing the breakdown between schemes and outputs.

## Statement 4a: GB Summary analysis of operating, maintenance & renewals expenditure

in £m 2006-07 prices unless stated

	Spend in the year		
	Actual	ACR2003	Difference
<b>Renewals</b>			
<b>Non-WCRM renewals</b>			
Track	X	X	X
Structures	X	X	X
Signalling <sup>1</sup>	X	X	X
Telecoms	X	X	X
Electrification	X	X	X
Plant and machinery	X	X	X
Operational property	X	X	X
Other (inc IT)	X	X	X
<b>Total non-WCRM renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total WCRM renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total maintenance (see statement 4b)</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Operating expenditure (see statement 4c)</b>			
Controllable operating expenditure	X	X	X
Non-controllable operating expenditure	X	X	X
<b>Total operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total operating, maintenance and renewals expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup> The signalling allowance in ACR2003 is stated after taking account of ORR's signalling review published in December 2005. This has the effect of increasing ACR2003 renewals by £xm for 2006-07.

## Statement 4b: GB Analysis of maintenance expenditure

in £m 2006-07 prices unless stated

	Spend in the year		Difference
	Actual	ACR2003 <sup>1</sup>	
<b>Analysis of maintenance expenditure<sup>2</sup></b>			
Permanent way <sup>3</sup>	X	-	-
Signalling and telecoms <sup>3</sup>	X	-	-
Electrification and plant <sup>3</sup>	X	-	-
Structures inspections <sup>3</sup>	X	-	-
Other	X	-	-
<b>Total maintenance expenditure</b>	<b>X</b>	<b>-</b>	<b>-</b>

<sup>1</sup> ACR2003 did not breakdown maintenance expenditure. Therefore, no comparatives to actual expenditure are included.

<sup>2</sup> See the reconciliation's to statutory accounts for operational property maintenance and stations maintenance.

<sup>3</sup> These costs only include direct costs.

## Statement 4c: GB Analysis of operating expenditure

in £m 2006/07 prices unless stated

	Spend in the year		Total
	Controllable operating expenditure	Maintenance expenditure	
<b>Total payroll costs</b>	X	X	X
<b>Other controllable operating expenditure</b>			
Employee related expenses	X	X	X
Contracted services			
- agency	X	X	X
- contractors and consultants	X	X	X
- maintenance contractors	X	X	X
- total	X	X	X
Accommodation and corporate office expenses	X	X	X
Plant	X	X	X
Materials	X	X	X
IT	X	X	X
Other	X	X	X
<b>Total other controllable operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Less:</b>			
Other operating income	X	X	X
Own work capitalised	X	X	X
<b>Total controllable operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Non-controllable operating expenditure</b>			
Traction electricity costs	X		
Cumulo rates	X		
BT Transport Police costs	X		
Rail Safety and Standards Board levy	X		
ORR licence fee	X		
Other	X		
<b>Total non-controllable operating expenditure</b>	<b>X</b>		

### Notes:

1. Controllable operating expenditure includes £xm of signallers/LX keeper costs, £xm of operation delivery costs and £xm of control costs.
2. Other controllable operating expenditure includes Network Rail Insurance Limited's total profit/loss from operations of £xm.

## Statement 5: GB Analysis of income

in £m 2006-07 prices unless stated

	Receipts in the year		
	Actual	ACR2003	Difference
<b>Franchised track access income</b>			
Fixed charges	X	X	X
Gross variable charge income			
Usage charge	X	X	X
Capacity charge	X	X	X
Traction electricity (incl. electrification usage charge)	X	X	X
Schedule 4 net income	X	X	X
Schedule 8 net income	X	X	X
Other contractual receipts	X	X	X
Total gross variable charge income	X	X	X
Rebates paid	X	X	X
<b>Total franchised track access income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Grant income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total franchised track access and grant income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Other single till income</b>			
Property income	X	X	X
Freight income	X	X	X
Open access income	X	X	X
Stations income	X	X	X
Depots income	X	X	X
Third party funded enhancement schemes	X	X	X
Other	X	X	X
<b>Total other single till income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total income</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Statement 6: GB Other information

in £m 2006-07 prices unless stated

	Receipts in the year		Difference
	Actual	ACR2003 <sup>1</sup>	
<b>Analysis of Schedule 4 net income</b>			
Income	X	X	X
Costs	X	X	X
<b>Net income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Analysis of Schedule 8 net income</b>			
Income	X	X	X
Costs	X	X	X
<b>Net income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Analysis of freight income</b>			
Variable track access	X	-	-
Capacity charge	X	-	-
Performance regime	X	-	-
Cancellations	X	-	-
Traction electricity	X	-	-
Other	X	-	-
<b>Total freight income</b>	<b>X</b>	<b>-</b>	<b>-</b>

<sup>1</sup> ACR2003 did not breakdown freight income. Therefore, no comparatives to actual expenditure are included.

## Statement 1: Scotland Regulatory financial performance

in £m 2006-07 prices

	Actual	2006-07 Indicative ACR2003	Difference
<b>A) Comparison of overall performance</b>			
Operating expenditure	X	X	X
Maintenance expenditure	X	X	X
Schedule 4 (income)/costs	X	X	X
Schedule 8 (income)/costs	X	X	X
Return on the RAB (as per ACR2003)	X	X	X
Amortisation	X	X	X
Gross revenue	X	X	X
Other income	X	X	X
Net revenue	X	X	X
Variable charge income including Schedule 4 and 8 access charges	X	X	X
<b>Total net revenue recovered through fixed track access charges and grants</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>B) Comparison of track access charges and grants</b>			
<b>Split of track access charges as per 10 March 2004 ORR statement</b>			
Variable charges	X	X	X
Fixed charges	X	X	X
<b>Total track access charges</b>	<b>X</b>	<b>X</b>	<b>X</b>
Grants	X	X	X
<b>Total revenue</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>C) Reconciliation to total income:</b>			
Other income	X	X	X
Deferred grants	-	-	-
Schedule 4 income/(costs)	X	X	X
Schedule 8 income/(costs)	X	X	X
Other	X	X	X
<b>Total income (see Statement 5)</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Statement 2a: Scotland RAB (Regulatory financial position)

in £m 2006-07 prices unless stated

	Movements in the year 2006-07			Total as at 31/03/07
	Indexation	Adjustment	Capitalised financing (return)	
<b>A) Calculation of the regulatory accounts GB RAB at 31 March 2007</b>				
<b>Opening RAB for the year (2005-06 prices)</b>				X
Indexation	X			X
<b>Opening RAB (2006-07 prices)</b>				<b>X</b>
Amortisation on 1 April 2004 RAB		X	-	X
<b>Opening RAB after amortisation</b>				<b>X</b>
<b>Adjustments (see explanatory notes)</b>				
Signalling review (see Statement 2b)		X	X	X
Investments disallowed by ORR		X	X	X
Other adjustments		X	X	X
<b>RAB after prior year adjustments</b>				<b>X</b>
<b>Renewals and enhancements (see Statement 3 for more detail)</b>				
Renewals in ACR2003 <sup>1</sup>		X	-	X
Enhancements in ACR2003		X	-	X
Variance on emerging cost enhancements		X	X	X
Investments not funded in ACR2003 (see Statement 3)		X	X	X
<b>Total enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals and enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on post April 2004 investment in ACR 2003		X	-	X
<b>Net addition to the RAB from renewals and enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
<b>Closing RAB at 31 March 2007</b>				<b>X</b>
<b>B) Movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB</b>				
<b>Balance at 1 April 2006</b>				<b>X</b>
Indexation	X			X
Revenue deferral		X	-	X
Asset stewardship index		X	-	X
Volume incentive		X	-	X
<b>Balance at 31 March 2007</b>				<b>X</b>

<sup>1</sup> The signalling allowance in the ACR2003 is stated after taking account of ORR's signalling review published in December 2005. This has the effect of increasing ACR2003 renewals by £xm for 2006-07 from £xm to £xm.

## Statement 2b: Scotland RAB analysis (Regulatory financial position)

in £m 2006-07 prices unless stated

	Five-year summary					Total
	2004-05	2005-06	2006-07	2007-08	2008-09	
<b>A) Calculation of the regulatory accounts GB RAB at 31 March 2007</b>						
Opening RAB for the year <sup>1</sup> (2005-06 prices)	X	X	X	X	X	X
Indexation	X	X	X	X	X	X
<b>Opening RAB (2006-07 prices)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on 1 April 2004 RAB	X	X	X	X	X	X
<b>Opening RAB after amortisation</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Adjustments (see explanatory notes)</b>						
Signalling review	X	X	X	X	X	X
Capex outturn 2003-04	X	X	X	X	X	X
Opening net debt at 1 April 2004	X	X	-	-	-	X
Investments disallowed by ORR	X	X	X	X	X	X
Other adjustments	X	X	X	X	X	X
<b>RAB after prior year adjustments</b>						<b>X</b>
<b>Renewals and enhancements (see Statement 3 for more detail)</b>						
Renewals in ACR2003	X	X	X	X	X	X
Enhancements in ACR2003	X	X	X	X	X	X
Variance on emerging cost enhancements	X	X	X	X	X	X
Investments not funded in ACR2003 (see Statement 3)	X	X	X	X	X	X
<b>Total enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on post April 2004 investment in ACR2003	X	X	X	X	X	X
<b>Net addition to the RAB from renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Closing RAB at 31 March 2007</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>B) Movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB</b>						
<b>Balance at 1 April 2006</b>						<b>X</b>
Revenue deferral	X	X	X	X	X	X
Asset stewardship index	X	X	X	X	X	X
Volume incentive	X	X	X	X	X	X
<b>Balance at 31 March 2007</b>						<b>X</b>

<sup>1</sup>The opening RAB at 1 April 2004 (2003-04 prices) was £xm.

## Statement 3: Scotland Analysis of RAB capital expenditure

in £m 2006-07 prices unless stated

	Net spend in the year		
	Actual	Indicative ACR2003	Difference
<b>A) Renewals included in ACR2003</b>	X	X	X
<b>B) Enhancements included in ACR2003</b>			
<i>Health and safety schemes</i>			
Scheme 1	X	X	X
Scheme 2	X	X	X
<i>Total health and safety schemes</i>	X	X	X
<i>Emerging cost enhancements (transition schemes)</i>			
Scheme 1	X	X	X
Scheme 2	X	X	X
<i>Total emerging cost enhancements</i>	X	X	X
Telecoms enhancements	X	X	X
West Coast Route Modernisation enhancements	X	X	X
<b>Total enhancements in ACR2003</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>C) Investments not included in ACR2003 allowance</b>			
<i>Government sponsored schemes</i>			
Scheme 1	X	-	X
Scheme 2	X	-	X
<i>Total government sponsored schemes</i>	X	-	X
<i>Network Rail sponsored schemes</i>			
Scheme 1	X	-	X
Scheme 2	X	-	X
<i>Total Network Rail sponsored schemes</i>	X	-	X
<i>Schemes promoted by third parties</i>			
Scheme 1	X	-	X
Scheme 2	X	-	X
<i>Total schemes promoted by third parties</i>	X	-	X
Other enhancement projects	X	-	X
<b>Total investments not included in ACR2003 allowance</b>	<b>X</b>	<b>-</b>	<b>X</b>
<b>Total renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup> Separate notes are provided, in addition to the regulatory accounts, showing the breakdown between schemes and outputs.

## Statement 4a: Scotland Summary analysis of operating, maintenance & renewals expenditure

in £m 2006-07 prices unless stated

	Spend in the year		
	Actual	Indicative ACR2003	Difference
<b>Renewals</b>			
<b>Non-WCRM renewals</b>			
Track	X	X	X
Structures	X	X	X
Signalling <sup>1</sup>	X	X	X
Telecoms	X	X	X
Electrification	X	X	X
Plant and machinery	X	X	X
Operational property	X	X	X
Other (inc IT)	X	X	X
<b>Total non-WCRM renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total WCRM renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total maintenance (see statement 4b)</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Operating expenditure (see statement 4c)</b>			
Controllable operating expenditure	X	X	X
Non-controllable operating expenditure	X	X	X
<b>Total operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total operating, maintenance and renewals expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup> The signalling allowance in ACR2003 is stated after taking account of ORR's signalling review published in December 2005. This has the effect of increasing ACR2003 renewals by £xm for 2006-07.

## Statement 4b: Scotland Analysis of maintenance expenditure

in £m 2006-07 prices unless stated

	Spend in the year		Difference
	Actual	Indicative ACR2003 <sup>1</sup>	
<b>Analysis of maintenance expenditure<sup>2</sup></b>			
Permanent way <sup>3</sup>	X	-	-
Signalling and telecoms <sup>3</sup>	X	-	-
Electrification and plant <sup>3</sup>	X	-	-
Structures inspections <sup>3</sup>	X	-	-
Other	X	-	-
<b>Total maintenance expenditure</b>	<b>X</b>	<b>-</b>	<b>-</b>

<sup>1</sup> ACR2003 did not breakdown maintenance expenditure. Therefore, no comparatives to actual expenditure are included.

<sup>2</sup> See the reconciliation's to statutory accounts for operational property maintenance and stations maintenance.

<sup>3</sup> These costs only include direct costs.

## Statement 4c: Scotland Analysis of operating expenditure

in £m 2006/07 prices unless stated

	Spend in the year		Total
	Controllable operating expenditure	Maintenance expenditure	
<b>Total payroll costs</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Other controllable operating expenditure</b>			
Employee related expenses	X	X	X
Contracted services			
- agency	X	X	X
- contractors and consultants	X	X	X
- maintenance contractors	X	X	X
- total	X	X	X
Accommodation and corporate office expenses	X	X	X
Plant	X	X	X
Materials	X	X	X
IT	X	X	X
Other	X	X	X
<b>Total other controllable operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Less:</b>			
Other operating income	X	X	X
Own work capitalised	X	X	X
<b>Total controllable operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Non-controllable operating expenditure</b>			
Traction electricity costs	X		
Cumulo rates	X		
BT Transport Police costs	X		
Rail Safety and Standards Board levy	X		
ORR licence fee	X		
Other	X		
<b>Total non-controllable operating expenditure</b>	<b>X</b>		

### Notes:

1. Controllable operating expenditure includes £xm of signallers/LX keeper costs, £xm of operation delivery costs and £xm of control costs.
2. Other controllable operating expenditure includes Network Rail Insurance Limited's total profit/loss from operations of £xm.

## Statement 5: Scotland Analysis of income

in £m 2006-07 prices unless stated

	Receipts in the year		
	Actual	Indicative ACR2003	Difference
<b>Franchised track access income</b>			
Fixed charges	X	X	X
Gross variable charge income			
Usage charge	X	X	X
Capacity charge	X	X	X
Traction electricity (incl. electrification usage charge)	X	X	X
Schedule 4 net income	X	X	X
Schedule 8 net income	X	X	X
Other contractual receipts	X	X	X
Total gross variable charge income	X	X	X
Rebates paid	X	X	X
<b>Total franchised track access income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Grant income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total franchised track access and grant income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Other single till income</b>			
Property income	X	X	X
Freight income	X	X	X
Open access income	X	X	X
Stations income	X	X	X
Depots income	X	X	X
Third party funded enhancement schemes	X	X	X
Other	X	X	X
<b>Total other single till income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total income</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Statement 6: Scotland Other information

in £m 2006-07 prices unless stated

	Receipts in the year		
	Actual	Indicative ACR2003 <sup>1</sup>	Difference
<b>Analysis of Schedule 4 net income</b>			
Income	X	X	X
Costs	X	X	X
<b>Net income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Analysis of Schedule 8 net income</b>			
Income	X	X	X
Costs	X	X	X
<b>Net income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Analysis of freight income</b>			
Variable track access	X	-	-
Capacity charge	X	-	-
Performance regime	X	-	-
Cancellations	X	-	-
Traction electricity	X	-	-
Other	X	-	-
<b>Total freight income</b>	<b>X</b>	<b>-</b>	<b>-</b>

<sup>1</sup> ACR2003 did not breakdown freight income. Therefore, no comparatives to actual expenditure are included.

# Statement 1: England & Wales Regulatory financial performance

in £m 2006-07 prices

	Actual	2006-07 Indicative ACR2003	Difference
<b>A) Comparison of overall performance</b>			
Operating expenditure	X	X	X
Maintenance expenditure	X	X	X
Schedule 4 (income)/costs	X	X	X
Schedule 8 (income)/costs	X	X	X
Return on the RAB (as per ACR2003)	X	X	X
Amortisation	X	X	X
Gross revenue	X	X	X
Other income	X	X	X
Net revenue	X	X	X
Variable charge income including Schedule 4 and 8 access charges	X	X	X
<b>Total net revenue recovered through fixed track access charges and grants</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>B) Comparison of track access charges and grants</b>			
<b>Split of track access charges as per 10 March 2004 ORR statement</b>			
Variable charges	X	X	X
Fixed charges	X	X	X
<b>Total track access charges</b>	<b>X</b>	<b>X</b>	<b>X</b>
Grants	X	X	X
<b>Total revenue</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>C) Reconciliation to total income:</b>			
Other income	X	X	X
Deferred grants	-	-	-
Schedule 4 income/(costs)	X	X	X
Schedule 8 income/(costs)	X	X	X
Other	X	X	X
<b>Total income (see Statement 5)</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Statement 2a: England & Wales RAB (Regulatory financial position)

in £m 2006-07 prices unless stated

	Movements in the year 2006-07			Total as at 31/03/07
	Indexation	Adjustment	Capitalised financing (return)	
<b>A) Calculation of the regulatory accounts GB RAB at 31 March 2007</b>				
<b>Opening RAB for the year (2005-06 prices)</b>				X
Indexation	X			X
<b>Opening RAB (2006-07 prices)</b>				<b>X</b>
Amortisation on 1 April 2004 RAB		X	-	X
<b>Opening RAB after amortisation</b>				<b>X</b>
<b>Adjustments (see explanatory notes)</b>				
Signalling review (see Statement 2b)		X	X	X
Investments disallowed by ORR		X	X	X
Other adjustments		X	X	X
<b>RAB after prior year adjustments</b>				<b>X</b>
<b>Renewals and enhancements (see Statement 3 for more detail)</b>				
Renewals in ACR2003 <sup>1</sup>		X	-	X
Enhancements in ACR2003		X	-	X
Variance on emerging cost enhancements		X	X	X
Investments not funded in ACR2003 (see Statement 3)		X	X	X
<b>Total enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals and enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on post April 2004 investment in ACR 2003		X	-	X
<b>Net addition to the RAB from renewals and enhancements</b>		<b>X</b>	<b>X</b>	<b>X</b>
<b>Closing RAB at 31 March 2007</b>				<b>X</b>
<b>B) Movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB</b>				
<b>Balance at 1 April 2006</b>				<b>X</b>
Indexation	X			X
Revenue deferral		X	-	X
Asset stewardship index		X	-	X
Volume incentive		X	-	X
<b>Balance at 31 March 2007</b>				<b>X</b>

<sup>1</sup> The signalling allowance in the ACR2003 is stated after taking account of ORR's signalling review published in December 2005. This has the effect of increasing ACR2003 renewals by £xm for 2006-07 from £xm to £xm.

## Statement 2b: England & Wales RAB analysis (Regulatory financial position)

in £m 2006-07 prices unless stated

	Five-year summary					
	2004-05	2005-06	2006-07	2007-08	2008-09	Total
<b>A) Calculation of the regulatory accounts GB RAB at 31 March 2007</b>						
Opening RAB for the year <sup>1</sup> (2005-06 prices)	X	X	X	X	X	X
Indexation	X	X	X	X	X	X
<b>Opening RAB (2006-07 prices)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on 1 April 2004 RAB	X	X	X	X	X	X
<b>Opening RAB after amortisation</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Adjustments (see explanatory notes)</b>						
Signalling review	X	X	X	X	X	X
Capex outturn 2003-04	X	X	X	X	X	X
Opening net debt at 1 April 2004	X	X	-	-	-	X
Investments disallowed by ORR	X	X	X	X	X	X
Other adjustments	X	X	X	X	X	X
<b>RAB after prior year adjustments</b>						<b>X</b>
<b>Renewals and enhancements (see Statement 3 for more detail)</b>						
Renewals in ACR2003	X	X	X	X	X	X
Enhancements in ACR2003	X	X	X	X	X	X
Variance on emerging cost enhancements	X	X	X	X	X	X
Investments not funded in ACR2003 (see Statement 3)	X	X	X	X	X	X
<b>Total enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Amortisation on post April 2004 investment in ACR2003	X	X	X	X	X	X
<b>Net addition to the RAB from renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Closing RAB at 31 March 2007</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>B) Movement in logged up 1 April 2009 regulatory accounts adjustments to the RAB</b>						
<b>Balance at 1 April 2006</b>						<b>X</b>
Revenue deferral	X	X	X	X	X	X
Asset stewardship index	X	X	X	X	X	X
Volume incentive	X	X	X	X	X	X
<b>Balance at 31 March 2007</b>						<b>X</b>

<sup>1</sup>The opening RAB at 1 April 2004 (2003-04 prices) was £xm.

## Statement 3: England & Wales Analysis of RAB capital expenditure

in £m 2006-07 prices unless stated

	Net spend in the year		
	Actual	Indicative ACR2003	Difference
<b>A) Renewals included in ACR2003</b>	X	X	X
<b>B) Enhancements included in ACR2003</b>			
<i>Health and safety schemes</i>			
Scheme 1	X	X	X
Scheme 2	X	X	X
<i>Total health and safety schemes</i>	X	X	X
<i>Emerging cost enhancements (transition schemes)</i>			
Scheme 1	X	X	X
Scheme 2	X	X	X
<i>Total emerging cost enhancements</i>	X	X	X
Telecoms enhancements	X	X	X
West Coast Route Modernisation enhancements	X	X	X
<b>Total enhancements in ACR2003</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>C) Investments not included in ACR2003 allowance</b>			
<i>Government sponsored schemes</i>			
Scheme 1	X	-	X
Scheme 2	X	-	X
<i>Total government sponsored schemes</i>	X	-	X
<i>Network Rail sponsored schemes</i>			
Scheme 1	X	-	X
Scheme 2	X	-	X
<i>Total Network Rail sponsored schemes</i>	X	-	X
<i>Schemes promoted by third parties</i>			
Scheme 1	X	-	X
Scheme 2	X	-	X
<i>Total schemes promoted by third parties</i>	X	-	X
Other enhancement projects	X	-	X
<b>Total investments not included in ACR2003 allowance</b>	<b>X</b>	<b>-</b>	<b>X</b>
<b>Total renewals and enhancements</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup> Separate notes are provided, in addition to the regulatory accounts, showing the breakdown between schemes and outputs.

## Statement 4a: England & Wales Summary analysis of operating, maintenance & renewals expenditure

in £m 2006-07 prices unless stated

	Spend in the year		
	Actual	Indicative ACR2003	Difference
<b>Renewals</b>			
<b>Non-WCRM renewals</b>			
Track	X	X	X
Structures	X	X	X
Signalling <sup>1</sup>	X	X	X
Telecoms	X	X	X
Electrification	X	X	X
Plant and machinery	X	X	X
Operational property	X	X	X
Other (inc IT)	X	X	X
<b>Total non-WCRM renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total WCRM renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total renewals</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total maintenance (see statement 4b)</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Operating expenditure (see statement 4c)</b>			
Controllable operating expenditure	X	X	X
Non-controllable operating expenditure	X	X	X
<b>Total operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total operating, maintenance and renewals expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>

<sup>1</sup> The signalling allowance in ACR2003 is stated after taking account of ORR's signalling review published in December 2005. This has the effect of increasing ACR2003 renewals by £xm for 2006-07.

## Statement 4b: England & Wales Analysis of maintenance expenditure

in £m 2006-07 prices unless stated

	Spend in the year		Difference
	Actual	Indicative ACR2003 <sup>1</sup>	
<b>Analysis of maintenance expenditure<sup>2</sup></b>			
Permanent way <sup>3</sup>	X	-	-
Signalling and telecoms <sup>3</sup>	X	-	-
Electrification and plant <sup>3</sup>	X	-	-
Structures inspections <sup>3</sup>	X	-	-
Other	X	-	-
<b>Total maintenance expenditure</b>	<b>X</b>	<b>-</b>	<b>-</b>

<sup>1</sup> ACR2003 did not breakdown maintenance expenditure. Therefore, no comparatives to actual expenditure are included.

<sup>2</sup> See the reconciliation's to statutory accounts for operational property maintenance and stations maintenance.

<sup>3</sup> These costs only include direct costs.

## Statement 4c: England & Wales Analysis of operating expenditure

in £m 2006/07 prices unless stated

	Spend in the year		Total
	Controllable operating expenditure	Maintenance expenditure	
<b>Total payroll costs</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Other controllable operating expenditure</b>			
Employee related expenses	X	X	X
Contracted services			
- agency	X	X	X
- contractors and consultants	X	X	X
- maintenance contractors	X	X	X
- total	X	X	X
Accommodation and corporate office expenses	X	X	X
Plant	X	X	X
Materials	X	X	X
IT	X	X	X
Other	X	X	X
<b>Total other controllable operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Less:</b>			
Other operating income	X	X	X
Own work capitalised	X	X	X
<b>Total controllable operating expenditure</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Non-controllable operating expenditure</b>			
Traction electricity costs	X		
Cumulo rates	X		
BT Transport Police costs	X		
Rail Safety and Standards Board levy	X		
ORR licence fee	X		
Other	X		
<b>Total non-controllable operating expenditure</b>	<b>X</b>		

### Notes:

1. Controllable operating expenditure includes £xm of signallers/LX keeper costs, £xm of operation delivery costs and £xm of control costs.
2. Other controllable operating expenditure includes Network Rail Insurance Limited's total profit/loss from operations of £xm.

## Statement 5: England & Wales Analysis of income

in £m 2006-07 prices unless stated

	Receipts in the year		
	Actual	Indicative ACR2003	Difference
<b>Franchised track access income</b>			
Fixed charges	X	X	X
Gross variable charge income			
Usage charge	X	X	X
Capacity charge	X	X	X
Traction electricity (incl. electrification usage charge)	X	X	X
Schedule 4 net income	X	X	X
Schedule 8 net income	X	X	X
Other contractual receipts	X	X	X
Total gross variable charge income	X	X	X
Rebates paid	X	X	X
<b>Total franchised track access income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Grant income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total franchised track access and grant income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Other single till income</b>			
Property income	X	X	X
Freight income	X	X	X
Open access income	X	X	X
Stations income	X	X	X
Depots income	X	X	X
Third party funded enhancement schemes	X	X	X
Other	X	X	X
<b>Total other single till income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total income</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Statement 6: England & Wales Other information

in £m 2006-07 prices unless stated

	Receipts in the year		
	Actual	Indicative ACR2003 <sup>1</sup>	Difference
<b>Analysis of Schedule 4 net income</b>			
Income	X	X	X
Costs	X	X	X
<b>Net income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Analysis of Schedule 8 net income</b>			
Income	X	X	X
Costs	X	X	X
<b>Net income</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Analysis of freight income</b>			
Variable track access	X	-	-
Capacity charge	X	-	-
Performance regime	X	-	-
Cancellations	X	-	-
Traction electricity	X	-	-
Other	X	-	-
<b>Total freight income</b>	<b>X</b>	<b>-</b>	<b>-</b>

<sup>1</sup> ACR2003 did not breakdown freight income. Therefore, no comparatives to actual expenditure are included.



## Annex B: Definitions

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### Income

1. The following guidelines should be applied when preparing the regulatory accounts.
2. Unless we agree, income will be recorded in the regulatory accounts on the same basis as it was treated in the access charges review 2003 ('ACR2003'). In certain cases the income will be presented differently in Network Rail Infrastructure Limited's ('Network Rail's') statutory accounts in order to comply with financial reporting standards.
3. In the event that the basis of allocating income between any of the sub-categories changes, the fact should be disclosed in the narrative to the regulatory accounts.
4. Network Rail is required to analyse its income on a basis that is consistent with the categorisation used in the ACR2003 final conclusions.
5. The revised categories to be identified are detailed in paragraphs 6-9 below (as per the pro forma in Annex A).
6. Franchise access Income: income from passenger train operator customers operating under franchise agreements with the Secretary of State, Scottish Ministers and/or a Passenger Transport Executive, including the following:
  - fixed charges – revenue derived from fixed track charges less regulatory asset base ('RAB') increase equivalent and additional grant proportion term as defined in Part 1 in Schedule 7 to franchised passenger operators' track access agreements;
  - fixed track charges – means an amount in respect of the fixed track charge in relevant year t, which shall be:
    - in respect of the relevant year commencing on 1 April 2004, the total of the amounts set out in the row relating to the train operator and the column relating to that year in the schedule of fixed charges; and

- in respect of any other relevant year t, the total of the amounts set out in the row relating to the train operator and the column relating to that year in the schedule of fixed charges, multiplied by the fixed track charge indexation for that year calculated in accordance with paragraph 2.1 of part 2 of schedule 7;
  - usage charge – revenue derived from variable track usage charges as defined in Part 1 in Schedule 7 to franchised passenger operators' track access agreements;
  - capacity charge – revenue derived from variable track usage charges as defined in Part 1 in Schedule 7 to franchised passenger operators' track access agreements;
  - traction electricity – revenue derived from traction electricity charges as defined in Part 1 in Schedule 7 to franchised passenger operators' track access agreements;
  - schedule 4 income – compensation sums paid to (or received from) customers as required by Schedule 4 to franchised passenger operators' track access agreements;
  - schedule 8 income – sums received from (or paid to) customers as required by Schedule 8 to franchised passenger operators' track access agreements;
  - other contractual payments – any other sums paid to (or received from) customers as a consequence of contractual requirements contained in franchised passenger operators' track access agreements and the associated Network Code; and.
  - rebates paid – are rebates that can be payable by Network Rail to franchised passenger train operators under the provisions of paragraph 7 of Part 2 of Schedule 7 of franchised passenger train operators track access agreements.
7. Grant income: revenue from grants paid by the Secretary of State and Scottish Ministers under any relevant deeds of grant between Network Rail and the Secretary of State or Scottish Ministers.
8. Rebates: the total amount of any rebatable amounts paid to customers.

9. Other single till income, including the following:
- property income – revenue generated from the licensee’s non-operational property portfolio, including the proceeds of disposals;
  - freight income – net income from track access charges paid by freight train operators. This income will be further analysed between:
    - variable track access;
    - capacity charge;
    - performance regime;
    - cancellations;
    - traction electricity; and
    - other;
  - open access income – net income from track access charges paid by passenger train operators not operating under any form of franchise agreement;
  - stations income – net income from station access agreements;
  - depots income – net income from depot access agreements;
  - third party funded enhancement schemes – income from payments made by customers specifically in relation to enhancement schemes; and
  - other income – income generated by the licensee from sources other than those described above.

## **Expenditure**

### *General*

10. The following guidelines should be applied when preparing the regulatory accounts.
11. Unless we agree, expenditure will be recorded in the regulatory accounts on the same basis as it was treated in the ACR2003. In a number of cases this basis will be the approach adopted in the 2002-03 regulatory accounts. In

certain cases the costs will be presented differently in Network Rail's statutory accounts in order to comply with financial reporting standards.

12. In the event that the basis of allocating expenditure between any of the sub-categories changes, the change should be disclosed in the narrative to the regulatory accounts.
13. Network Rail would not be required to include in the published regulatory accounts (although the information would still be provided to us) an item included in the templates where publication would or might seriously and prejudicially affect the interests of Network Rail. For this purpose Network Rail shall (except so far as ORR consents to Network Rail not doing so) refer for determination by ORR any question as to whether any such publication would or might seriously and prejudicially affect the interests of Network Rail.

#### Capitalisation of staff costs

14. In the regulatory accounts, capitalisation of staff costs as part of renewals and enhancement expenditure should be consistent with the approach adopted in 2002-03 (and definitions provided in Financial Reporting Standard<sup>15</sup>, albeit relating to capital expenditure) and should result in:
  - Staff costs only being capitalised when an employee has spent more than ten hours per week on an individual investment project;
  - The use of standard rates to translate man-hours worked into costs that differ from those used in 2002-03 only in respect of the rate of increase in average salaries plus national insurance contributions and pension costs;
  - No capitalisation of staff costs relating to management time or staff costs relating to managers who oversee a portfolio of different projects; and
  - No capitalisation of staff costs in relation to abnormal time (e.g. idle capacity, delays, wasted materials etc).

#### *Renewals expenditure*

15. For regulatory accounts purposes renewals expenditure consists mainly of capital expenditure projects where the existing infrastructure is replaced with new assets. Costs incurred in replacing an existing asset or components of an existing asset should be recorded as renewals expenditure. Such expenditure

does not result in any change or enhancement of the performance of the original asset.

16. Network Rail's reactive and cyclical expenditure (excluding structures inspections) on structures and operational property should be categorised as renewals expenditure in order to be consistent with the treatment adopted in the ACR2003 final conclusions. This includes reactive and cyclical expenditure (excluding structures inspections) on:
- underbridges, overbridges, footbridges, earthworks, coastal and estuarial defences, culverts, retaining walls and tunnels; and
  - stations, depots and lineside buildings.

#### Materiality

17. To be consistent with the way expenditure was treated in ACR2003, the following expenditure should not be categorised as renewals expenditure:
- replacement of rail over a distance of less than 200 metres;
  - replacement of sleepers over a distance of less than 100 metres;
  - replacement of less than one in four sleepers over a distance of more than 100 metres;
  - replacement of hydraulic buffer units, drains or catch pits where the cost of individual components is less than £5,000;
  - replacement of timber longitudinal bearers on multispan bridges;
  - replacement or refurbishment of signalling equipment where the cost of individual components is less than £5,000;
  - replacement or refurbishment of electrification equipment where the cost of individual components is less than £5,000;
  - erection or replacement of fencing, walling, level crossing decking or pumping equipment where the cost of individual components is less than £5,000; and

- painting of support signalling and telecoms structures where the cost is less than £5,000.

#### Form of presentation

18. The template for this analysis is shown in Statement 4a: Summary *analysis of operating, maintenance & renewals expenditure*. Renewals expenditure is to be classified between the following headings in a manner which is consistent with the basis for the ACR2003 final conclusions:

- track;
- structures;
- signalling;
- telecoms;
- electrification;
- plant and machinery;
- operational property; and
- other (including information systems expenditure).

#### *Enhancements*

19. Enhancement expenditure is defined as capital expenditure resulting in a change to network outputs, usually involving construction, that improves network capacity or capability (e.g. enabling higher speeds, allowing heavier loads) relative to the level of network outputs funded at the last relevant periodic review. Usually outputs are required at specific times (in contrast to most renewals). Enhancements costs are reported separately as shown in Statement 3: *Analysis of RAB capital expenditure*.

#### *Maintenance*

20. Maintenance expenditure relates to activities that Network Rail carries out in order to sustain the condition and capability of the existing infrastructure but which do not involve significant replacement of assets. Such expenditure maintains the previously assessed standard of performance.

21. Maintenance expenditure includes:
- expenditure incurred in repairing (but not replacing) infrastructure assets and routine over-hauls;
  - the cost of preventative work designed to protect assets from future failure;
  - the cost of asset inspection; and
  - the cost of all small-scale replacement work excluded from the definition of renewals expenditure in paragraph 17 of Annex B.
22. In calculating maintenance expenditure, Network Rail is required to apportion costs in a manner consistent with the policies adopted when compiling the 2002-03 regulatory accounts. Specific guidance on the apportionment of Network Rail's own staff costs, and production and management costs is set out below.

#### Allocation of staff costs to maintenance

23. Network Rail may only apportion staff costs to maintenance expenditure if:
- the costs would previously have been borne by one of Network Rail's infrastructure maintenance contractors; or
  - the corresponding expenditure was apportioned to maintenance expenditure in 2002-03.

#### Allocation of production and management costs to maintenance

24. Network Rail should only apportion production and management costs to maintenance expenditure if:
- the costs would previously have been borne by one of Network Rail's infrastructure maintenance contractors; or
  - the corresponding expenditure was apportioned to maintenance expenditure in 2002-03.
25. As a general principle, overheads that Network Rail classified as operating expenditure in 2002-03 should not be apportioned to maintenance expenditure.

Form of presentation

26. From 2006-07 onwards the regulatory accounts will provide more detail on maintenance costs. The initial template for this analysis is shown in Statement 4b: *Analysis of maintenance expenditure*. We are working with Network Rail to ensure that this analysis provides appropriate information in the future and in particular informs future access reviews and helps to monitor the current access review.
27. Maintenance expenditure is to be classified between the following headings:
- (a) permanent way;
  - (b) signalling and telecoms;
  - (c) electrification and plant;
  - (d) structures inspections; and
  - (e) other.

Note: Operational property maintenance (including identifying stations maintenance separately) should be disclosed in the reconciliation to statutory accounts.

*Operations expenditure*

28. Operations expenditure covers costs that are incurred in relation to the operation of the network e.g. signallers costs.

Form of presentation

29. From 2006-07 onwards the regulatory accounts will provide more detail on operations expenditure. The initial disclosures are shown in Statement 4c: *Analysis of operating expenditure*. We are working with Network Rail to ensure that this analysis provides appropriate information in the future and in particular informs future access reviews and helps to monitor the current access review.
30. The initial types of operations expenditure that will be disclosed are:
- (a) signallers/LX keepers;

- (b) operations delivery; and
- (c) control.

### *Operating costs*

31. Operating costs represent total operating costs consistent with the ACR2003 final conclusions. These operating costs will include maintenance costs, operations costs, other controllable operating costs e.g. insurance and non-controllable operating costs e.g. cumulo rates. Operating expenditure will include Network Rail Insurance Limited's total profit/loss from operations. Details of Network Rail Insurance Limited's total profit/loss from operations, investment revenues, finance costs, profit/loss before tax, tax and profit/loss for the year attributable to equity shareholders will be provided in a note to the regulatory accounts. For the period to 31 March 2009 non-controllable operating expenditure mainly includes the following items:
- (a) traction electricity costs;
  - (b) cumulo rates;
  - (c) British Transport Police costs;
  - (d) Rail Safety and Standards Board levy; and
  - (e) the ORR licence fee.
32. No other operating expense should be classified as non-controllable expenditure.

### *Definition of staff costs*

33. Staff costs should include: total employment costs, including wages, bonuses, expenses, national insurance contributions, pension costs and any other staff benefits.

### *Form of presentation*

34. From 2006-7 onwards the regulatory accounts will provide more detail on operations and operating expenditure. The initial template for this analysis is shown in Statement 4c: *Analysis of operating expenditure*. We are working with Network Rail to ensure that this analysis provides appropriate information

in the future and in particular informs future access reviews and helps to monitor the current access review.

35. Operating expenditure is to be classified between the following headings:
- (a) total payroll costs;
  - (b) employee related expenses;
  - (c) contracted services:
    - (i) agency;
    - (ii) contractors and consultants;
    - (iii) maintenance contractors; and
    - (iv) total contracted services.
  - (d) accommodation and corporate office expenses;
  - (e) plant;
  - (f) materials;
  - (g) information technology;
  - (h) other controllable operating expenditure (including Network Rail Insurance Limited's total profit/loss from operations);
  - (i) other operating income;
  - (j) own work capitalised;
  - (k) traction electricity costs;
  - (l) cumulo rates;
  - (m) British Transport Police costs;
  - (n) Rail Safety and Standards Board levy;
  - (o) ORR licence fee; and
  - (p) Other non-controllable operating expenditure.

## Annex C: Enhancement reporting template

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Network Rail Infrastructure Limited should provide information on all enhancement schemes for which it is claiming a regulatory asset base ('RAB') addition during the year containing the following details:

- scheme name;
- business unit;
- type of scheme;
- asset category;
- current authorised stage;
- total CP1 expenditure;
- total CP2 expenditure (2001-2004);
- expenditure (forecast and actual) by year for CP3 (2004-09);
- expenditure for future years (beyond CP3);
- total expenditure;
- allocation of risk;
- contingency;
- funding method;
- value of any additional funding;
- date of addition to RAB;
- value of addition to RAB;
- rate of return;
- is the scheme on the 'Single Enhancement List' (or equivalent)?;
- does the scheme result from a 'Competent Authority Notice'?; and
- project output(s) and expected dates of delivery.



## **Annex D: Conditions 22 and 29 of Network Rail's Network Licence**

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### **Condition 22: Regulatory Accounts**

1. The purpose of this Condition is to procure the provision of annual information on the financial performance and financial position of the licence holder Network Rail Infrastructure Finance and any subsidiaries of Network Rail Infrastructure Finance which:
  - (a) is relevant to the Office of Rail Regulation and other persons for the assessment and determination of the licence holder's access charges; and
  - (b) allows the financial performance and financial position of the licence holder to be monitored against the Determination Assumptions.
2. In order to achieve the purpose referred to in paragraph 1, the licence holder shall prepare regulatory financial statements in relation to itself and, unless the Office of Rail Regulation otherwise consents, to Network Rail Infrastructure Finance (and shall for such purpose maintain accounting records) in accordance with the following paragraphs of this Condition and any Regulatory Accounting Guidelines from time to time issued by the Office of Rail Regulation.
3. The financial statements referred to in paragraph 2:
  - (a) shall be prepared in respect of the financial year ended 31 March 2002 and (save as otherwise provided in this Condition or the Regulatory Accounting Guidelines) thereafter on a consistent basis in respect of each succeeding financial year;
  - (b) shall be prepared such that, insofar as reasonably practicable, the definition of items in primary statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:

- (i) the Office of Rail Regulation's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
  - (ii) the Determination Assumptions for the corresponding period; (and so that where the presentation of an item in the primary statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- (c) shall include, as a primary statement, a statement of regulatory financial performance comparing income, expenditure, profits and losses for the period with the Determination Assumptions;
  - (d) shall include all details reasonably necessary to reconcile items included in the primary statements with any corresponding items in annual statutory accounts for the same period;
  - (e) shall include narrative explaining the material variances from the previous year and from the Determination Assumptions; and
  - (f) shall include the confirmation required under paragraph 3 of Condition 29.
4. The licence holder shall make a statement, which shall be approved by a resolution of the board of directors of the licence holder and signed by a director of the licence holder pursuant to that resolution, certifying the adequacy (or otherwise) of the management resources and financial resources and facilities of the licence holder for the period of 18 months commencing on the date of the statement.
5. The statement made under paragraph 4 shall be in one of the following terms:
- either:
- (a) "After making enquiries, and subject to the outcome of any access charges review which is due to be concluded within the 18 month period referred to in this statement, the directors of the licence holder have a reasonable expectation that the licence holder will have available to it, after taking into account in particular, but without limitation:

- (i) any dividend or other distribution, loan repayments or other sums due which might reasonably be expected to be declared or paid;
- (ii) any mortgage, charge, pledge, lien or other form of security or other encumbrance; and
- (iii) any indebtedness or guarantee,

sufficient management resources and financial resources and financial facilities to enable the licence holder to carry on the activities authorised by its network licence in accordance with its obligations under the Act and under its network licence for the period of 18 months referred to in this statement.”

or:

- (b) “After making enquiries, and subject to the outcome of any access charges review which is due to be concluded within the 18 month period referred to in this statement, the directors of the licence holder have a reasonable expectation, subject to the factors set out below, that the licence holder will have available to it, after taking into account in particular, but without limitation:

- (i) any dividend or other distribution, loan repayments or other sums due which might reasonably be expected to be declared or paid;
- (ii) any mortgage, charge, pledge, lien, or other form of security or other encumbrance; and
- (iii) any indebtedness or guarantee,

sufficient management resources and financial resources and financial facilities to enable the licence holder to carry on the activities authorised by its network licence in accordance with its obligations under the Act and under its network licence for the period of 18 months referred to in this statement.

However, they would like to draw attention to the following factors which may cast doubt on the ability of the licence holder to do this.”

or:

- (c) “In the opinion of the directors of the licence holder, the licence holder will not have available to it sufficient management resources and

financial resources and financial facilities to enable the licence holder to carry on the activities authorised by its network licence in accordance with its obligations under the Act and under its network licence for the period of 18 months referred to in this statement."

6. The licence holder shall submit to the Office of Rail Regulation details of the main factors which the directors of the licence holder have taken into account in making the statement under paragraph 4. In the case of a statement of the kind contemplated by sub-paragraph (b) of paragraph 5 the licence holder shall also submit with the statement a description of the factors which may cast doubt on the ability of the licence holder to carry on the activities authorised by this licence as specified therein.
7. The licence holder shall –
  - (a) notify the Office of Rail Regulation in writing immediately if its directors become aware of any circumstance that causes them no longer to have the reasonable expectation expressed in the statement made under paragraph 4 in the terms set out in sub-paragraph (a) or sub-paragraph (b) of paragraph 5; and
  - (b) subject to complying, as if it were a company whose ordinary shares are for the time being admitted to the Official List of the UK Listing Authority, with the listing rules of the Financial Services Authority acting in its capacity as a competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, publish its notification to the Office of Rail Regulation in such form and manner as the Office of Rail Regulation may direct.
8. The Office of Rail Regulation may from time to time issue Regulatory Accounting Guidelines which may:
  - (a) further specify the accounting policies, format and content of the financial statements and the matters to be shown or reported therein;
  - (b) provide for appropriate segmental analysis and/or further breakdown of any items contained in the primary statements;
  - (c) provide for specification or description of any transactions or arrangements between the licence holder and any affiliate or related

- undertaking (including, without limitation, so as to enable the Office of Rail Regulation to monitor compliance with the conditions of this licence); and
- (d) further include provision requiring the licence holder to prepare and publish information in respect of proposed enhancements which the licence holder shall log up as enhancement expenditure, and annually, information on those enhancements actually made.
9. The licence holder shall procure a report by the Auditors addressed to the Office of Rail Regulation:
- (a) stating whether, in their opinion, the regulatory financial statements (other than those referred to in sub-paragraph (c) of this paragraph 9) and information on proposed enhancements have been prepared in accordance with this Condition, including Regulatory Accounting Guidelines;
- (b) stating whether, in their opinion, the regulatory financial statements present fairly the financial performance and financial position of the licence holder and (to the extent that they relate to Network Rail Infrastructure Finance) of Network Rail Infrastructure Finance in accordance with this Condition and any Regulatory Accounting Guidelines; and
- (c) stating whether the information on enhancement expenditure produced in accordance with sub-paragraph (d) of paragraph 8 of this Condition has been prepared in accordance with the Regulatory Accounting Guidelines and is consistent with such expenditure presented in the primary financial statements.
10. Each statement made under paragraph 4 of this Condition shall be accompanied by a report prepared by the Auditors and addressed to the Office of Rail Regulation, stating whether the Auditors are aware of any inconsistencies between that statement and either the financial statements referred to in paragraph 2 or any information which the Auditors obtained in the course of their audit work for the licence holder and, if so, what they are.
11. The licence holder shall enter into a contract of appointment with the Auditors which shall include a term that the Auditors will provide such further

explanation or clarification of their reports and such further financial information in respect of the matters which are the subject of their reports as the Office of Rail Regulation may reasonably require for the exercise of its functions, including, in relation to monitoring, compliance by the licence holder with the Conditions of this licence.

12. The licence holder shall deliver to the Office of Rail Regulation a copy of the financial statements together with any information provided for in the Regulatory Accounting Guidelines, the Auditors' report referred to in paragraph 9 of this Condition and the statement referred to in paragraph 4 of this Condition as soon as reasonably practicable and in any event not later than 1 July following the end of the financial year to which they relate (or a later date approved by the Office of Rail Regulation). The financial statements, information, the Auditors' report referred to in paragraph 9 of this Condition and the statement referred to in paragraph 4 of this Condition, subject to any modifications approved by the Office of Rail Regulation, shall be published within one calendar month of delivery to the Office of Rail Regulation and thereafter made available to any member of the public on request.
13. With a view to enabling the licence holder to comply with its obligations under paragraph 2 of this Condition, the licence holder shall, unless the Office of Rail Regulation otherwise consents, procure from Network Rail Infrastructure Finance a legally enforceable undertaking or undertakings in favour of the licence holder which shall require Network Rail Infrastructure Finance to prepare and give to the licence holder financial statements in relation to Network Rail Infrastructure Finance and its subsidiaries in such a form and covering such periods as may be specified in any Regulatory Accounting Guidelines from time to time issued by the Office of Rail Regulation.
14. The licence holder shall:
  - (a) deliver to the Office of Rail Regulation evidence (including a copy of all such undertakings) that the licence holder has complied with the obligation to procure any undertaking pursuant to paragraph 13;
  - (b) inform the Office of Rail Regulation immediately in writing if the directors of the licence holder become aware that any undertaking

procured pursuant to paragraph 13 has ceased to be legally enforceable or that its terms have been breached; and

- (c) comply with any direction from the Office of Rail Regulation to enforce any of the undertakings procured pursuant to paragraph 13.

15. In this Condition:

“Auditors” means the person appointed by the licence holder for the purpose of reporting on the regulatory financial statements referred to in this Condition;

“Determination Assumptions” means any assumptions (including their definitions and bases of measurement) from time to time notified to the licence holder by the Office of Rail Regulation as assumptions that have been used for determining access charges;

“Network Rail Infrastructure Finance” has the meaning ascribed to it by paragraph 17 of Condition 12;

“Regulatory Accounting Guidelines” means any guidelines issued by the Office of Rail Regulation from time to time in accordance with paragraph 8 of this Condition; and

“Regulatory Asset Base” means the asset values as from time to time notified to the licence holder by the Office of Rail Regulation as being asset values that have been or are to be used for determining access charges.

**Condition 29: Level of Financial Indebtedness**

1. Except with the written consent of the Office of Rail Regulation, the licence holder shall ensure that as at the end of the financial year to which the financial statements prepared under Condition 22 relate:
  - (a) the total amount of financial indebtedness of Network Rail Infrastructure Finance and any subsidiaries of Network Rail Infrastructure Finance shall not exceed 90 per cent of the Regulatory Asset Base of the licence holder applicable at that time; and
  - (b) the total amount of financial indebtedness of the licence holder, any subsidiaries of the licence holder, Network Rail Infrastructure Finance and any subsidiaries of Network Rail Infrastructure Finance shall not exceed 100 per cent of the Regulatory Asset Base of the licence holder applicable at that time.
  
2. Without prejudice to paragraph 1:
  - (a) the licence holder shall use reasonable endeavours to ensure that the total amount of financial indebtedness of Network Rail Infrastructure Finance and any subsidiaries of Network Rail Infrastructure Finance shall not at any time exceed 85 per cent of the Regulatory Asset Base of the licence holder applicable at that time;
  - (b) if the total amount of financial indebtedness of Network Rail Infrastructure Finance and any subsidiaries of Network Rail Infrastructure Finance exceeds 85 per cent of the Regulatory Asset Base of the licence holder applicable at that time, the licence holder shall, within such time periods as the Office of Rail Regulation may notify as being appropriate in the circumstances:
    - (i) provide to the Office of Rail Regulation details of the steps it intends to take to reduce the amount to 85 per cent or below;
    - (ii) take those steps; and
    - (iii) provide to the Office of Rail Regulation evidence that it has taken those steps.

3. The licence holder shall provide, from time to time as requested by the Office of Rail Regulation and in any event every year in the regulatory financial statements it prepares pursuant to Condition 22, confirmation that, in respect of the financial year to which the statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with paragraph 1 and (where applicable) with paragraph 2(b) of this Condition and, if so requested by the Office of Rail Regulation, evidence in support of that confirmation.

### **Interpretation**

4. In this Condition:

“financial indebtedness” means any indebtedness of a financial nature of the relevant entity, for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) any foreign currency derivative transaction protecting against or benefiting from fluctuations in foreign exchange rates;
- (g) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (h) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and

- (i) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (g) above,

and for the purposes of this Condition:

- (a) financial indebtedness:
  - (i) is calculated by reference to the principal amount outstanding of any such financial indebtedness (and no mark to market value will be used to calculate its amount);
  - (ii) excludes any financial indebtedness between the licence holder or any of the licence holder's subsidiaries and Network Rail Infrastructure Finance or any of Network Rail Infrastructure Finance's subsidiaries;
  - (iii) excludes any financial indebtedness between the licence holder and any of its subsidiaries;
  - (iv) excludes any financial indebtedness between any of the licence holder's subsidiaries;
  - (v) excludes any financial indebtedness between Network Rail Infrastructure Finance and any of its subsidiaries;
  - (vi) excludes any financial indebtedness between any of Network Rail Infrastructure Finance's subsidiaries; and
  - (vii) excludes any derivative transaction other than as set out in paragraph (f) above;
- (b) where financial indebtedness denominated in a foreign currency is hedged by a derivative of the type set out in paragraph (f) above, the principal amount outstanding shall be calculated by reference to the sterling amount payable under the relevant derivative; and

- (c) total financial indebtedness shall be calculated net of any cash or cash equivalents held by the licence holder and Network Rail Infrastructure Finance or their subsidiaries;

“Network Rail Infrastructure Finance” has the meaning ascribed to it by paragraph 17 of Condition 12; and

“Regulatory Asset Base” has the meaning ascribed to it by paragraph 15 of Condition 22.



## Annex E: Common costs and income allocation metrics

Network Rail expenditure category	Allocation metric	Scotland allocation (%)				
		2004-05	2005-06	2006-07	2007-08	2008-09
<b>Operating expenditure</b>						
Railway estates – general	Passenger train miles	9.592	9.592	9.592	9.592	9.592
Safety and compliance – general	Track km	13.284	13.284	13.284	13.284	13.284
BT Police/other joint industry	Total train miles	9.703	9.703	9.703	9.703	9.703
Information systems	Head count	9.459	9.459	9.459	9.459	9.459
Human resources	Head count	9.459	9.459	9.459	9.459	9.459
National logistics	Maintenance and renewals	8.937	8.954	10.862	9.905	10.002
Chief engineer	Total train miles	9.703	9.703	9.703	9.703	9.703
Finance	Maintenance and renewals	8.937	8.954	10.862	9.905	10.002
PLC adjustment – pension	Head count	9.459	9.459	9.459	9.459	9.459
PLC adjustment – insurance	Total train miles	9.703	9.703	9.703	9.703	9.703

Network Rail expenditure category	Allocation metric	Scotland allocation (%)				
		2004-05	2005-06	2006-07	2007-08	2008-09
<b>Operating expenditure (continued)</b>						
PLC adjustment – rail safety charge and other	Total train miles	9.703	9.703	9.703	9.703	9.703
Other HQ business units	Maintenance , renewals and opex	8.994	9.001	10.225	9.611	9.673
<b>Maintenance expenditure</b>						
Other nationally managed expenditure	Maintenance expenditure	9.292	9.302	9.302	9.300	9.301
West Coast Route Modernisation	West Coast km	8.450	8.450	8.450	8.450	8.450
<b>Renewals</b>						
West Coast	West Coast km	8.450	8.450	8.450	8.450	8.450
Telecoms	Track km	13.284	13.284	13.284	13.284	13.284
Plant and machinery	Track km	13.284	13.284	13.284	13.284	13.284
IT	Head count	9.459	9.459	9.459	9.459	9.459
Other renewals	Total train miles	9.703	9.703	9.703	9.703	9.703

Network Rail income category	Allocation metric	Scotland allocation (%)				
		2004-05	2005-06	2006-07	2007-08	2008-09
<b>Income</b>						
Property income	Property income	6.693	6.703	6.709	6.704	6.706
Freight	Freight miles	10.541	10.541	10.541	10.541	10.541
Open Access	Open access income	0.000	0.000	0.000	0.000	0.000
Stations income	Stations income	7.867	7.867	7.867	7.867	7.867
Depots income	Depots	11.529	11.529	11.529	11.529	11.529
Other (including ring-fenced)	Other income and ring- fenced assets income	1.914	1.347	1.347	1.460	1.404