How financial performance and efficiency is reported

Reporting of Network Rail's financial performance is intended to help Network Rail's customers, funders and other interested parties gain a better understanding of Network Rail's performance compared with the financial assumptions set out in PR13.

Financial performance

In CP5 we measure Network Rail's ability to manage the costs and income it can control using the Financial Performance Measure (FPM). Under the FPM approach:

- adverse or favourable variances from our PR13 assumptions do not 'count' against the measure if they are just due to the expenditure/income occurring at a different point in the control period compared to our assumptions. For example, lower expenditure from a deferral of work to later in the control period will not count towards the measure; and

- because PR13 spending assumptions are based on Network Rail deliverables for a specified level of outputs an adjustment is made to FPM to reflect under-delivery of regulatory outputs. The burden of proof is on Network Rail to show that any claimed financial outperformance is allowable.

Any adjustments made will not have a direct financial impact on Network Rail as these adjustments do not in themselves affect the funding available to Network Rail in CP5. However, Network Rail's financial performance does have links to the route-level efficiency benefit sharing mechanism (REBS), the value of Network Rail's regulatory asset base, the restrictions on its financial indebtedness in its licence and is also linked to Network Rail's Remuneration Committee's decisions about management bonuses.

Calculation of FPM

Network Rail presents its own assessment of its FPM performance in its regulatory financial statements. We have shown below Statement 5a from Network Rail's 2014-15 Regulatory Statements to illustrate how the calculation works and the references below relate to that illustration.

FPM is calculated as follows:

1. For each income/expenditure item the variance to PR13 is determined (column C).
2. Exclude those variances not controllable by Network Rail (column D).
3. Adjust for changes in volumes of work done compared to PR13 (column E).

4. Exclude 75% of variances relating to renewals and enhancements and reporters' fees[1] (column H).
5. Total Variances, gives total financial out/underperformance before adjusting for under-delivery of outputs and adjustments for other matters.
6. Adjust the total financial out/underperformance for under-delivery of outputs and reduced sustainability.
7. Adjust for other relevant matters.

[1] The recognition of 25% for renewals and enhancements is because it aligns with Network Rail's financial reward/penalty for renewals and enhancements expenditure through the RAB roll forward mechanism. Reporters' fees are included at 25% to recognise that overspend or underspend may not be fully within Network Rail's control because we may require Network Rail to engage Independent Reporters to undertake a piece of work.

Statement 5a: Total financial performance, Great Britain

	Actual	Adjusted PR13	Var-iance to adjust-ed PR13	Due to:	Variance not included in total financial performance	Variance s in volume of work	Other adjust ments to PR13	Final Variance	Financial out / (under) performance
	A	B	C		D	E		G = C - D - E- F	H = G or H = G*25%
Income									
Grant Income	4,164	4,137	27		27	-	-	-	-
Fixed Income	440	425	15		16	-	-	(1)	(1)
Variable Income	791	783	8		-	-	-	8	8
Other Single Till Income	776	800	(24)		(31)	-	-	7	7
Opex memorandum account	-	-	-		(10)	-	-	10	10
Total Income	**6,171**	**6,145**	**26**		**2**	-	-	**24**	**24**
Expenditure									
Network operations	489	445	(44)		-	-	-	(44)	(44)
Support costs	417	489	72		23	-	-	49	49
Industry costs and rates	268	258	(10)		(1)	-	-	(9)	(9)
Traction electricity	17	19	2		-	-	-	2	2
Reporter's fees	1	3	2		2	-	-	-	-
Network maintenance	1,186	1,143	(43)		-	36	-	(79)	(79)
Schedule 4 costs	199	213	14		-	8	-	6	6
Schedule 8 costs	109	4	(105)		-	-	-	(105)	(105)
Renewals	2,949	2,625	(324)		-	420	-	(744)	(186)
PR13 Enhancements	2,776	2,983	207		-	349	-	(142)	(36)
Non PR13 Enhancements	143	-	(143)		-	(132)	-	(11)	(11)
Financing Costs	1,403	1,654	251		251	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	(4)	4	8		-	8	-	-	-
Total Expenditure	**9,953**	**9,840**	**(113)**	-	**275**	**689**	-	**(1,077)**	**(413)**
Total:			**(87)**		**277**	**689**	-	**(1,053)**	**(389)**
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for c									**(389)**
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(70)
Under-delivery of train performance requirements (CaSL)									(21)
Missed Enhancement milestones									(6)
Total adjustment for under-delivery outputs									**(97)**
Less adjustments for other matters									
[For example] Inadequate explanation to support financial outperformance									-
Total adjustments for other matters									-
Total financial out / (under) performance to be recognised									**(486)**

Efficiency

Our measure of efficiency[2] is intended to be a simple measure of the reduction over time in core support, operations, maintenance and renewals expenditure. It is effectively a restatement of the FPM as a percentage improvement for those categories of expenditure.

However, in addition, the Financial Performance Measure also includes other items of Network Rail's income and expenditure, e.g. enhancements and it is adjusted to take account of under-delivery of outputs.

[2] The measure we refer to as "efficiency" is neither productive nor allocative efficiency. 'Allocative efficiency' is concerned with producing the right thing and 'productive efficiency' is about producing something at the least cost.