NetworkRail

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Network Rail Limited

Annual report and accounts 2020

Network Rail Limited's

Annual Report and Accounts 2020

Presented to Parliament
by The Secretary of State for Transport
by Command of Her Majesty
July 2020

CP 244

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Our year in numbers

In this report we outline performance during 2019/2020, the first year of Control Period 6.

Here is a snapshot of how we performed against a selection of key indicators.

* Before depreciation and amortisation.

Revenue in the year
£8,099m
(2018/2019: £6,676m)

Passenger km travelled (bn)
66.8km
(2018/2019: 68km)

Operating costs*
£3,924m
(2018/2019: £3,577m)

Passenger trains on time
86.2%
Public Performance Measure
(2018/2019: 86.3 %)

Profit before tax
£375m
(2018/2019: loss before tax of£173m)

Freight trains on time
93.4%
Freight Delivery Metric
(2018/2019: 94.0 %)

Net debt
£54.6bn
(2018/2019: £54.1bn)

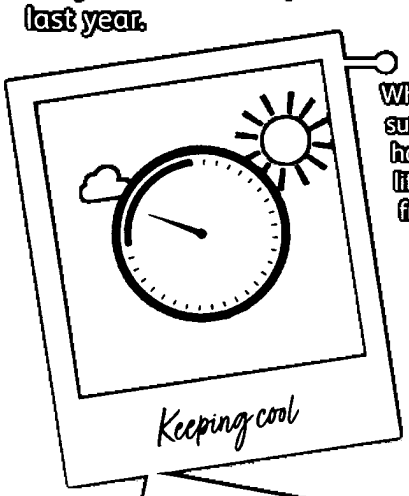
Freight moved
16.6bn
Net tonne kilometres
(2018/2019: 17.4bn)

Capital expenditure
£5,176m
(2018/2019: £7,043m)

Lost time injury frequency rate
0.290
Improvement of 6.5 % on 2018/19
Means time lost to injuries and fatalities among Network Rail staff and contractors. A lower figure represents a better performance.

Putting Passengers First

Network Rail is changing. We're becoming a company that is on the side of passengers and freight users – committed to doing what is right by them. Over the last year we have undergone some major changes to help us do just that. But putting passengers first is also about the small, day-to-day actions we can all take to put the people we serve first. Below are just some examples of how our colleagues have done this over the last year.



Keeping cool

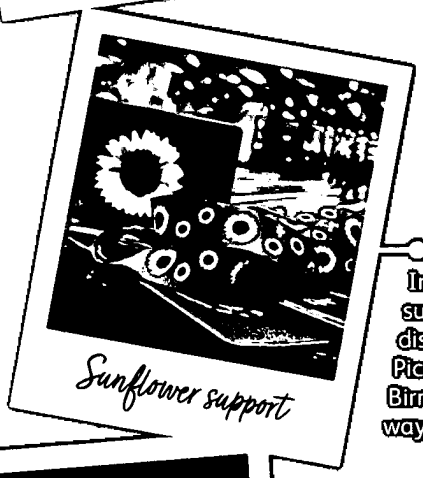
While temperatures soared to record highs in summer 2019, colleagues in Southern worked hard to keep trains moving, and make things a little more bearable for passengers by dishing out free water and ice creams at stations.

Honesty Box

Passengers at Glasgow Central station got to have their say about what matters most to them when colleagues installed an 'honesty box' for written and video recorded feedback. Similar events were also held at our managed stations in Eastern and Southern regions.

Helping the homeless

At London Bridge station we installed the railway's first contactless donation point to help tackle the rise of homelessness in London.



Sunflower support

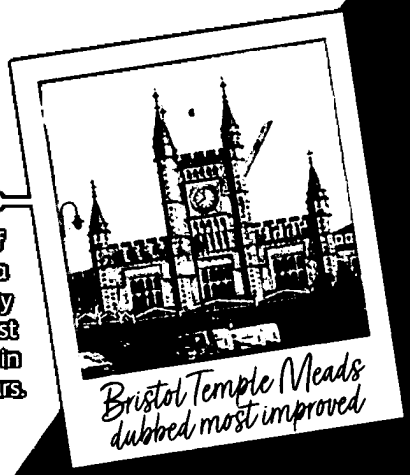
In December 2019, four stations introduced optional sunflower lanyards for passengers with hidden disabilities. This means passengers at Manchester Piccadilly, London Euston, Liverpool Lime Street and Birmingham New Street stations now have a discreet way to ask for extra help while making their journeys.

Supporting spectators

In October Network Rail, Northern and London North Eastern Railway (LNER) provided additional rail services when the Union Cycliste Internationale (UCI) Road World Championships took place in Yorkshire. To make journeys more comfortable 62 additional trains ran between York and Leeds, providing 17,000 extra seats for passengers.

Free WiFi announced

In September we announced a new WiFi service, due later this year, which will offer seamless connectivity and single sign-on at all 20 Network Rail-managed stations.



Bristol Temple Meads dubbed most improved

Bristol Temple Meads achieved the title of most improved railway station following a string of significant upgrades to the railway in the Bristol area – part of the biggest investment in the Great Western Railway in more than 150 years.

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For further information visit
networkrail.co.uk

Introduction by our chair, **Sir Peter Hendy CBE**

Our railway network is critical to Britain's success, by supporting and sustaining economic growth and, in the light of Coronavirus, recovery. Connectivity by rail for goods and passengers, enables house building and creates and supports jobs.

Passengers are starting to see the results of recent investment across the railway. Alongside some major capacity improvements, including electrification, and the redevelopment of some of our managed stations, we are in the midst of one of the biggest refreshes of rolling stock in decades. Many trains are now longer, with more seats and greater capacity, meaning better and more comfortable journeys for passengers.

At least in normal circumstances, we're also seeing an evolution in the way passengers use our stations. At a time when the high street is struggling, our station retail sales have grown. Stations are becoming a destination in themselves for people to eat, drink and shop, providing us with more income to reinvest straight back into the railway.

Unfortunately, despite improvements in some elements of passenger experience, performance has not shown a similar trend. A much greater focus on seamless operations and increasing the resilience of our network will go a long way to helping this. But on a network that is almost full, actually full, or already has an excess of demand over capacity in many places, a step change in capacity is crucial.

Creating new lines through major infrastructure programmes, HS2, Crossrail and Northern Powerhouse Rail, are an effective way of doing this, but these are costly schemes with long lead times. We must invest wisely and efficiently, constantly looking for innovative and creative ways of increasing capacity, in an environmentally sustainable way, so that rail can continue to support economic growth without adding too great a burden on the taxpayer.

Recently, we have been reminded on a daily basis how valuable Britain's railway is, as many of our colleagues have been on the front line of the fight against Coronavirus. We are proud of how the industry has come together throughout this crisis – the efforts of the entire rail industry to support the nation and keep Britain moving have been immense.

But what we can't forget is that we will also be measured on our ability to come together through the recovery. With passenger numbers at around 15 per cent of what they were pre-pandemic, working together as an industry to provide a truly safe and reliable, phased return to the full timetable will be essential.

Coronavirus has given some opportunities to bring forward maintenance and renewals, but it has also forced us to scale back or delay other planned engineering work. We will have to work closely with the supply chain and wider industry as we re-plan, to give us the best chance of supporting those who have been affected through this crisis, while still providing the best possible service for passengers and freight users.

Throughout this crisis we remain committed to safety, as we do our best to protect the public, our passengers and our people. Safety is always a priority and because of that we have been deeply saddened this year by the deaths of three colleagues, in two separate tragic accidents. Our thoughts are with everyone affected, and we will do everything we can to learn from these terrible incidents and make the railway safer for everyone.

We remain committed to putting passengers first, and this year has been pivotal in setting us up to do just that. Our Putting Passengers First programme is helping us to refocus on the people we serve – ensuring that their needs are at the centre of our decision making. But this is not yet

Chair's introduction continued

happening on an industry-wide scale. Coronavirus has accelerated change within the industry and shown what we can achieve when we are truly aligned. The government has made clear its commitment to delivering wholescale reform of the rail industry to put the priorities of passengers first and support the country in its recovery from Coronavirus.

This year we said goodbye to Board members Chris Gibb, Richard Brown and Bridget Rosewell. I'd like to thank them all for their commitment during their time serving on our Board. Thank you, too, to our executive leadership team for the brilliant work they have done in setting us up to be more passenger focussed. There is still more to do but I have confidence in them, and particularly in Andrew Haines, our chief executive, to keep the momentum needed for change. And finally, I want to thank all our Network Rail and supplier colleagues for their continued commitment, especially through the present challenging times.

Sir Peter Hendy CBE,
chair

16 July 2020

A message from our chief executive, **Andrew Haines OBE**

Passengers and freight users are at the heart of everything we do. We exist to serve them – to get people and goods where they need to go. That's why it is so important that we put their needs at the heart of all our decision making.

Over the last year we have made significant changes to help us do just that. We have created five new regions, each with its own managing director who sits on our executive leadership team. Within the regions we have 14 new routes, committed to delivering the best service possible.

This new structure allows the people who are closest to our passengers and customers, and have the best understanding of what they want, to deliver for them. It is early days, but we have already had positive feedback from customers and wider stakeholders about the benefits of this relationship and dialogue. It was encouraging to see that progress being reflected in some of the best passenger satisfaction results for five years.

That improved ability to implement fast, localised changes has been critical in our response to the Coronavirus pandemic. The railway plays a pivotal role in supporting the country through this crisis. We have made sure that passengers who need to travel can get to their jobs and essential freight like food, medicine, fuel and NHS supplies, can still get where they need to be. The full effects of the virus are currently unknown, but we will do whatever is needed to support Britain through the immediate crisis and through recovery.

In such an unprecedented and constantly evolving situation, the safety of passengers, the public and our colleagues has remained at the forefront of our minds. We want everyone to get home safe every day. Tragically, over the past year this has not been the case for three of our colleagues and friends.

In July 2019, Gareth Delbridge and Michael 'Spike' Lewis were struck by a train while at work in Margam, South Wales. An investigation immediately followed to learn what we could about the incident and prevent it from ever happening again. That the railway remains a dangerous place to work, however, was brought home once again on 8 April 2020 when Aden Ashurst, a colleague working for AmcoGiffen, was fatally struck by a train in Roade, Northamptonshire. Investigations are underway and the Transport Worker Safety Task Force is working hard to understand the underlying causes of these accidents so that we can quickly address them and keep our colleagues safe. We have been deeply saddened by the loss of Gareth, Michael and Aden, and we owe it to them to make the railway safer for everyone, every day.

Alongside a relentless focus on safety, it's important we keep our sights set on providing what passengers want most – a reliable and punctual journey. Many infrastructure failure modes have been at a record low this

Chief executive's review continued

Network Rail staff donate personal protective equipment to support NHS staff at Doncaster Royal Infirmary

year, but the consequences of running a congested network with more trains, more complex timetables and more passengers has meant that as an industry we have not made the progress we know passengers deserve. The enhanced timetable that was introduced between Cardiff and Paddington in December 2019, with faster journeys and many more services, demonstrates that we can deliver large-scale change successfully when track and train work seamlessly together. But this is not yet happening consistently across the network.

Better operations alone, however, will not fix everything. Record high temperatures last summer plus storms and unprecedented flooding in November and February caused widespread disruption. The reality is that climate change is no longer a future threat, but a present challenge and not one that the rail industry has been designed to accommodate. A comprehensive response will require significant change over a very long period, but the task is urgent and one we have started to address.

More frequent weather events are a pertinent reminder of how much our climate affects our railway and that it is our duty to ensure that we are as environmentally sustainable an industry as we can be. Rail is already the greenest and most reliable method of mass transport, but it's vital that we work hard to keep it that way so that rail is able to play a vital role in the country's green economic recovery and future growth. This year we will launch an ambitious, long-term environmental sustainability strategy, which sets out how we will do that. It will focus on five priority areas: minimising our carbon emissions, minimising train delays caused by climate change, minimising waste, looking after plants and wildlife and contributing to a quieter and healthier environment for all.

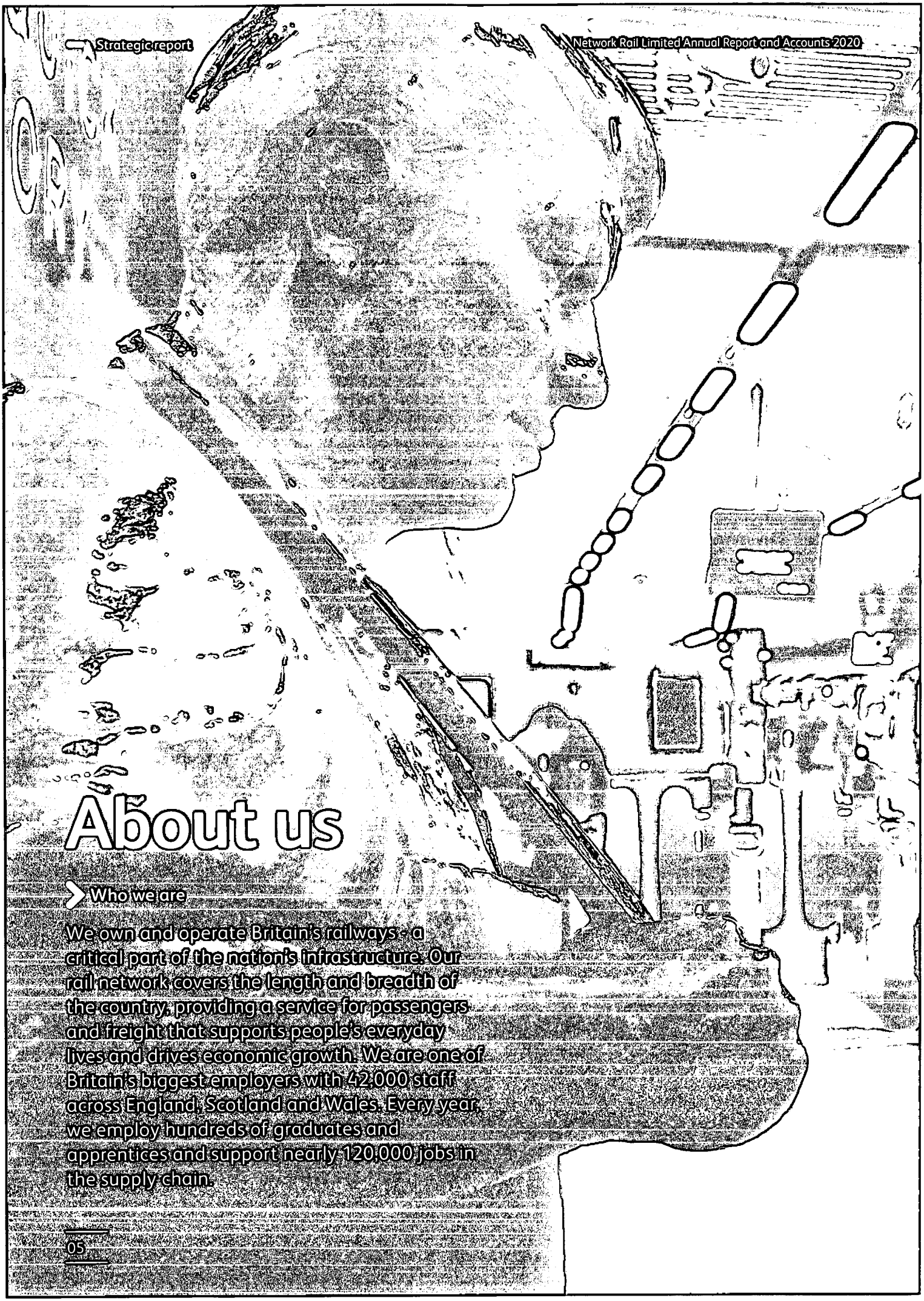
I am especially pleased with how well we have performed in efficiencies this year. We outperformed our regulatory target to achieve £385m in efficiency savings in 2019/20 by making more efficient use of railway resources and working smarter. It's important because it helps demonstrate that we deliver on our promises, and we face some much tougher challenges to do that in the remaining four years of the Control Period.

Becoming an organisation that truly puts passengers first remains a key focus for Control Period 6 (CP6) and beyond. And to deliver most effectively for passengers, diversity is critical. Our workforce should look like the society we serve. The disadvantages and injustices faced by people from black, Asian and minority ethnic backgrounds across the world has been brought into the spotlight by the Black Lives Matter movement and by the disproportionate impact of Coronavirus. We have a lot to do to be a more diverse business and our first ever Ethnicity Pay Gap report, published in March 2020 shows that. Diversity is, however, about much more than how we look. It is about welcoming difference and genuinely celebrating the value and challenge that comes from a workforce that contributes a variety of ideas and perspectives. I want our organisation to be a place where that is a reality and everyone is given the opportunity to be the best they can be. I am committed to making real improvements to diversity and inclusion at Network Rail and I know it will help us to deliver the safe and reliable railway our passengers deserve.

Inevitably the Coronavirus crisis generates uncertainty around demand, future ways of working and the challenge of reforming the rail industry to ensure that it is more adaptable both to emerging user demands and a radically altered economy. At Network Rail we are utterly committed to working alongside stakeholders and playing our part in delivering the necessary reforms to ensure that our vision of putting passengers first is increasingly the experience of those who use our system.

Andrew Haines OBE,
chief executive

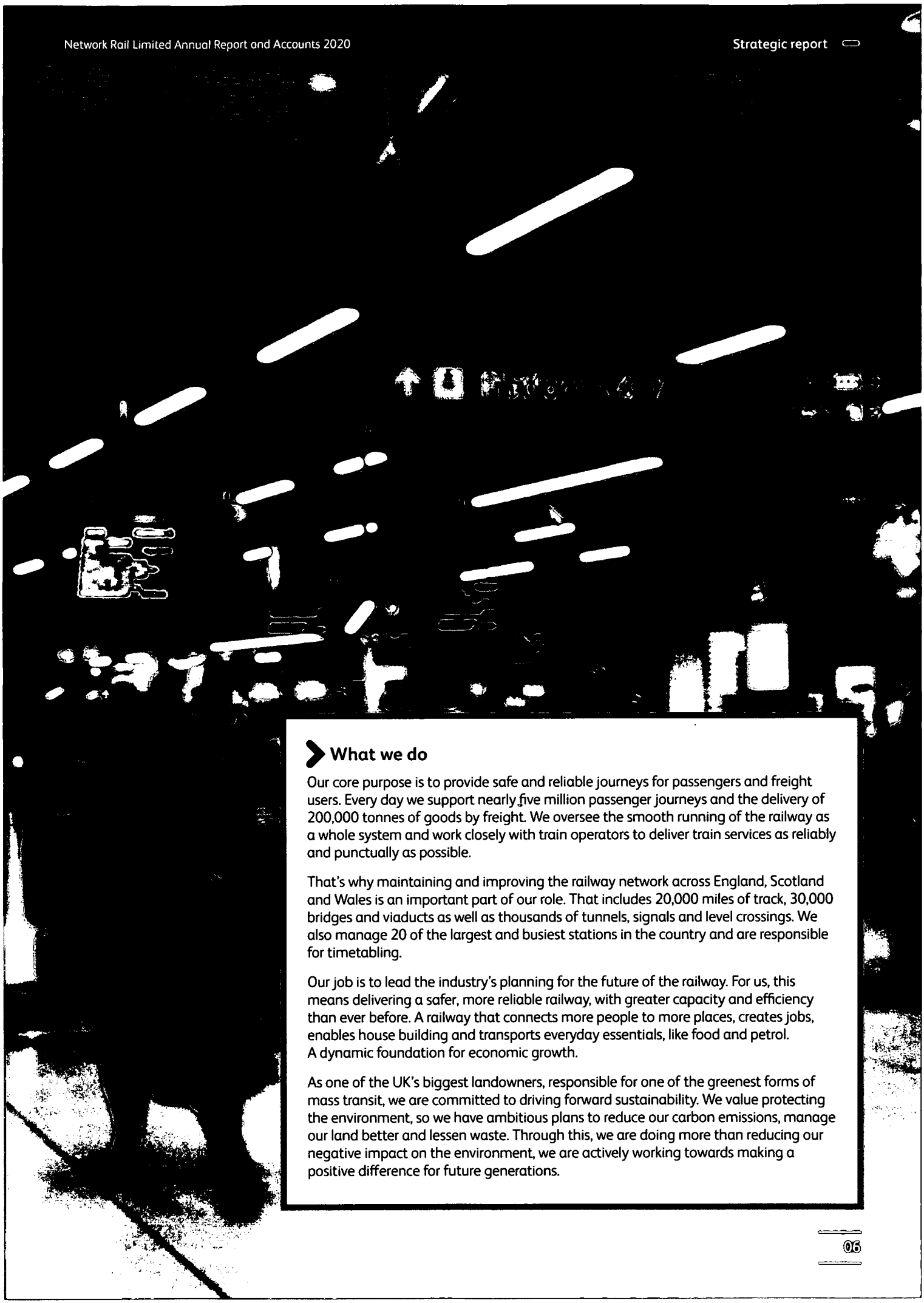
16 July 2020



About us

Who we are

We own and operate Britain's railways - a critical part of the nation's infrastructure. Our rail network covers the length and breadth of the country, providing a service for passengers and freight that supports people's everyday lives and drives economic growth. We are one of Britain's biggest employers with 42,000 staff across England, Scotland and Wales. Every year, we employ hundreds of graduates and apprentices and support nearly 120,000 jobs in the supply chain.



What we do

Our core purpose is to provide safe and reliable journeys for passengers and freight users. Every day we support nearly five million passenger journeys and the delivery of 200,000 tonnes of goods by freight. We oversee the smooth running of the railway as a whole system and work closely with train operators to deliver train services as reliably and punctually as possible.

That's why maintaining and improving the railway network across England, Scotland and Wales is an important part of our role. That includes 20,000 miles of track, 30,000 bridges and viaducts as well as thousands of tunnels, signals and level crossings. We also manage 20 of the largest and busiest stations in the country and are responsible for timetabling.

Our job is to lead the industry's planning for the future of the railway. For us, this means delivering a safer, more reliable railway, with greater capacity and efficiency than ever before. A railway that connects more people to more places, creates jobs, enables house building and transports everyday essentials, like food and petrol. A dynamic foundation for economic growth.

As one of the UK's biggest landowners, responsible for one of the greenest forms of mass transit, we are committed to driving forward sustainability. We value protecting the environment, so we have ambitious plans to reduce our carbon emissions, manage our land better and lessen waste. Through this, we are doing more than reducing our negative impact on the environment, we are actively working towards making a positive difference for future generations.

About us continued

How we are structured

To help us provide the best service for passengers and freight in each part of the country, we work closely with train operators. To do this Network Rail is split into five regions, each with a managing director who sits on our Executive Leadership Team.

Within the regions we have established 14 routes, responsible for the operation, maintenance and renewal of the railway in their area. By devolving responsibility of the day-to-day running of the railway to routes, we have brought decision-making closer to passengers. This means that those who have the best understanding of what passengers in their area want, now have the resources and responsibility to deliver for them.

Our regions are also supported by our national functions, who make sure they have everything they need to succeed. Our Network Services directorate coordinates national initiatives that impact the smooth running of the railway such as, incident management, security and performance. System Operator provides a whole-system, long-term view of the railway, informed by detailed knowledge gained from planning and timetabling the network, and from the valuable relationships it has with customers, funders, regions and routes. Route Services provides vital services, like IT and procurement, where economies of scale or specialist expertise mean it makes sense to provide these from a central point.

Network Rail is a public sector company, answerable to the Department for Transport (DfT) and Transport Scotland.

Our board includes a non-executive chair, executive directors and non-executive directors. The chair aims to ensure our policies and actions support the wider strategic policies of the Secretary of State for Transport and the Scottish Ministers.

We are independently regulated by the Office of Rail and Road (ORR). It sets our targets and reports regularly on our performance to ensure we are operating efficiently and well, and that we are properly funded.

How we are funded

The majority of our income comes from grants from the UK and Scottish governments, payments from the train and freight operators that use our network, and a small amount of income from our commercial property estate. We also work closely with third parties to secure investment for specific projects that will benefit both the third party and passengers and freight.

The governments specify what they need from Britain's railway and how much they can afford to contribute during each five-year funding cycle. The ORR then sets a framework that specifies the level of fixed income we are allowed to charge and assesses the amount of money we need to efficiently run our business and deliver our regulated outputs. The five-year funding cycles are called control periods, and this annual report covers the first year of Control Period 6 (CP6), which runs from 2019 – 2024.

Any profit we make is re-invested into improving the railway and providing a better service for passengers and freight.

About us continued

Our vision

"A company that is on the side of passengers and freight users; that is easy to engage with and a dependable partner; a company people are proud to work for; instinctively recognised as an industry leader."

In CP6, we are putting passengers and freight users first. For too long we have been introspective and focussed on engineering excellence, rather than on the service that we provide.

We are determined to be driven by what is in the best interests of passengers and freight users. We are helping all our colleagues to develop a customer service mindset so that wherever we work in the business - on the front line or in a supporting function - we are always thinking about how best to serve users of the railway.

Our purpose

"Connecting people to places and goods, driving economic growth."

We exist to get people and goods where they need to be, at the right time, driving economic growth and productivity in an environmentally sustainable way. The railway connects homes with schools and workplaces, businesses with markets and can help unlock new land for house building. It is part of the social fabric of our nation, connecting people with friends, family and loved ones. The railway also carries goods worth over £30bn each year, bringing food to shops, building materials to construction sites, and fuel to power stations. Even for those who never use a train, the railway makes everyday life possible.

Our role

"Running a safe, reliable and efficient railway, serving customers and communities."

Our role is to deliver a railway that people can rely on, with trains that turn up and arrive at their destination on time, and where passengers can feel confident that they are in safe hands. We have agreed £53bn of funding from the DfT and Transport Scotland to fulfil this role in CP6. Reliable train performance is what we must deliver daily, and what we should and will be held to account for throughout the control period.

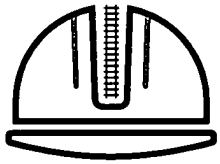
Our strategy

Our six strategic themes

Our plans for CP6 are underpinned by our six strategic themes. These are directly derived from our vision, role and purpose. They provide structure and clarity to our thinking, covering what we'll do and how we'll do it, so that we deliver the railway that Britain needs and passengers deserve.

Safety and **train service delivery** represent the fundamental pillars of delivering a great service for passengers and freight users. As an organisation which receives significant taxpayer funding, we have a duty to be **efficient** in our use of public resources, and to support the **sustainable growth** of the economy. We know that our people are key to us delivering on our commitments. Our focus on **customers and communities** keeps outcomes and our impact on the wider community at the heart of our decision making. The following pages show just some examples of the work we're doing in each area.

Safety



Safely running Britain's railway is absolutely critical. We want everyone to feel safe, whether they're working on, living near or travelling on the railway.

Passenger safety

We're working to make the railway the safest it has ever been. By 2024, we plan to reduce train accident risk by 10 per cent, building on the 38 per cent reduction that we achieved through CP5 (2014-2019).

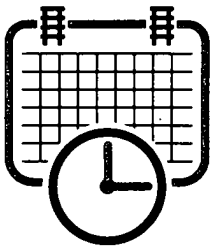
Public safety

We're relentlessly focussed on creating a safer railway for members of the public living and working nearby. We have a target of reducing risk to the public at level crossings by 13 per cent by 2024.

Workforce safety

The safety of our workforce is hugely important to us. We want an injury-free and healthy business. By 2024 we have a target of improving our lost time injury frequency rate (LTIFR) measure by 54 per cent.

Train service delivery



We know that what passengers want, first and foremost, is a punctual and reliable train service. That's why improving train performance is at the heart of our plans for CP6.

In CP6 we plan to reduce the number of delayed trains by 28 per cent. There are two critical areas of focus to help us achieve this:

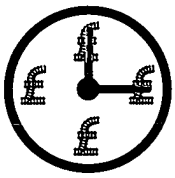
Reducing service-affecting failures

By improving the reliability of our infrastructure, we can reduce the number of incidents that cause disruption in the first place. In CP6 we will reduce service-affecting failures by seven per cent, building on the 16 per cent achieved in CP5.

Reducing incident delays

We're taking forward a range of measures to improve the way we operate the whole railway and reduce the delay caused by each incident. We plan to reduce Network Rail related delays by seven per cent compared to 2017/18.

Efficiency



As a public body, a substantial proportion of our funding comes from taxpayers. We have been entrusted with public money and we have a responsibility to spend it wisely and work more efficiently to deliver the best value possible. The more efficient we are, the more money there is to invest in providing a better service for passengers.

We have an ambitious but achievable target of saving £3.5bn across CP6 in running the railway by making more efficient use of railway resources and working smarter.

There are three areas of focus to help us achieve this:

New technology

By using state-of-the-art hardware and software, alongside modern innovative processes we are doing more for less. New technology is allowing our engineers to work faster and more safely, freeing them up to proactively maintain railway infrastructure and better target our maintenance and renewals work. Reducing costs and passenger disruption in one go.

Design, planning and delivery

To reduce the impact on passengers, we have reduced the amount of time we need access to the track when we carry out improvement work. We've done this by optimising the way we work so that we can do more work, faster. We believe there is more we can do to drive efficiencies in this way. By involving our supply chain earlier, we can also innovate, find new ways of doing things and drive efficiency.

Improved commerciality

To make sure we're getting the best possible value for passengers, we're improving our contracting and procurement strategies and securing better deals with our supply chain. We're also becoming easier to work with and making it easier for other organisations to invest in and build on the railway. For more information visit **www.networkrail.co.uk/openforbusiness**.

Sustainable growth

The railway is busier than ever and creating more capacity for people to travel by rail is a pressing challenge.

While we know that investment is needed to grow the railway, the settlement we received for CP6 is solely to operate, maintain and renew the network. Enhancing the railway is funded on a project by project basis, once costs and timescales are sufficiently clear. Beyond this, we work with third parties to attract funding wherever possible.

Increasing capacity

Our first priority for increasing capacity is to deliver the priorities laid out in the Hendy Review. Beyond that we look for strong business cases that promise improved punctuality, journey times and reliability for our passengers or support critical policy goals like economic growth and carbon reduction.

Energy and carbon

We have launched a long-term decarbonisation programme to help meet national carbon reduction targets and leave a positive environmental legacy. We plan to reduce carbon emissions by 25 per cent by the end of CP6.

Biodiversity

Our Sustainable Land Use programme is encouraging a more holistic approach to the way that we use and manage our land alongside railway lines. We plan to deliver no-net biodiversity loss by 2024 and biodiversity net gain by 2040.

Waste

During CP6 we are committed to moving towards a circular economy approach to our procurement, use and disposal of materials. We're planning to send zero waste to landfill by 2024.

About us continued

People

Achieving our business objectives for CP6 will be hugely influenced by our ability to attract, retain and develop diverse talent.

A diverse workforce is crucial to the long-term success of Britain's railway and we want to lead the industry in helping achieve that. That means creating an environment where everyone is proud to work here, proud of what they do and have the opportunity to reach their personal potential.

Attracting a diverse workforce

We have an ambitious plan to do everything we can to find, nurture and support female talent. By working more with partner organisations to improve our ability to attract women, promoting female role-models and rolling out our returners programme, we plan to increase the number of women in the business by 50 per cent by 2024.

We believe that our workforce should look like the people we serve. Having a diverse workforce is also simply the right thing to do. That means attracting people from all backgrounds and all walks of life, so we also plan to have a workforce that is at least 13 per cent black, Asian and minority ethnic by the end of CP6.

Mental health

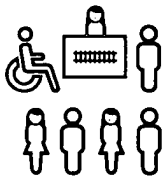
We want a happy and healthy workforce, so we have launched a mental wellbeing campaign to help our managers to identify and support people with a range of mental health conditions. We have a target to reduce work related mental health absence instances by 25 per cent in CP6.

Developing and retaining talent

We want to be an employer of choice for talented graduates and apprentices starting their careers. Through more support and active talent management, we're investing in realising the potential of every individual on one of our schemes.

We're also using a range of different support mechanisms from flexible working through to improved worksite welfare facilities, to create an environment that allows everyone to be and to achieve their best.

Customers and communities



We are changing the way we work to put passengers first. This approach is important to improve the service passengers are currently experiencing and to improve relationships with customers, the communities we serve, and enhance public perception of the railway.

We want to set the standard in putting passengers first and work towards being a far more collaborative industry. Based on this we have set ambitious targets:

Better customer service

We will respond more efficiently to our customers by setting consistent standards around what we are able to do for customer requests. This will help empower our customer contact centre and give our route community relations teams room to focus on complex issues and proactive community work. We will also implement a charter, publicly setting out our commitment to our passengers, customers and stakeholders.

Faster responses

We will reduce the average time it takes to resolve customer and community requests from 29 calendar days to 14 so that customers receive a better, more responsive service.

Reducing complaints

We will reduce complaints about railway work by setting targets based on a reduction on the previous year's actual figure. This will focus on worker behaviour complaints. We have provided route teams with tools to help them to set their own ambitious, but realistic targets based on work planned for the year ahead.

Directors' statement, section 172 of the Companies Act (2006)

As Network Rail's board of directors, both collectively and individually we fulfilled our duties, as detailed in section 172 of the Companies Act (2006), to a high standard throughout this reporting period.

Acting fairly between our stakeholders

We focussed on promoting the success of the business and benefitting all our stakeholders. As a publicly owned, not-for-dividend company, our activities and engagement concentrated on delivering our strategy and the needs of our member (the Secretary of State for Transport), our passengers, our people, the general public, our supply chains, the train operators, and our regulator.

High standards of business conduct

Our governance and decision-making arrangements ensure we manage the business responsibly and effectively and to high standards of business conduct (see the corporate governance report on page 77). This includes operating within the requirements of our licence, relevant legislation and regulations, as well as understanding our responsibilities to spend public funds efficiently and manage risks effectively. In 2019/20, to support the quality of the decisions we took at Board and committee meetings, we implemented a programme to improve the quality of meeting papers and information we receive from the business. We also have a series of policies and guidance setting out expected standards of behaviour and conduct. Our policies include: Anti-bribery policy, Anti-slavery and human trafficking policy, Code of business ethics, Speak out (whistleblowing) policy.

We have established a committee structure to which we delegate detailed scrutiny of key areas of our responsibilities. We have ensured our Board has the right range and depth of knowledge, skills and experiences to run the business effectively; we refreshed our Board membership, in line with best practice, so these remained relevant and up to date (the biographies of our directors are on pages 73 to 76). At the date of this report just over 27 per cent of our Board members are women. However, we understand the benefits of diversity and are continually seeking to improve it across our Board and executive membership.

In a company as large as Network Rail, we partly fulfil our duties by delegating day-to-day decisions to company employees within our governance framework.

Coronavirus

Our priority during the Coronavirus crisis was to keep the railway running and follow government recommendations for action.

We put in place measures to support our retail and commercial estate tenants during the Coronavirus pandemic. Network Rail Property cancelled all first quarter (25 March – 23 June 2020) rent payments due from tenants across the commercial estate portfolio and all base rent payments for retailers in managed stations.

We oversaw and monitored the response of our executive leadership team to the crisis and ensured that appropriate governance and decision-making frameworks were put in place. These included activating the senior crisis management team. We ensured that key decisions were taken in a timely manner to safeguard our people, passengers, and the public, and to support the country by ensuring essential services continued to run, particularly for key workers and freight.

We maintained regular and open communications with our people, passengers, train operating companies, key stakeholders, and supply chain to support good decision making.

Directors' statement, section 172 continued

Likely consequences of decisions in the long term

We developed our strategy in consultation with our stakeholders, to improve the services we provide to our passengers, freight users, suppliers, customers and communities, and our people. Its six core themes represent the kind of business we want to be and the kind of experiences we want our stakeholders to have when they interact with us. Each theme is being developed by the national strategy committee which will inform and advise the Board of the likely consequences of decisions over the long term.

National Strategy Committee Business themes

- Customers and communities
- People
- Sustainable growth
- Efficiencies
- Safety
- Train service delivery

Vision

- Easy to engage with and an efficient and dependable partner
- On the side of passengers and freight users
- People are proud to work here
- Instinctively recognised as the industry leader

Interests of the company's employees

The re-organisation of the business under Putting Passengers First has involved significant changes in our structure. We have implemented a series of national consultation briefings with teams, individuals, and their trade union representatives. We have continued the Your Voice surveys, the listening programme, and business briefings. We have also consulted our frontline track workers in developing an improved safety culture through the safety task force.

Impact of operations on the community and the environment

In October 2019 we established the environmental sustainability advisory committee to review those of our activities which affect the environment and the consequential impact for the general public and local communities (see Being Responsible on page 54). We also revised the terms of reference for our safety, health and environment committee to ensure we meet our responsibilities for complying with environmental legislation and regulations.

Fostering business relationships with suppliers, customers and others

During the year we developed initiatives to make us more dependable and easier to work with by working smarter with our supply chain and involving them earlier in the planning phase to help us deliver work more efficiently. These initiatives include early contractor involvement, workbank planning and improved contracting strategies (see the CFO's Review on page 17).

How we performed in 2019/2020

Safety

KPI	Worse	Target	Better	Actual	Achievement
Lost Time Injury Frequency Rate (LTIFR)	0.279	0.266	0.253	0.290	0%
Risk Management Maturity Model (RM3)	60%	80%	100%	99%	97%
Top 10 Milestones to Reduce Level Crossing Risk	6	8	10	8	50%
Train Accident Risk Reduction (TARR)	60%	80%	100%	96%	89%

Train Performance

KPI	Worse	Target	Better	Actual	Achievement
Train Performance Measures	0.0%	50.0%	100.0%	51.4%	51%

Local Measures

KPI	Worse	Target	Better	Actual	Achievement
Local Measures	0.0%	50.0%	100.0%	47.5%	48%

Financial Performance

KPI	Worse	Target	Better	Actual	Achievement
Financial Performance Measure - Gross Renewals	-£177M	£0M	£177M	-£34.34M	41%
Financial Performance Measure - Gross Profit and Loss	-£85M	£0M	£85M	£139.52M	100%
Financial Performance Measure - Gross Enhancements	-£153M	£0M	£153M	-£84.98M	22%
Cash Compliance	5.0%	2.5%	0.0%	1.6%	67%

Investment

KPI	Worse	Target	Better	Actual	Achievement
Top Investment Milestones	80%	90%	100%	85%	23%

Asset Management

KPI	Worse	Target	Better	Actual	Achievement
Composite Reliability Index (CRI)	-1.5%	-0.4%	2.0%	-0.7%	36%
Composite Sustainability Index (CSI)	-2.2%	-1.6%	1.0%	-0.9%	64%
Number of Service Affecting Failures	24,779	24,503	24,036	23,615	100%
Renewals - 7 Key Volumes	90%	95%	100%	133%	100%

Our performance continued

Regional Performance

KPI	Worse	Target	Better	Actual	Achievement
Eastern	0.0%	50.0%	100.0%	56.8%	57%
FNPO	0.0%	50.0%	100.0%	53.4%	53%
North West and Central	0.0%	50.0%	100.0%	56.1%	56%
Scotland's Railway	0.0%	50.0%	100.0%	43.1%	43%
Southern	0.0%	50.0%	100.0%	75.2%	75%
Wales and Western	0.0%	50.0%	100.0%	62.6%	63%

Overall National Scorecard Performance 58%

Safety

Lost Time Injury Frequency Rate (LTIFR): Means time lost to injuries and fatalities among Network Rail staff and contractors employed by Network Rail per 100,000 hours worked. A lower figure represents a better performance against target.

We did not meet our LTIFR target of 0.266, ending the year worse than target at 0.290, but still 6.5 per cent better than prior year.

Risk Management Maturity Model (RM3): Measures achievement of milestones for health and safety risk management. The percentage is calculated by the number of milestones delivered against the number of milestones targeted.

In 2019/20 we exceeded our scorecard target of 64 milestones by delivering 79 out of 80 milestones to reduce health and safety risk.

Top 10 Milestones to Reduce Level Crossing Risk: Measures our achievement of the Top 10 milestones to reduce level crossing risk. Milestones are identified and agreed to track and monitor the most critical for reducing risk and improving safety.

In 2019/20 we met our scorecard target by closing eight out of 10 milestones to reduce level crossing risk.

Train Accident Risk Reduction (TARR): Measures our achievement of the key milestones and metrics to reduce train accident risk. TARR is made up of milestone targets and volume targets, both of which have different achievement weightings. Volume measures for 2019/20 are tracking delivery of volumes against target for eight measures; Drainage Management, Vegetation Management, Fencing Management, Management of High Risk Scour Sites, Management of High Risk Road Vehicle Incursion sites, Signaller participation in operational development days, Infrastructure Monitoring Fleet Availability and Trainborne monitoring of Track Infrastructure. A higher figure represents a better performance against target.

The target was to achieve 80 per cent of planned volumes and milestones to reduce train accident risk. The year-end actual was 96 per cent, well ahead of target.

Financial Performance

Financial Performance (FPM) Gross Renewals (£m) : Measures how much renewals projects are costing compared to our budget. Each individual renewals project is assessed to understand whether the project is costing more or less than it should for the outputs being delivered. Our target for the year is £0, so a positive figure represents outperformance against our target.

Financial Performance (FPM) Gross Profit & Loss (£m): Measures how we are performing against our income and operating expenditure (opex) budgets. Targets are adjusted for activity where appropriate. Our target for the year is £0, so a positive figure represents outperformance against our target.

Financial Performance (FPM) Gross Enhancements Only (£m): Measures how much Enhancements are costing compared to baselines. Enhancement baselines are compared to the forecast expenditure across the programme. An amount of under/out performance is allocated to the current year based on how much of the programme has been completed. Our target for the year is £0, so a positive figure represents outperformance against our target.

Overall performance in FPM has been mixed this year. Achievement under the regulatory performance regime (schedule 4 and 8) has been strong and augmented by opex savings. This has been partly offset by some slight net cost increases across the renewals portfolio. Enhancements have cost more than expected, with notable increases in the Great Western Electrification and Crossrail programmes. Overall gross financial performance in 2019/20 was £20m favourable to target.

Cash Compliance: Lost Funding: Measures how well Network Rail utilises the current year's available funding (i.e. the Business Plan for 2019/20). There are some limited flexibilities that Network Rail has agreed with the Department for Transport (DfT) to update the Business Plan baselines at certain points of the year.

Cash compliance was better than target with an achievement of 67 per cent; a result of positive measures such as improving working capital forecasting and proactive

Our performance continued

management of risks and opportunities to make optimal use of the cash available.

Investment

Top Investment Milestones: Measures our achievement of all top renewals and enhancement projects. Our investment projects are managed using the Governance for Railway Investment Projects (GRIP) approach, which has milestones at stages three and six of the eight-stage project process. Milestones are identified and agreed to track and monitor the most critical for delivering renewals and enhancements projects.

We achieved 11 out of 13 top investment milestones, which equates to 85 per cent against a target of 90 per cent.

Asset Management

Composite Reliability Index (CRI): This is a measure of the short-term condition and performance of our assets including track, signalling, points, electrification, telecoms, buildings, structures and earthworks. The index shows the total percentage improvement in asset reliability for the last 13 periods compared to the end of the previous Control Period.

The year-end CRI finished at -0.7 per cent, 0.3 per cent worse than target of -0.4 per cent.

Composite Sustainability Index (CSI): This is a measure which shows the percentage improvement of asset sustainability compared to the baseline. The baseline is the outturn at the end of CP4. Depending on the asset type, asset sustainability is measured either by remaining life of the asset or by asset condition score and is weighted by the replacement value of the asset.

The end-CP6 forecast for CSI is -0.9 per cent, ahead of target of -1.6 per cent.

Number of Service Affecting Failures (SAF): This measures the impact of asset failures on train performance attributed to Track, Points, Signalling & Electrification causes. Asset failures are significantly impacted by weather conditions, particularly hot summer weather and targets for improvement were developed reflecting known risks and improvement trajectories. A lower figure represents a better performance against target.

The Number of Service Affecting Failures (SAFs) exceeded better than target with 23,615 SAFs reported.

Renewals (Seven Key Volumes): Measures delivery against budget of the seven key renewals volumes; track plain line, track switches and crossings, signalling, underbridges, earthworks, conductor rail renewals and wire runs. A higher figure represents a better performance against target.

We ended the year at 133 per cent, significantly exceeding our overall target of 95 per cent.

Train Performance

This is an aggregation of all train performance related measures on the region and customer scorecards and consolidated into one measure to summarise train performance. This includes the Consistent Route Measure - Performance (CRM-P) (annual minutes of Network Rail attributed delay to passenger trains from incidents occurring in the region normalised by the actual mileage travelled by passenger trains within that region) and Freight Delivery Metric (FDM) (the percentage of trains which Network Rail has delivered successfully).

We achieved 51.4 per cent, demonstrating we were broadly in line with target (50 per cent) for this blended measure.

Local Measures

This is an aggregation of all locally driven customer measures on the region scorecards and consolidated into one measure to summarise the nature of these measures.

We achieved 47.5 per cent, demonstrating overall we were just short of our scorecard target (50 per cent) for local measures.

Regional Performance

Eastern: Scorecard performance was favourable to 50.0 per cent target, at 56.8 per cent. Strongest performing areas were safety and investment. Weakest performing areas were financial and train performance and local measures.

North West and Central: Scorecard performance was favourable to 50.0 per cent target, at 56.1 per cent. Strongest performing areas were investment and asset management. Weakest performing areas were safety and financial.

Scotland: Scorecard performance was adverse to 50.0 per cent target, at 43.1 per cent. Strongest performing areas were investment and asset management. Weakest performing areas were train performance and local measures.

Southern: Scorecard performance was favourable to 50.0 per cent target, at 75.2 per cent. Strongest performing areas were investment and asset management. Weakest performing area was train performance.

Wales and Western: Scorecard performance was favourable to 50.0 per cent target, at 62.6 per cent. Strongest performing areas were investment and asset management. Weakest performing areas were financial and train performance and local measures.

FNPO: Scorecard performance was favourable to 50.0 per cent target, at 53.4 per cent. Strongest performing areas were safety and investment and asset management. Weakest performing area was train performance.

System Operator: Scorecard performance was favourable to 50.0 per cent target, at 85.4 per cent. Strongest performing areas were safety and timetable performance. Weakest performing area was customer advocacy.

Chief financial officer's review of **2019/20**

This financial year was the first of Network Rail's five-year spending plan. In the first 11 and a half months, we saw more efficient delivery, more services added to the timetable, increased asset management activities, improvements in train performance and a profitable start to the control period.

Network Rail made a good start with its ambitious £3.5bn five-year efficiency programme, to deliver its operating, maintenance and investment programmes within budget, and improve its annual cost-base by £385m. This was also reflected in our financial performance measures (FPM).

The year ended with unprecedented measures in place to minimise the spread of Coronavirus. The response to the pandemic has changed the lives of passengers, suppliers and staff. It has also impacted our operations, ways of working and project delivery. We have worked hard to keep the infrastructure running and support the businesses in our supply chain, so that they can return to normal service levels as soon as it is advisable. The company remains on a firm financial footing and the action taken by the Department for Transport (DfT) and Transport Scotland to support train operator franchises has secured the financial position of our key customers.

Key financial highlights

(The financial statements start on page 132)

- Profit before tax was £375m compared to a loss before tax of £173m in 2018/19.
- Revenue increased from £6.7bn to £8.1bn.
- Operating costs increased from £5.2bn to £5.8bn largely due to increased depreciation, planned increases in maintenance activity agreed as part of the five-year settlement, and higher electricity costs as a result of increased electrification of the network to improve performance and provide greener transport.
- Operating profit was £2.3bn, compared to £1.4bn last year.
- Investment was £5.2bn compared with £7.0bn last year, lower due to the completion of large elements of the CP5 railway upgrade programme in the previous year.
- Net debt increased slightly from £54.1bn to £54.6bn due to increases in the valuation of RPI-linked bonds.

These results show a return to profit before tax this year as planned. All surpluses form part of our overall funding and are re-invested in the railway. The increase in renewal activity targeting improved our service to passengers, through better asset reliability, resilience and longevity. Passengers are also benefiting from recent years' investments with more than 5,000 new services running each week and with more to come.

We now have five regional divisions, which are providing stronger local leadership in our Putting Passengers First programme. This allows us to work more closely with our key stakeholders, drive improved performance, and be more cost-efficient and cost-competitive.

Running one of the safest railways in Europe, we continue to invest strongly to maintain and continue to improve this. Following tragic events, such as Margam, this year, the Safer Trackside Working (STW) programme is designing and developing new protection and warning systems to protect our colleagues. This consists of near-term risk reduction and longer-term solutions aligned to deployment of Digital Railway technologies. As a result we plan to spend over £140m in this control period on improving track worker safety.

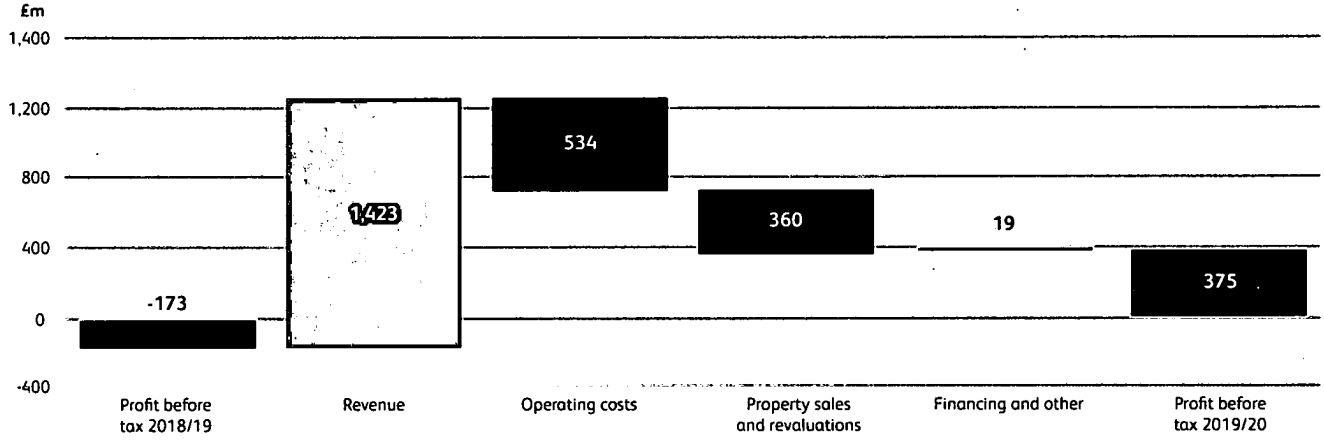
Financial summary

This review will focus on financial performance in 2019/20.

This year we made a profit before tax of £375m (2018/19: loss £173m). This improvement was partially due to the changes in the five-year funding settlement which made

allowance for additional maintenance activities in line with asset management plans and higher depreciation. It also benefited from favourable overall train performance compared to plan, particularly lower costs from disruption. Last year saw the disposal of a large proportion of the commercial property estate and thus income and profits were lower. Finance costs were also lower in the year. After taking into account increases in prospective corporation tax rates from 17 per cent to 19 per cent the deferred tax provision increased, creating a loss after tax of £20m (2018/19 loss of £225m). The variations in costs and revenue are explained in more detail in subsequent sections.

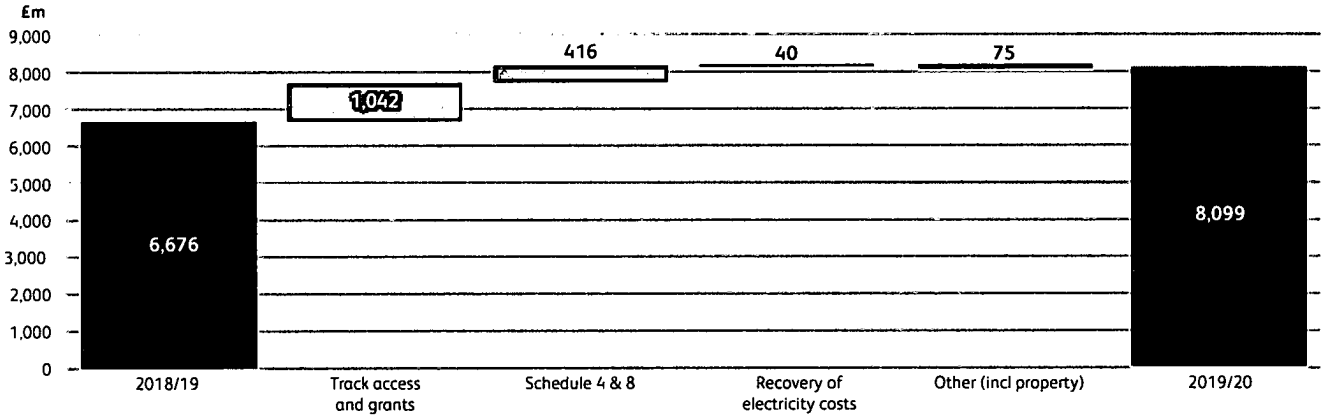
Profit movement since last year



Revenue

Revenue increased in the year to £8,099m, an increase of £1,423m (2018/19: £6,676m).

Revenue movements compared to last year (£m)



Track access and grants rose (£1,042m) in line with the rail regulator's determination of charges including £74m more variable income as a result of increased traffic and an additional £40m for electricity for traction (EC4T), in part a result of increased electrification of the railway. Schedule 4 and 8 performance and access regime costs decreased in the year by £416m; of the improvement, £153m was from reduced compensation for engineering works, as less disruptive possessions were required than in the previous year due to lower investment levels. Stronger train performance with fewer severe weather events, more reliable infrastructure and better response to incidents, alongside a change in calibration of costs for Control Period 6 (CP6) drove further financial benefits. Our other income decreased by £75m as a result of the sale of the commercial estate in the previous year.

Operating costs

Net operating costs this year were £5,777m. This has increased by £534m from last year's expenditure of £5,243m, net of efficiencies. This increase in expenditure is in part driven by extra investment that has increased depreciation by £212m.

Operating costs before depreciation rose by £347m from £3,577m to £3,924m.

This is driven by increases in pension costs (£22m), joint industry cost increases including EC4T (£46m) largely

Chief financial officer's review continued

recovered through track access charges, additional maintenance costs (£240m). This was part of a planned increase in maintenance activity agreed as part of the regulatory settlement to respond more quickly to incidents, to maintain new electrification assets and some other smaller increases at rates lower than prevailing inflation.

Employee costs
Staff costs increased by £154m due to increase in pension costs (£22m), an increase in the average number of employees in the year (£108m) supporting additional activity, and average pay increases (£24m).

Average headcount for the year was 42,099. This is an increase from 2018/19, when the headcount average for the year totalled 40,268. This was due to recruitment in the last year in the routes to fill maintenance and works delivery vacancies and reduce overtime costs, to respond faster to incidents and to support new assets.

Tax
Network Rail has significant brought forward tax losses, not recognised as a tax asset in the accounts. As it continues to invest heavily in the railway network it, therefore, pays relatively small amounts of corporation tax. The tax expense comprises deferred tax and was £395m (2018/19: £52m). This is due to the increase in prospective corporation tax rates from 17 per cent to 19 per cent. This rate change has increased the deferred tax liability to £3.6bn (2018/2019: £3.0bn).

Financing costs
Finance costs for the year were £2,170m. This is broadly in line with last year's charge of £2,200m. In this control period, two significant changes impacted finance costs. Firstly, Network Rail no longer pays a fee for the financial indemnity mechanism that our bondholders continue to benefit from (£266m). As Network Rail receives grants for investment rather than borrowing, there is no interest capitalised to capital additions (£183m). Other than this, interest expense and debt levels were relatively stable across the year.

Investment
Over the previous five years, Network Rail has delivered a huge rail investment programme that is in the process of being translated into new services for passengers. Over 5,300 new services per week have been introduced so far and that will increase by a further 6,000 by 2025.

This year Network Rail delivered £5.2bn of railway investment (2018/19: £7.0bn).

Enhancements that will increase the capacity of the network have amounted to £2.3bn (2018/19 £3.8bn). Major schemes included improvements on the Midland Main Line between London and Corby, Trans-Pennine improvements, substantial completion of the Great Western Electrification programme and Thameslink, East Coast Main Line improvements, and in Scotland improvements relating to Inverness to Aberdeen and Edinburgh to Glasgow lines.

We have also invested £2.9bn (2018/19: £3.1bn) on renewals this year. This included £0.9bn of track renewals which delivered circa 1,100 km of new track and replaced circa 700 switches and crossings. In addition £0.5bn was spent on signalling renewals, £0.5bn on structures (including around 50,000 square metres of underbridges, and 11,000 square metres of tunnels), £0.3bn on electrification assets, £0.3bn on buildings and property (including circa £0.2bn on improving stations for passengers) and £0.6bn on other renewals including telecoms, IT, plant and equipment, drainage, intelligent infrastructure and faster electrical isolation equipment.

In the year, Network Rail met 133 per cent of its seven key renewal volumes (2018/19: 124 per cent), and 85 per cent of its Delivery Plan and Enhancement milestones (2018/19: 91 per cent).

Financial performance measure and efficiencies drive

Network Rail's key performance indicator regarding efficiency is its financial performance measure (FPM), which measures our performance against the regulatory determination and our in-year targets. Network Rail is constantly working to reduce the cost of the work that we deliver. We continue to make good progress in our commercial efficiencies, productivity, and more efficient access to carry out work and through the leverage of new technologies.

Overall Network Rail finished £20m positive to plan (2018/19 £213m behind targets). This was achieved by surpassing FPM targets for profit and loss by £140m and offset by some underperformance in renewals by £34m and enhancements by £85m.

Profit and loss FPM for the year is £140m ahead of target, due in part to lower train delay costs, reduced weather effects and lower performance related pay from the prior year. Performance has been better than planned in nine out of 13 periods in the year augmented by extra track access income from running additional passenger and freight services. Operating cost efficiencies were also ahead of target.

Renewals underperformance of £34m on expenditure of circa £3bn, was mainly due to contractor and delivery issues and programme elongation. This includes £16m in signalling as the length of some works were extended, allowing them to align with other major projects, and changes to original designs. Track was £13m adverse due to increased costs following development of designs and increased materials rates.

The £3.5bn five-year efficiency programme for operations, maintenance and renewals (OMR) reflected in our overall financial performance got off to a good start, delivering £385m of benefits in the first year of the control period. The majority of these savings are expected to recur and support the increased rate of efficiencies to be delivered

in future years. Key elements of this programme are commercial savings, early supplier engagement benefits, improved access, and productivity related gains from new technologies.

The underperformance in enhancements (£85m) is due to increased costs closing out Control Period 5 (CP5) projects such as the Great Western Electrification programme (£54m) after it was extended, and there were disputed costs, and Crossrail (£77m) due to scope increases and higher costs on the Western Stations programme.

Whilst the financial impact of the global pandemic on 2019/20 was relatively minor we saw the start of reductions in revenue, particularly volume related track access income following reduced timetables and retail income at major stations due to extremely low footfall. Work volumes were also initially impacted by social distancing requirements until appropriate arrangements could be introduced to protect staff.

Financial framework

The railway network that we own and have a licence to operate is included in the accounts at a value that represents what a third-party purchaser would pay for it. The basis of this valuation is set out in a note to the accounts (page 150) and comes from an assessment of the cash flows that are forecast to arise from the asset. Cash flows arise from the asset as it amortises.

The starting point for this valuation is the regulatory asset base (RAB). Subject to certain criteria established by the Office of Rail and Road (ORR), each year capital expenditure is added to the RAB and amortisation is deducted.

Amortisation is used by the ORR to calculate the regulatory income requirement and used to calculate charges to customers or grants from governments. The increased level of RAB amortisation and lower investments are the key reasons that the valuation of the railway network decreased by £272m (2018/19: increase £2,632m). After taking into account the changes in valuation, depreciation, additions and disposals the year-end valuation of the railway network was £71,809m (2018/19: £71,467m)

In March 2020 the Core Valley Lines were transferred to Transport for Wales, at book value, for £470m. See Note 12 (page 151) for further details.

Borrowing
Since becoming a public sector body in September 2014, Network Rail has borrowed directly from Government and no longer issues debt on the capital markets. From this year, investments are funded by grant and fresh borrowing is used for refinancing maturing loans.

The regulatory settlement provides strong security for future income and the Department for Transport loan agreement provides a robust loan refinancing platform.

During the year ended 31 March 2020, Network Rail borrowed £11.6bn to refinance maturing borrowing. RPI-linked bonds increased in line with index. As a result, net debt rose from £54.1bn to £54.6bn. In the year Network Rail transferred the Core Valley Lines to Transport for Wales for £470m and reduced borrowing (and the size of its borrowing facility with DfT) accordingly.

New financing arrangements
Network Rail is not expected to undertake any new net borrowing during 2019-2024. Instead, its activities are largely funded by grants from the DfT, Transport Scotland and revenue from customers. Network Rail has a loan facility with the DfT for £31.9bn which will be used to refinance maturing government and external debt in the period 2019-2024.

The new loan facility between Network Rail and DfT was signed on 28 March 2019. On 1 April 2019, all borrowings under the previous (July 2014) facility agreement were transferred to the new facility agreement (with their existing interest rates and maturity dates) and the 2014 agreement was terminated. The 2019 facility is sized so that when the legacy bonds fall due for repayment, new money will be provided by borrowing under the 2019 facility (the first such borrowing was not required until June 2020).

The cash required to pay the interest due on borrowings (to DfT or to bondholders) is provided to Network Rail Infrastructure Limited (NRIL) through the financing costs grants.

Grant agreements with Department for Transport and Transport Scotland
Eight separate grants are in place between NRIL and DfT/ Transport Scotland, replacing the two grants (England and Wales Network Grant and Scotland Network Grant) that operated throughout CP5. These grants are:

- With DfT: Network Grant; Enhancements Grant; British Transport Police Grant; Financing Costs Grant for DfT interest; Financing Costs Grant for external interest (bonds and swaps); and Corporation Tax Grant.
- With Transport Scotland: Network Grant and Enhancements Grant.

Risk management: Interest rates and currency
Network Rail manages its interest and foreign exchange risk by using derivative financial instruments (hedges). All these arrangements were entered into prior to Network Rail becoming an arm's length public body and will reduce over time as the external debt is retired.

The group measures its hedges for accounting purposes at their market value as required by international financial reporting standards. A market value is determined by comparing the original value of the hedges against the current market rate.

We do not intend to trade these hedges but use them to minimise our financial risks. If the hedges are economically

Chief financial officer's review continued

effective (i.e. they offset changes in the cost of existing and/or future loans), their value at any point in time should not be a key focus when assessing the group's performance.

By qualifying to use hedge accounting rules, we match gains or losses in the market value of hedges to fluctuations in the hedged item (i.e. the loans). The gains on debt and derivative valuations taken through the income statement were £213m (2018/19: £220m). This gain largely represents the reduction of the fair value of interest rate derivatives liabilities through interest paid on swaps (the latter is included in finance costs).

Pensions
Network Rail is party to two defined benefit pension schemes. Costs are shared with pension scheme members on a 60:40 basis. Pensions are measured differently for IFRS than for actuarial funding reports. IFRS is more conservative and discounts expected future liabilities to a present value, using 'risk-free' borrowing rate, and compares this with current asset valuation. Network Rail's accounting deficit at 31 March 2020 decreased to £2,070m (2018/2019: £2,566m) as losses on assets were more than offset by the decrease in inflation assumptions from 3.2 per cent to 2.5 per cent.

On a funding basis, the schemes have seen the value of their assets impacted by the global pandemic but are still substantially fully funded having absorbed the decline in asset values to date. Both the company and members continue to contribute to the schemes.

Post balance sheet events

Network Rail's financial stability benefits from: the certainty provided by the five-year funding settlement and the financial risk buffers therein; the loan facility with DfT and the grant agreements with both DfT and TS; and, from being an arms-length body of Her Majesty's Government.

The Coronavirus pandemic has significantly impacted rail revenues. The financial impact on Network Rail has been mitigated by the steps taken by the DfT and Transport Scotland to change train operator franchises to emergency management contracts. This secured the financial position of our key customers and we continue to be paid as normal. Network Rail immediately moved all its suppliers to immediate payment terms to improve their liquidity during this time of crisis and continues to work closely with our supply chain partners to support them.

Summary

Rail is an increasingly important part of our national infrastructure. More people have been using rail to travel between towns and cities, as the most efficient and environmentally sustainable option and we have been expanding services and investing to support this.

In the 2019/20 financial year, Network Rail delivered a broadly satisfactory outcome on its key financial targets, in particular in making a good start on the £3.5bn efficiency programme for the 2019-24 control period. There is still more we can do and we are extending this to our broader capital delivery programme.

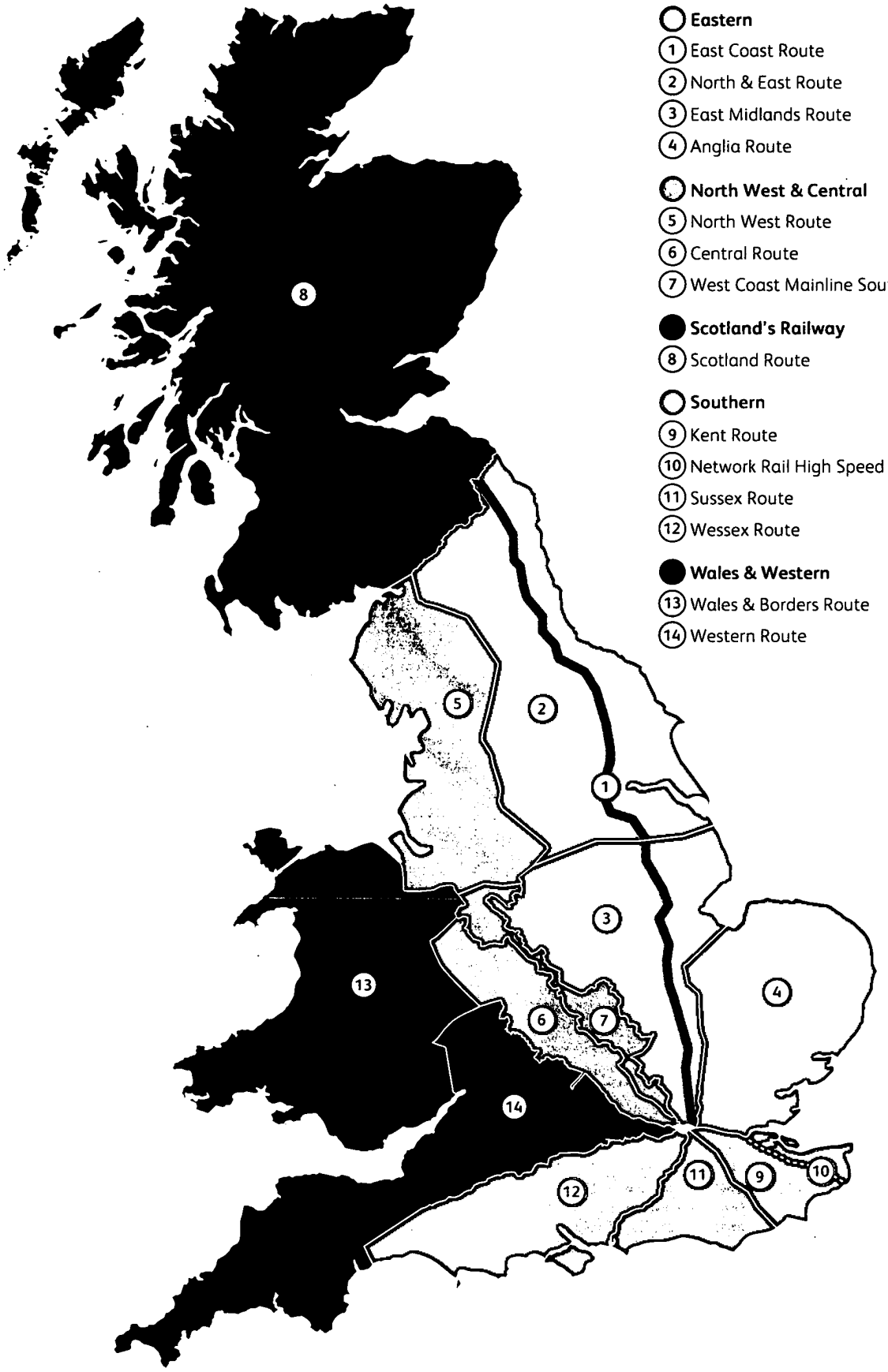
While the Coronavirus pandemic has impacted some of our plans we remain committed to them and are working hard to recover or offset the financial impacts that this has brought.

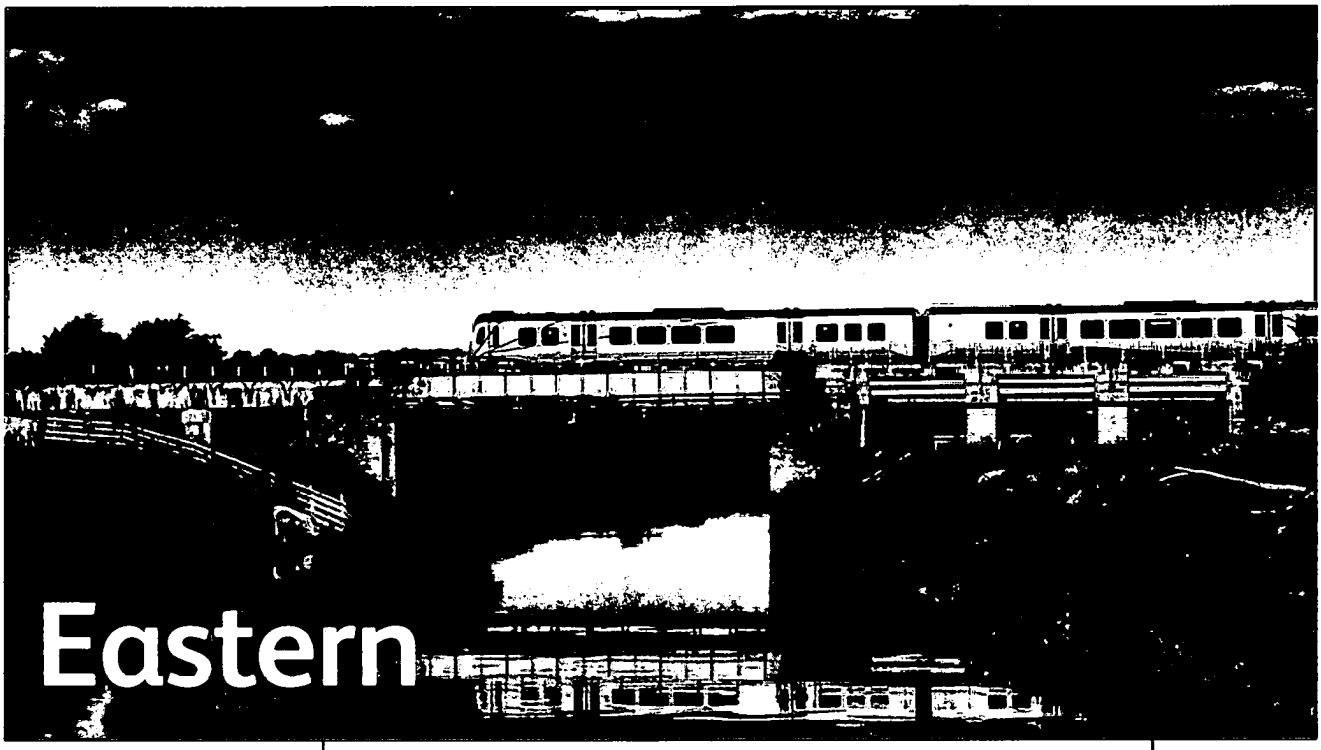
The current global crisis means that we must be prepared to adapt and change to meet the new requirements of our customers, at a cost that they and the country can afford. There are big challenges ahead, but we are determined to deliver a better, more reliable and cost-effective railway with passengers and freight users at the heart of everything we do.

Jeremy Westlake,
chief financial officer

16 July 2020

Network Rail routes and regions





Eastern

Rob McIntosh,
managing director, Eastern

16 July 2020

Anglia

East Coast

East Midlands

North & East

We are an incredibly busy region, operating some of the busiest rail lines in the country. We transport commuters to and from busy cities including Newcastle, Leeds, Sheffield, Derby, Norwich, Cambridge and London, and serve two airports and 13 freight ports. We connect people to friends and family, jobs and leisure, as well as goods to businesses here and abroad. Improving our rail network and getting people where they need to be on time makes a massive difference to the UK economy, helping bring jobs, homes and prosperity.

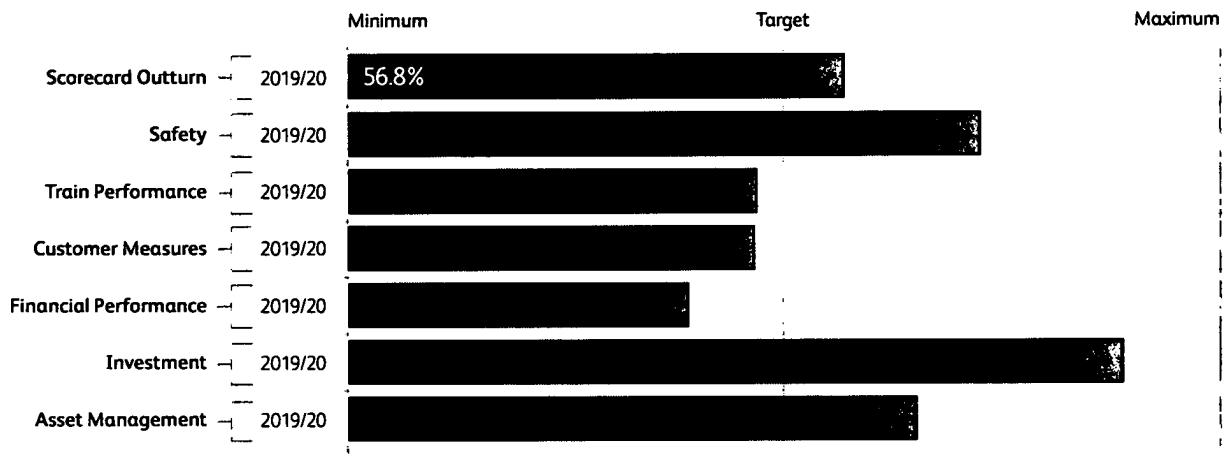
In August 2019, Eastern established our four routes – East Coast, North and East, Anglia, and East Midlands. In establishing these, we enable more local decision making and a greater focus on local needs. We put passengers first by enabling and empowering our people.

Over the year, Eastern has successfully achieved greater than target against a number of our scorecard measures, including train accident risk reduction metric, investment milestones and key volumes delivery. However train performance, which matters the most to passengers, was behind target. For the year ahead, our key focus will be on improving train performance and customer measures.

Between 2019 and 2024 we are investing £13.6bn in running and improving the railway. With our industry partners, we will make some transformational changes – many are already underway.

Key scorecard targets

Eastern continued



Safety

This year, 92 people sustained injuries at work where they were unable to return by the following shift, a slight reduction on last year. There were nine serious injuries, fewer than in 2018/19. While even one injury is too many, it remains safer than ever for people working in Eastern region.

We are accelerating our track worker safety programme, reducing the amount of time staff work with unassisted lookouts by introducing new technology and improving planning processes. We continued our work with local communities to improve public safety and reduce trespass including a dedicated campaign on electrification of the Midland Main Line.

This year we have closed 48 level crossings across Eastern. In Anglia alone, we are seeking to close or alter around 100 level crossings by three Transport and Work Act Orders. We have completed the public inquiry stage and are awaiting decisions on whether powers will be granted.

The health and wellbeing of our staff is also a continued focus, with initiatives to improve heart-health and healthy eating as well as help manage mental health issues. We've increased the number of Mental Wellbeing Champions and regularly encourage employees to be open about their mental health.

Case study | Putting Passengers First

King's Cross toilets refurbishment

The station team at London King's Cross has been working to unite the many teams who work at the station under a single "One Team, King's Cross" brand. The aim of this initiative is to give quick, tangible benefits for the thousands of passengers who use the station each day. This case study highlights one of the first, and most visible to passengers.

In October 2019, funding was secured to revamp all of the station toilets. This was great news as feedback at the customer points regularly complained about them. The work could be carried out across all toilets at once or phased in different ways. Putting the passenger at the heart of the programme from the start was crucial for project manager, Toby Meadows, but time was tight as the team was ready to start within a matter of weeks.

Toby explained: "We really wanted passengers to be involved in this project from the very beginning. We commissioned posters and a Twitter poll to ask passengers how they would like the work to be carried out. Then the station team spent time talking to passengers and asking them to cast their vote. And the winning option is the one we're using.

"The completed project will bring benefits for our passengers and we are delighted that the Mezzanine toilets opened in March."

Eastern continued

Train Performance

Performance across the region was a mixed picture with slower improvement than planned. In the North, issues with crew training and new fleet introduction has caused high levels of cancellations and delays for Northern and TransPennine Express (TPE), though this situation significantly improved at the end of the year.

LNER continued roll out of its Azuma fleet, bringing greater reliability to services on the East Coast Main Line. Improved acceleration and braking are already showing performance benefits for all long-distance operators on the route. Greater Anglia and London Overground also introduced new fleet which have proved extremely popular with passengers.

In the south of the region, we have some of the best performing operators in the country. Performance for TfL Rail has largely been good, and we hit targets on the east section of the Elizabeth line from Shenfield to London Liverpool Street. Quicker response times to incidents and better crowd control at Liverpool Street station are just two initiatives that have enabled this. c2c's positive start to the year was followed by a mid-year dip. This was largely due to a few incidents including power supply failures that caused delays to passengers, but we recovered well, with days where 100 per cent of trains ran on time. We continue to work hard as an industry to tackle the problems we faced across our rural services in Anglia in autumn. This is a major focus of attention to resolve.

It has been a difficult year for the London Overground lines that fall in our region. We've struggled to deliver a good service on the North London Line with an increase in trespass and suicides a factor. The number of axle counter failures and increased dwell time owing to increased passenger growth also contributed. Intelligent infrastructure to enable proactive interventions before failures occur and software upgrades are helping to solve these problems. Passengers and freight were affected by Gospel Oak to Barking line freight train derailment in January. A derailed freight wagon caused damage to bridges, rails and thousands of sleepers. A massive effort by industry and supply chain teams meant the damage to 2.5 miles of track was fixed within a month and services resumed. During the closure of the line, a replacement bus service operated between Walthamstow Central and Barking to help keep passengers moving. Despite this, freight performance has been good across the Eastern region, with the number of trains running on time ahead of target.

CrossCountry services underperformed. Most delays were caused by extreme weather causing flooding and landslips, which resulted in speed restrictions and delays to passengers. However, the number of infrastructure failures causing delays in Anglia has significantly fallen. This is following the removal of temporary speed restrictions, and right time departures from York were better than target.

While infrastructure failures causing delays were significantly lower than last year, it is important that we continue improving the consistency of on-time journeys. We are working hard to identify key locations affected by weather, including flooding and extreme heat, and to develop action plans to deliver greater resilience and improved recovery time. We are introducing a drainage management strategy which has an increased focus on detailed inspection, cyclical jetting of drainage systems and increased refurbishment and renewal. We are also implementing a proactive regime of vegetation management focussed on high risk trees as well as improvements in weather monitoring and understanding asset conditions.

A cross-industry group has been created to drive better decision making around performance. There is now a greater focus on whole-journey performance as opposed to performance at final destination as the region puts more emphasis on improving punctuality at all recorded stations.

We are working with our communities to tackle trespass and suicide, which remain the cause of a high proportion of delays. Improvements include fencing, trackside patrols and lighting.

Efficiencies

Eastern region has achieved £10.2m operations efficiencies over the year 2019/20. On capital expenditure, efficiencies of £106.9m have been delivered, ahead of target.

Putting Passengers First

Eastern region is currently delivering the greatest proportion of Network Rail's entire enhancements portfolio in CP6. The upgrade of the East Coast Main Line has begun, remodelling King's Cross and modernising signalling systems. Once complete, it will allow an extra two long-distance paths into the station and create the potential for up to 10,000 extra seats a day. Elsewhere on the East Coast, we helped bring more seats and a better experience for more than 22 million passengers with LNER's new Azuma trains.

On the Midland Main Line, our improvement programme is nearing completion, enabling electric trains to run to Corby for the first time from next year. We are also supporting Northern as it introduces 101 brand new units and Greater Anglia as it replaces its entire fleet. More new trains are also on the way for TransPennine Express and East Midlands Railway.

In Anglia, passengers will experience a more reliable railway following the completion of the programme to replace more than 100km of overhead wires between Southend Victoria and Shenfield. We completed the Felixstowe capacity programme, building 1.4km of new track and upgrading four level crossings. This will enable 10 more freight trains to run per day in each direction and improve reliability for passenger services. We also finalised the

Eastern continued

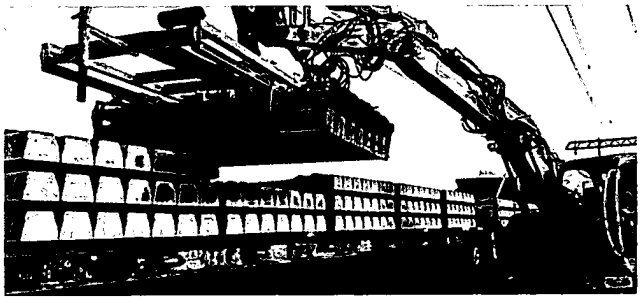
re-signalling of the Norwich, Yarmouth, Lowestoft programme, bringing a 21st century system in to replace Victorian infrastructure.

Public consultation began on the first phase of the Transpennine Route Upgrade which, once complete, will provide more services and more reliable journeys for passengers across the north of England. We have begun the transformation of Leeds station. The installation of a new, transparent roof over the main concourse now allows natural light to flood the station. New ticket barriers have been installed in a simpler alignment, improving flow through the station. All of this has been completed without any impact on train services and the station has remained open throughout.

The year ahead

The Coronavirus pandemic will have an impact on our works programme, the extent of which is currently unknown. We will be working hard to deliver as many of our originally planned improvement works as possible, which includes improvements at all of our managed stations - Leeds, London Liverpool Street and London King's Cross. Once complete, there will be refurbished toilets, and customer action teams will continue to bolster station teams to help passengers during unplanned disruption. At London Liverpool Street, we plan to improve the passenger information points and seating around the station.

The East Coast Main Line upgrade is set to continue. At Werrington, near Peterborough, an engineering first will see a 3km dive-under constructed alongside the track. Once complete, this crucial intervention will separate the England-Scotland passenger route from the east-west



freight lines which will prolong the life of the track by reducing traffic on it, reducing delays and enabling more trains to run on time.

We're continuing to work closely with the Department for Transport and our industry partners on the Transpennine Route Upgrade, which will deliver a high performing, reliable railway for passengers with more seats, more trains and faster journeys between Manchester and York via Huddersfield and Leeds.

In the south of the region, the refurbishment of Ilford and Romford stations as part of Crossrail will improve passenger accessibility and facilities ahead of the increase in Elizabeth line services. Platform extensions and sidings works on the busy Cambridge to King's Lynn line will increase capacity and provide more space and seats for passengers. This means in the future there will be less overcrowding on busy morning and afternoon peak services.

Passengers, freight users and communities are at the heart of everything we do. Everyone in Eastern region continues to work towards a better railway for them, our region and our economy.

Case study | Efficiencies

Cost savings at crossings

When looking to renew wooden timbers used on rail crossings in Newark, we had a supply chain issue. The life cycle of the existing materials was only 15 years, and as such not good value for money. In any case, replacements of this type cannot be sourced sustainably as lengths greater than six metres are not from a trusted source.

An alternate hardwood could not be purchased because of the increasing civil unrest in Cameroon where the mills had been evacuated. So, synthetic options that offered improved life cycle and whole life cost were assessed. The particular timber lengths of 16 metres was proving difficult to source.

Working with colleagues in our Kent route we discovered that the synthetic alternative (Fibre-reinforced Foamed Urethane (FFU) Synthetic Baulks) offered improved whole life cost, reduced maintenance costs, improved track availability and system reliability. This in part was down to the elimination of decay, its non-flammable properties, and the associated reduction in disruptive possession costs owing to increased time between renewals and reduced maintenance.

The whole life saving over 30 years will be £1.75m at this location but, if used at multiple sites, it has the opportunity to save millions in the years ahead.

North West & Central

Tim Shoveller,
managing director, North West & Central

16 July 2020

West Coast Mainline South route

Central route

North West route

The North West & Central (NW&C) region is the backbone of Britain - the economic spine linking England's main cities of London, Birmingham, Manchester and Liverpool. We connect workers with jobs, people with loved ones and goods to market.

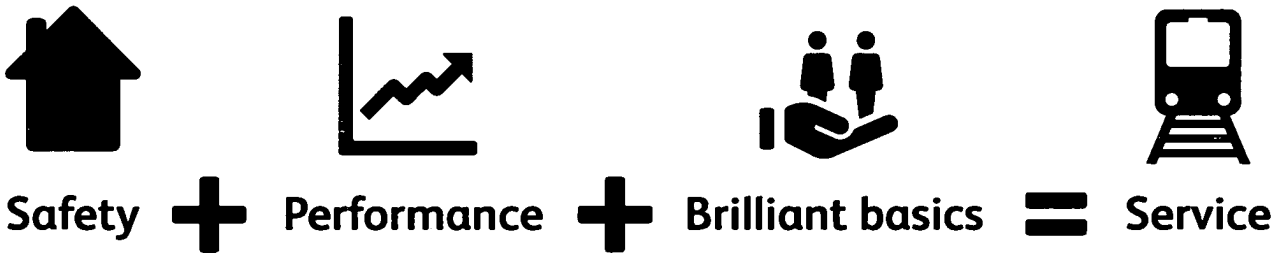
We serve people in many different market segments, including long-distance business travellers, urban commuters, leisure and freight-users. We are home to the West Coast Main Line, the busiest mixed-use railway (passengers and freight) in Europe.

In 2019/20, the railway industry did not work well for many people. Passengers did not get the reliable service they expect and deserve, particularly in the North and Midlands. This was unacceptable and, consequently, we are changing our business structurally and culturally to bring lasting improvements.

NW&C's three routes – North West, Central, and West Coast Mainline South – were launched in September 2019, devolving our key decision-making closer to the markets we serve, in line with Network Rail's 'putting passengers first' (PPF) transformation.

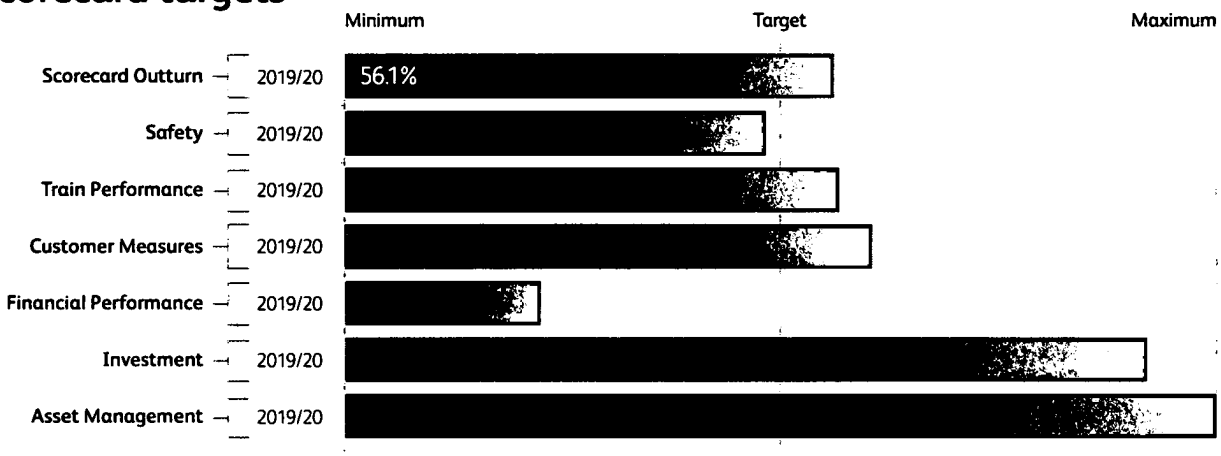
But organisational structure alone will not deliver consistently reliable services for passengers. The key to us achieving this is by focusing on putting passengers first and providing a reliable service. This is outlined by our 'service equation,' based on Transport Focus research data that shows what matters most to passengers.

North West & Central continued



We must look at the system as a whole and understand how we can improve what we do to put passengers first. A service-led NW&C region, and its three routes, capital delivery and support functions, will deliver the consistently reliable service passengers and freight customers expect and deserve. Another key to success is cross-industry teamwork. For lasting improvements for passengers, the whole industry – track and train – must work seamlessly together.

Key scorecard targets



Safety

Our safety vision is 'Everyone home safe every day.' By 2024, we aim to have achieved world-class safety levels, reducing the number of colleagues seriously injured at work by two thirds against 2019 levels.

In 2019/20, our safety performance was moving in a positive direction. At our four managed stations (Liverpool Lime Street, Manchester Piccadilly, Birmingham New Street, London Euston) we had 53 passenger-train interface (PTI) accidents compared to 48 the previous year. Meanwhile, we had 106 lost-time injuries among our workforce compared to 102 in 2018/19. Expressed as LTIFR (lost-time injury frequency rate), our result for 2019/20 was 0.328, down from 0.444 the previous year.

In 2019/20, we had more people undertaking more work, which is why the LTIFR reduced. We remain focussed on improving so we can hit our 2024 goal. Our daily tactic 'Take 5 For Safety' remains essential. And our long-term strategy is to drive health, safety and environmental performance in line with our company values (teamwork, safety, empowerment, care).

While it took place after the end of the financial year, we must mention the death on 8 April 2020 of AmcoGiffen contractor Aden Ashurst, after he was struck by a train at Roade, Northamptonshire. Investigations are under way to establish the facts. We will learn all we can from this tragic incident.

Train Performance - reliability for passengers

During year one of CP6 (2019/20) Merseyrail and the London Overground lines that run through our region saw strong performance. In fact, up to period 12 (Feb 2020), Merseyrail was performing at its best-ever level. But Avanti West Coast, Chiltern Railways, West Midlands Trains, Transpennine Express (TPE) and Northern Trains all fell short.

Poor train punctuality is the key driver of passenger dissatisfaction. In Transport Focus's autumn 2019 National

North West & Central continued

Rail Passenger Survey (NRPS), it led to drops in customer satisfaction scores for most of our lead train operators, notably Northern (bottom on 72 per cent), TPE (79 per cent) and West Midlands Trains (second from bottom on 73 per cent).

The NRPS scores for Northern reflect ORR criticism and the subsequent move to bring the operator under government control on 1 March. We are working with the operator of last resort to bring lasting improvements to service.

On a positive note, scores for Chiltern (90 per cent) and Merseyrail (91 per cent), whose punctuality performance were both strong, were well above the national average of 82 per cent. This proves we can deliver for passengers provided we have a workable timetable.

The root cause of our current performance challenges can be summarised as follows:
- Timetables in the West Midlands and the North which spread delay rather than contain it.
- Train operator traincrew availability - notably for Northern, TPE and WMT.
- Infrastructure reliability. This is within our control. We are working to improve (Project Alpha – see below).
- Capacity constraints on existing station space (Euston; Manchester Piccadilly) and infrastructure (Castlefield Corridor in Manchester), which can only be fully addressed by long-term capital investment.

Freight

Full-year freight performance was on budget for operating expenditure but £0.6m adverse on turnover. This was driven by continued outperformance on domestic intermodal, construction materials, biomass and automotive throughout the year, resulting in increased freight income. This was offset by more Schedule 8 costs than budgeted due to major performance incidents in the year.

Following the outbreak of Coronavirus in early 2020, an average 188,000 tonnes a day - or 1.13 million tonnes a week - of critical supplies, including food, fuel and medicine, continued to be moved by rail across the region on the West Coast Main Line and its key spurs.

Project Alpha performance-improvement programme

In November 2019, we kicked off the Project Alpha performance-improvement plan to bring:
- Quick wins in infrastructure reliability.
- Service-led cultural change ahead of NW&C's fully-resourced organisational structure going live in June 2020.
- Longer-term plans to remedy the timetable, train regulation and other strategic and structural issues.

There are some early signs of progress. For example, Network Rail-caused delays on NW&C are currently at their lowest level for three years. But there is still more do to.

Short-term wins - delivering brilliant basics

Initiative across the region to improve our basic service deliverables:

West Coast Mainline South route
- Project Stephenson - £2.5m of customer experience improvements at Euston, including seating, signage, toilets, information flow, platform passenger flows and much more.

Central route
- Improvements to wayfinding, signage and customer contact points at Birmingham New Street.

North West route
- Hiring of 17 additional station staff at Manchester Piccadilly to improve passenger flows on and off platforms 13 and 14. Treating these two platforms as a station in its own right.

Region-wide
- PPF information service - via our six NW&C twitter feeds, improved real-time info on journey-impacting track issues, augmenting efforts by train companies and National Rail Enquires.

Case study | Putting Passengers First

Weatherproof railway

One key aspect of our plan to improve performance for passengers is weather-proofing our railway so it is better able to cope with increasingly extreme weather. A great example of this is Caldew Junction, near Carlisle. In 2015 Storm Desmond flooded this location wrecking the signalling equipment. Repairs took 14 days during which time the West Coast Main Line to Scotland remained closed. We subsequently raised the signalling kit on 3m-high stilts. In 2020 when Storm Ciara flooded Caldew again, the kit remained intact and the line reopened in 24 hours, minimising the impact on passengers. We are delivering weather-proofing work like this across the network to improve passenger experience by reducing delays.

Financial performance

In 2019/20 we invested £1.5bn on renewals, operating expenditure (opex) and railway enhancements. By comparison, in 2020/21, our forecast spend is £2bn. A busy year awaits.

Poor train performance in 2019/20 resulted in high Schedule 8 (train delay compensation) payments to our train operators.

Opex for the year closed £1.4m under budget. We plan to spend this saving in 2020/21 on more performance-improving schemes.

Core Renewals closed the year delivering £455m of volume, just £11.7m below budget for the year. We plan further investment in our assets in 2020/21, with a 31 per cent year-on-year increase in spend forecast. Birmingham New Street and Crewe re-signalling projects are our two major renewals projects in the years to 2024 (CP6).

It has been a challenging year for our railway enhancements portfolio with vital projects, such as HS2 and East West Rail 2 (Bicester to Bedford), impacted by government reviews. However, following recent announcements, we now have greater certainty and are working with partners to deliver next year and beyond.

The year ahead (2020/21) and onwards

The year ahead will undoubtedly be greatly affected by Coronavirus, but we will continue to do whatever is needed to support our passengers, colleagues and the public. For now, that means making sure that key workers can safely get to their jobs and essential freight gets where it needs to be. For NW&C, it also means continuing to make vital repairs and enhancements to our railway, so that when Britain emerges from this crisis, we are ready to step up.

In addition to our need for immediate and lasting train performance improvements, detailed above, our challenges for 2020/21 and beyond include:

- Growing demand. Between 2019 and 2024 (CP6) demand for rail is forecast to grow dramatically – passengers +12 per cent and freight +18 per cent (data from pre-Coronavirus crisis). This includes on the West Coast Main Line, Europe's busiest mixed-use railway, which is completely full.
- To meet this demand, building a bigger railway to carry more passengers and produce in future - while continuing to run a reliable railway. It's similar to building a new Wembley stadium while continuing to stage events. HS2 has now received the Government's green light to proceed. This will add much-needed capacity on West Coast, freeing up space on chronically congested rail arteries into the Midlands and the North. The Great North Rail Project, including upgrades to the Trans-Pennine route and, longer term, Northern Powerhouse Rail and Midlands Rail Hub, will bring more trains with more seats to carry more passengers, including connections to the new HS2 railway.
- Climate change. Britain's weather is becoming more extreme. An example was Storm Ciara, in February 2020, when a month and a half's rain fell in one day along with 90mph winds. We are developing plans to weather-proof our signals, overhead wires and other infrastructure.

Our funding has been set at £5.7bn (2018/19 prices) for our core maintenance, renewals and operations programme. This is a huge vote of confidence and a big responsibility. Together, as an industry, we will deliver for the communities we serve.

Case study | Efficiencies

Docker Garth viaduct

The Docker Garth viaduct in Cumbria underwent a structures renewal in 2019/20. It involved recasting defective masonry, managing vegetation surrounding it, and re-pointing and installing anchors to address cracks in the viaduct. Previously this would have required a full scaffold system to provide access to carry out the work. By engaging a specialist sub-contractor, an innovative solution enabled safe access - a suspended gantry, which moved vertically and horizontally. The total saving on this project was £600,000. While this is a one-off saving, we will apply what we have learnt in future.

Scotland's Railway

Alex Hynes,
managing director, Scotland's Railway

16 July 2020

Scotland

Scotland's Railway covers a large and varied area from the rolling hills of the Borders to the remote mountains of the Highlands as well as the busy commuter lines of the Central Belt. Our network supports over 2,500 passenger services and up to 50 freight services every weekday, and we are steadily building more capacity across the country.

Our railway provides rapid access along busy commuter routes to our seven cities, servicing the needs of millions of business and leisure travellers. We also carry vital freight and lifeline rural services.

We operate the largest suburban rail network outside London, which meets the daily needs of customers into Glasgow. Scotland's Railway provides links between communities and employment, industries and markets.

It contributes up to £1.3bn each year to Scotland's economy and employs 13,000 people – 3,500 of them are Network Rail colleagues.

In December 2019 Scotland's Railway increased its number of stations to 360 with the introduction of Robroyston, in Glasgow, to the network. More new stations are planned over the next four years.

Edinburgh Waverley and Glasgow Central, Scotland's two busiest stations, together deal with over 188,000 passengers each weekday – that's 64 per cent of all Scotland's passengers. In total, Scotland's Railway now supports over 107 million passenger journeys a year.

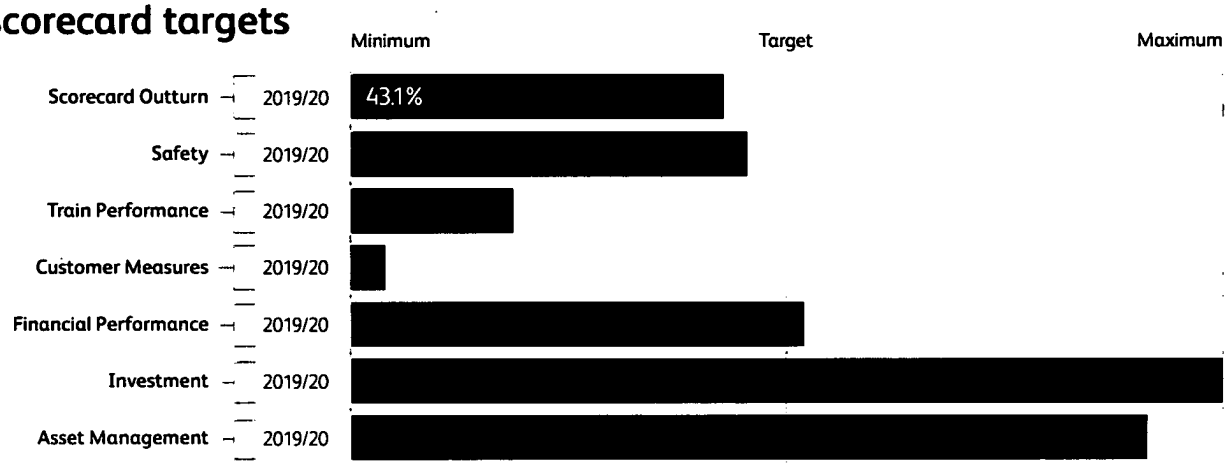
Scotland's Railway continued

We are committed to putting passengers first, and our new structure is helping to make Scotland's Railway more responsive to the needs of passengers and freight operators.

In Scotland, we have a strong track-record of collaboration between Network Rail, operators and funding partners, and the Putting Passengers First programme will help to bring the industry ever closer together. It is already empowering people within every part of our organisation to make informed decisions on what's best for passengers and freight.

During the Coronavirus lockdown, the rail industry has shown that we can pull together and provide the support needed to keep key workers and freight on the move. As we look ahead to the coming year, we face a number of challenges – as an industry and a nation. Our world changed dramatically in a matter of just a few weeks and Scotland's Railway now has a vital role to play in re-energising the economy as Scotland deals with the impact of the pandemic.

Key scorecard targets



Train Performance

Performance in 2019/20 has often not been at the level passengers rightly expect. However, strong underlying infrastructure performance has contributed to an improvement in the moving annual average (MAA) - ending the year 1.1 per cent better than last year. This means the public performance measure (PPM) has moved from 87.4 per cent in period 13 of 2019 to 88.5 per cent in 2020.

In the summer, we saw some extreme weather conditions, such as Edinburgh's hottest day on record, which could have led to speed restrictions and longer journey times. Despite this, our hot weather action plan proved very effective and PPM failures attributed to heat-related causes dropped by 80 per cent year-on-year. Autumn performance was also our best ever.

We have also begun replicating 'The Glasgow Plan', which improved asset reliability by 30 per cent though the targeted renewal of key infrastructure in the Glasgow Delivery Unit area. This analysis-led approach is now being rolled out elsewhere in Scotland with the implementation of more localised investment plans.

Locally driven customer measures

The rail industry is currently delivering unprecedented investment for passengers in Scotland. This includes £475m in brand new and upgraded trains, and an additional £22m worth of investment to improve reliability, punctuality, and customer satisfaction.

ScotRail recorded a passenger satisfaction score of 90 per cent in the last National Rail Passenger Survey – a five-point improvement on spring 2019. Overall passenger satisfaction has also improved at our managed stations, with Glasgow Central up by 2.5 per cent to an overall score of 90 per cent and Edinburgh Waverley improving it's score by 2.3 per cent to 88.5 per cent in the spring 2020 survey.

Overall passenger satisfaction has improved at both Network Rail managed stations in Scotland, Glasgow Central being ranked third and Edinburgh Waverley eighth out of Network Rail's 20 managed stations.

For 2019/20, Scotland's Railway received 9,343 enquiries, a 29 per cent increase on 2018/19. Over 91 per cent of these enquiries were responded to within the 29 day response target. This was largely due to the volume of engineering works undertaken in the year. We are pleased that despite a significant increase in volume, response times to enquiries is seven per cent better than target.

Scotland's Railway continued

Safety

Our lost time injury performance has been inconsistent in 2019/20. There have been 53 workforce and contractor injuries this year, resulting in our regional lost time injury frequency rate being behind target.

Slips, trips and falls and injuries resulting from manual handling of equipment remain the largest cause of accidents. They are now a major focus as we push forward with an improvement plan with both our internal teams and external suppliers.

Scotland's Railway has continued to progress with the installation of the VAMOS Miniature Safety Light System (which uses miniature red and green lights and audible warning equipment to warn the public of oncoming trains), enhancing safety at user worked level crossings.

A further three have been installed this year, as well as a new MCB-OD (a barrier and obstacle detection) crossing at Boat of Kintore. We have also secured the legal closure of two level crossings at Pitemedden and Panholes.

Unfortunately, last year's poor signals passed at danger (SPAD) performance continued with a total of 32 SPADs this year against a target of 26. We are working closely with our main train operators to identify and implement improvements.

We now have a fully embedded safety task force within Scotland's Railway. This team is ensuring engagement with our front-line staff and contractors to implement changes to improve safety for those planning and carrying out work on our railway.

Financial performance

Overall financial performance on Scotland's Railway was worse than target because of higher than expected compensation payments to some train operators. This was primarily due to poor weather conditions which affected train performance. Maintenance costs were also higher than planned – mainly due to investment in performance improvement schemes. We expect these costs to be offset by better future performance.

Enhancement costs were more positive, mainly due to contractor efficiencies on the Aberdeen-Inverness Improvement Project, Glasgow Queen Street redevelopment and the Scottish Central Line project, and expected risks not materialising on the Dunbar new platform project. Financial performance on the Stirling-Dunblane-Alloa project was less positive due to contractor and insurance claims.

Efficiency performance this year was £7.2m better than target, delivering total efficiencies of £46m. This was due to a range of factors including improved contracting strategies, better use of access, reduction in signaller relief implementation, our energy efficiency initiative and early realisation of efficiencies in vegetation contractor procurement.

The year ahead

The spring completion of the £120 million redevelopment of Glasgow Queen Street station has been delayed by the Coronavirus pandemic and a new date will be confirmed later this year. When complete, the investment in the station will provide our passengers with a brand new fully accessible station with the modern facilities they deserve and with the capacity to meet current and future needs.

The opening of the new Kintore station has also been affected by Coronavirus. The station will reconnect Kintore to the rail network for the first time since the original station closed in the 1960s. This is the last part of phase one of the Aberdeen-Inverness Improvement project and a new opening date will be confirmed as soon as possible.

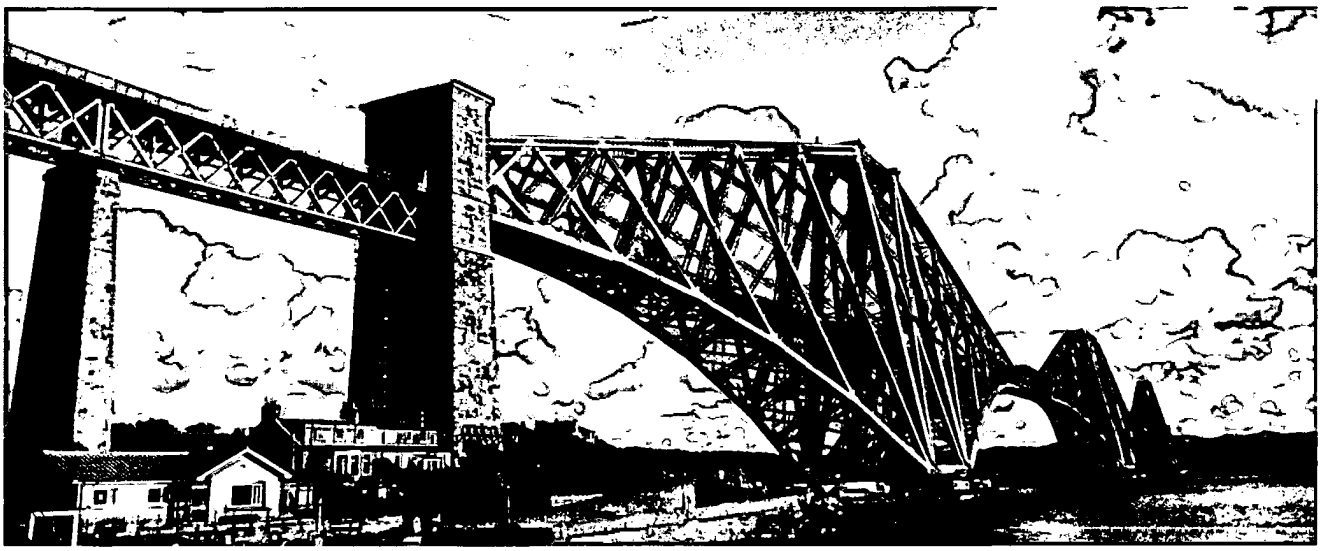
As part of the Scottish Government's ongoing investment in Scotland's Railway, Network Rail is developing a programme of infrastructure improvement options to support the strategic priorities identified by Transport Scotland.

Through a pipeline of projects our railway will support Scotland's social, economic and environmental needs, realising the benefits of rail for communities and businesses across Scotland. As part of the Scottish Government's 'Programme for Government' a decarbonisation action plan is being developed by Transport Scotland for the domestic passenger network.

Case study | Putting Passengers First

During the redevelopment of Glasgow Queen Street station we worked closely with the Mobility Access Committee Scotland to create visual and auditory briefs and a short film that were fully accessible to people with visual and auditory impairments. These films were used to update stakeholders on the project and changes to the station, featuring both subtitles and a British Sign Language interpreter. This is now best practice in Scotland's Railway, and we are exploring further how we can provide improved support to better meet the needs of all our passengers.

Scotland's Railway continued



Further development work for electrification options has now commenced on a range of lines including the Borders, East Kilbride, Barrhead, Kilmarnock, Edinburgh Suburban, City Union and Maryhill lines.

Increasing capacity for passengers and freight
Scotland's Railway is putting freight at the forefront of Control Period 6 (CP6) having been set a challenging target to grow the sector by 7.5 per cent over the five-year period.

At Blackford, in Perthshire, we have been working with Highland Spring and Transport Scotland to create a freight facility with a direct connection to the Highland Main Line. The £19m investment in new signalling and track has the potential to help Highland Spring move 40 per cent of its products by rail, taking up to 8,000 lorries off our roads.

For passengers, detailed design work is underway for the Levenmouth line from Leven to the Fife Circle with new stations planned for Leven and Cameron Bridge.

Work on the Aberdeen to Central Belt lines will improve journey times, and the availability of freight paths, while capacity for freight in the Inverness-Dalcross corridor will also be considered as part of the Dalcross new station project.

We are also developing the Central Scotland gauging and route clearance programme, which supports the creation of a strategic freight network of high capability freight routes.

The region will also continue its focus on driving down infrastructure faults and improving the service we provide to passengers. However, to deliver our targets, we must continue to see improvements in asset reliability and our plans for CP6 reflect this. They have been structured to deliver increased resilience to weather events, reduce disruption and improve reliability. Our plans will also enable more autonomy in decision making, with teams encouraged to identify and deliver performance improvement schemes at a local level.

Case study | Efficiencies

Aberdeen to Inverness improvement project

A key consideration in the delivery of the Aberdeen – Inverness Improvement project was the possession strategy, which was designed to manage the impact as best as possible on passengers, the lineside communities and deliver the works in the most efficient way. A line closure solution informed through consultation was adopted and supported by all industry partners and stakeholders. This condensed the works into fewer but longer line closures including, a 15-week blockade in summer 2019, rather than having continual weekend possessions over the two-year lifetime of the project. This approach delivered a project efficiency of circa £5 million.

Southern

John Halsall,
managing director, Southern

16 July 2020

Kent

Network Rail High Speed

Sussex

Wessex

We're one of five regions and are here to serve passengers and freight users. Our region comprises Wessex, Sussex and Kent routes, as well as Network Rail High Speed. We're also responsible for managing the major stations of Waterloo, Clapham Junction, London Bridge, Victoria, Charing Cross, Cannon Street and Guildford.

The creation of the Southern region, as part of Network Rail's vision of 'Putting Passengers First', will bring about transformational change with real devolution of decision-making, resource and accountability. This change promotes better alignment to economic and political geographies and is a vital step to make sure investment meets the needs of our passengers and stakeholders.

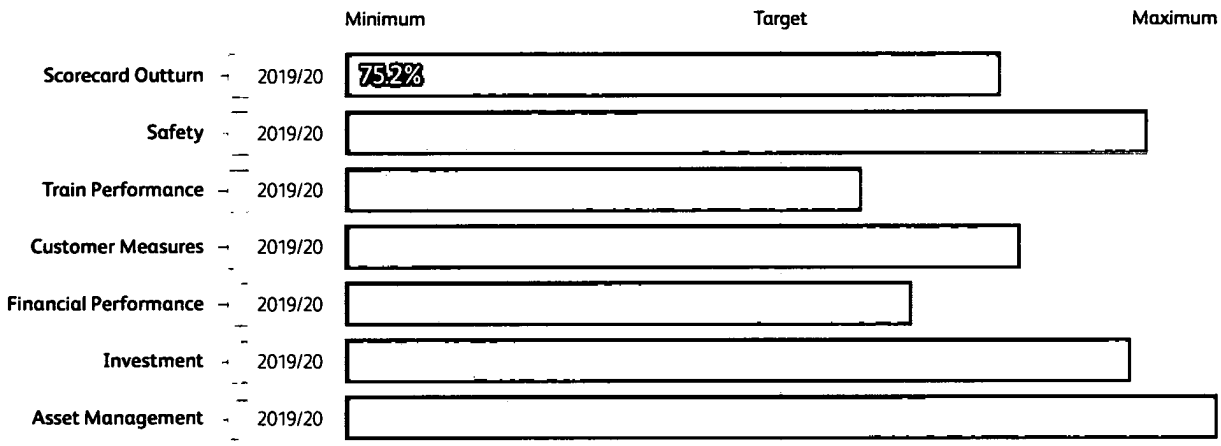
Train Performance

On Time performance for Govia Thameslink Railway (GTR) started very well with a record set at the start of the year. But performance dropped mid-year for several reasons. Firstly, we had the hottest day on record resulting in some blanket speed restrictions and heat-related overhead wire failures. This was closely followed by a power failure resulting in a number of stranded trains. Then a period of heavy rainfall caused several landslips across Sussex and three major storms caused significant disruption.

Overall, performance has improved and our on time performance metric climbed 1.8 per cent compared to last year. We have developed an improvement plan for 2020/21 focussed on improving resilience in key areas.

Key scorecard targets

Southern continued



Southeastern and Kent Route had a strong start to the year with a series of record-breaking months, putting the moving annual average (MAA) in its best position in six years. A successful autumn was followed by torrential rain and periods 10-12 were very challenging, causing the MAA to fall. Some recovery in period 13 led to a year end on time figure of 68.9 per cent (1.4 per cent better than target) and, as with GTR, we have a strategy focussing on key areas of delay to passenger journeys.

The whole year public performance measure (PPM) for South Western Railway (SWR) remained relatively consistent for the first six periods of the year, despite significantly high numbers of trespass and fatalities. The introduction of trespass and welfare officers have reduced the impact of external events to their best during the year. A few significant incidents, as well as the derailment at Eastleigh, severe flooding and exceptionally high winds, then reduced the MAA notably to end the year at 80.5 per cent. Both Network Rail Wessex and SWR have recently agreed to the Joint Performance Strategy to deliver significant performance improvement in future years.

Significant improvements

In Kent we've finished more than 50 infrastructure projects, such as removing minor rail defects, improving reliability to signalling equipment and points and increasing remote condition monitoring to help repair faults quicker.

We have renewed key junctions to improve reliability at Hither Green, New Cross Gate, North Kent East, Angerstein and Ashford. We have also upgraded multiple junctions.

In Sussex, we've completed a variety of infrastructure initiatives, including signalling improvements at key junctions to prevent track circuit failures, the renewal of signalling cables and fixing webcams to monitor signal aspects before faults happen.

During February 2020 half term, we closed the Bexleyheath line (pictured) for nine days to do major work to protect passengers from disruption caused by landslips, investing £6.6m to provide a safe, permanent solution after four landslips in the past decade.

Towards the end of 2019 we invested £67m on the Brighton Main Line as part of a £300m government-funded programme to boost infrastructure resilience on one of our busiest routes. It aims to reduce delays significantly, meaning more reliable journeys.

In Kent, train performance has been better, and we are delivering on most of our performance targets. Reducing the number of train cancellations on GTR services remains a focus and we will be working hard with our operators to do even better. We are also exploring how we can make the network more resilient, as extreme weather earlier this year really challenged our older embankments and cuttings, leading to line closures.

Southern continued

On Wessex route, a new Joint Performance Improvement Centre (JPIC) is focussing on the basics of running a railway, including how we can recover quickly when things go wrong, keeping passengers informed and making sure lessons are learned for the future.

Although underlying performance on Wessex route has improved, it is nowhere near good enough and we acknowledge that we have let passengers down. We have seen some significant failures that have had a particularly disruptive effect on the train service, plus an increase in trespass incidents and fatalities, as well as industrial action. We are working hard to address these issues.

Safety

Across Southern region, we've introduced police and welfare officers at hotspots to prevent people from trespassing or taking their own life. There are currently 140 welfare and trespass officers covering 48 stations with a further five mobile teams covering extra stations.

The officers have made nearly 100 interventions where individuals have been in distress. It's estimated that if 31 of the incidents had materialised, 65,000 minutes of delay would have been incurred, affecting 1,395 trains and over 1,045,000 passengers would have experienced delays or cancellations.

Case study | Putting Passengers First

We have been focussing hard on passengers' needs at our major stations. As gateways to the rail network, a passenger's experience at a station can significantly influence their overall journey satisfaction. We are focussing on getting the basics right, making sure stations are clean and tidy, that lifts and escalators work, and staff are readily available to help. Building on the benefits of giving all station staff the same uniform so they can help all passengers regardless of their enquiry, this 'One Team' approach has been adopted at London Bridge, Charing Cross and Cannon Street stations, with Waterloo, Clapham Junction and Guildford to follow. Satisfaction levels continues to rise as a result.

In response to passenger concerns, we have also developed the PIDD Plus programme (Passenger Information During Disruption) to improve the flow of information to passengers when things go wrong so that they feel informed and can make more informed decisions about their journey.

Southern continued

The year ahead (2020/21)

Although the picture is complicated by the impact of Coronavirus, we plan major infrastructure enhancements. These include a vital £150m upgrade to Gatwick Airport station to increase capacity, improve accessibility and transform the passenger experience. The plans include doubling the station concourse, adding five new lifts, eight escalators and widening two platforms.

We are also planning to invest in train depots and make our stations more accessible for those who find the railway difficult to use.

Passengers in Kent and South East London should benefit from more reliable journeys, as we invest £1.25bn to replace old equipment with new technology as part of the South East Upgrade.

This includes replacing 429km of track, investing £162m in new signalling and another £170m replacing switches and crossings.

Major projects include signalling renewals on the Greenwich and Blackheath lines as well as in Hither Green.

We're also planning to invest £3.9m at Crawley station to install a new footbridge and two new lifts, making access between the station entrance, ticket office and both platforms much easier for customers with reduced mobility.

During the Coronavirus crisis, we are focussing on two strategic objectives - keeping our people and their families safe, while continuing to run critical rail routes for passengers who need to travel and vital freight supplies to help fight the pandemic.

Network Rail staff in the Southern region and elsewhere are playing a critical role during this unprecedented challenge by working tirelessly to ensure vital supplies are distributed around the country and essential workers can get to and from their workplaces.

Each week we operate around 600 freight services across the country and our freight operators run longer, heavier and more freight services to strengthen the UK supply chain. Working with our partners, we continue to supply food to our supermarkets, vital fuel to power stations and remove household waste by rail.

We also carry on supplying sand, aggregate and building materials to many housebuilding and engineering projects, as well as our own rail projects.

Frontline specialists such as signallers and maintenance teams are critical as the railway cannot operate without them.

Many thanks are due to everyone playing a crucial role to keep freight trains moving and essential workers to support the UK economy during the pandemic.

Case study | Efficiencies

The Wessex route reduced speed restrictions significantly in 2019/20 and we are focussed on removing more to improve reliability for passengers. Through increased technology use and targeted maintenance, we have delivered benefits to passengers through fewer delays associated with speed restrictions and saved money by reducing the number of speed restrictions we need to remove. Removing a speed restriction can be costly as it often involves specialist plant and machinery, as well as access to the railway which is disruptive to both our passenger and freight users.

Wales & Western

Mark Langman,
managing director, Wales & Western

16 July 2020

Wales & Borders

Western

In 2019, as part of the Putting Passengers First programme we established Wales and Western, bringing together Wales & Borders route, Western route and Wales and Western Infrastructure Projects. Our aim is to deliver a safe, reliable and punctual railway for the passengers, communities and businesses we serve across Wales, the Thames Valley and the West. The new accountabilities and decision-making levers we can now use will help us be more responsive and agile to the needs of our train operators, stakeholders, lineside neighbours and passengers.

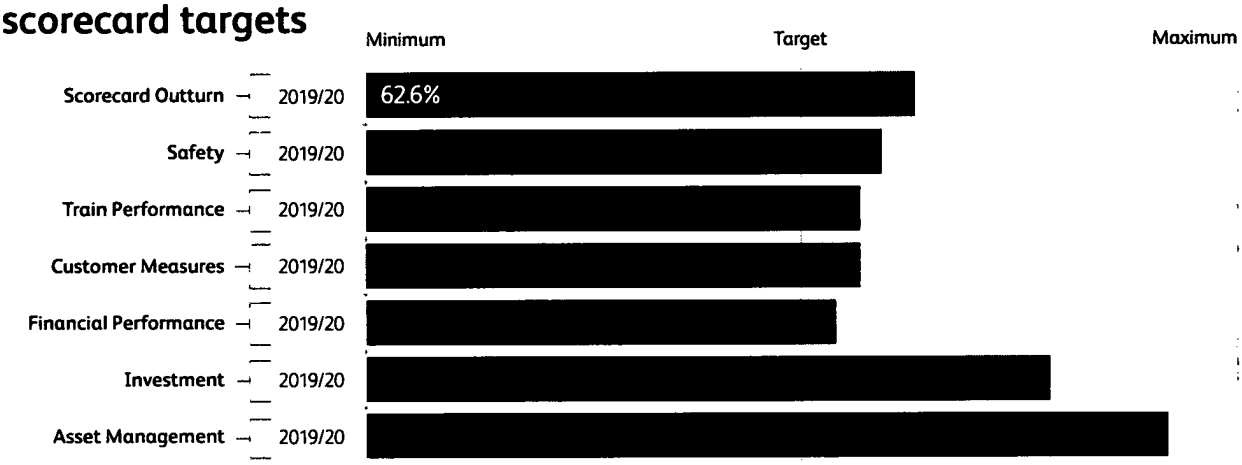
With more than 5,200 colleagues we are a significant employer across Wales and Western. We will continue to increase our diversity, create apprentice and graduate opportunities and build relationships with our local communities, universities and university technical colleges.

Communities across the Wales and Borders route rely on the railway network to connect people to places, driving economic growth. Almost 50 per cent more passenger journeys are made to, from and within Wales & Borders than a decade ago. The inter-urban and commuter routes transport passengers to and from the key economic centres, including Swansea and Newport. Rural routes connect low population areas, especially in mid-Wales. The Wales route is also vital for moving freight, with around 15 per cent of rail freight across the UK, starting, ending or crossing the network, carrying steel and petrochemicals in South Wales and container traffic between Wales, the Midlands and major ports.

Wales & Western continued

The Western route stretches from London across the Thames Valley to Oxford, Worcestershire, the Cotswolds, the West and South West, serving some of Britain's most important towns and cities. For many people, their first experience of the UK is the rail line linking Heathrow, Europe's busiest airport, to Western route's busiest and most iconic station, London Paddington, which we own and operate along with Reading and Bristol Temple Meads stations. The Western route also supports automotive industries in Swindon and Oxford, aggregate suppliers in the Mendips and the petroleum industry in Westerleigh and Theale. On top of this we work with Bristol Port to deliver 10 per cent of the UK's coal, 25 per cent of the UK's aviation fuel, and 600,000 motor vehicles annually.

Key scorecard targets



Train Performance

The introduction of a new, enhanced timetable in December 2019 realised the benefits of 10 years of investment to modernise and electrify the Great Western Main Line from Paddington to Cardiff, Newbury and Chippenham. In January 2020, this culminated in the completion of electrification to Cardiff, enabling electric trains to operate in South Wales for the first time.

Improved infrastructure, electric trains and better signalling enabled us to timetable more trains on the Wales and Western network and allows Great Western Railway (GWR) to offer new high-speed peak services for customers in South Wales, the South West and from Bristol to London. In the December 2019 timetable change, Transport for Wales (TfW) also introduced new weekend services to meet increasing demand. For passengers, this means reduced journey times, an increased number of seats and better connections to the communities we serve.

Train performance in Wales has been weaker than in previous years; this is reflected in the figures for TfW's 'Average Passenger Lateness and Cancellations', which both miss target. This performance reduction has been caused by a combination of factors including ageing fleet, fleet availability reduction due to accessibility train modifications, fleet replacement delays and significant weather incidents. The introduction of TfW's new fleet beginning in 2020 has helped us see further improvements to train performance, as the new train fleet has helped to reduce cancellations and alleviate crowding problems. A joint Network Rail and TfW taskforce to support performance through the autumn period this year was successful with a significant year on year reduced impact to passengers.

Freight

One of the biggest freight flows in the UK is the movement of stone from quarries near Shepton Mallet to London and the South East for building and construction, this sector remains buoyant and has seen the reactivation of quarries in anticipation of higher demands for aggregate from the construction of HS2. In other sectors, deliveries into Heathrow Airport continue to grow, with British Airways now receiving all their fuel by rail. Freight performance has generally been strong throughout the year across the region, however the key performance freight delivery metric has been significantly affected by the three storms during February.

Finance & efficiencies

Income for the region has been strong in the year mainly due to good Network Rail asset reliability. This has allowed additional investment in longer term performance

Wales & Western continued

improving programmes of work including vegetation and tree management. A number of key efficiencies were delivered during the year. For operating expenditure these included improved contracts leading to reduced costs, enhanced business processes and a continued risk-based maintenance approach to track patrolling.

Safety

The year saw areas of improvement in safety, health and environmental performance in Wales and Western. However, in July 2019, we were deeply saddened by the loss of Gareth Delbridge and Michael 'Spike' Lewis at Margam in South Wales. Since then we have been working across Wales and Western, and with national colleagues in the Track Worker Safety Task Force, to prevent incidents like this from reoccurring. We will constantly seek ways to reduce the risk of fatalities and workforce injuries alongside making our railway safer for passengers and local communities. The safety of passengers remains core to the service we deliver and the work to improve passenger safety and reduce train accident risk continues. In the year the region saw a reduction in infrastructure and signalling wrong side failures, broken rails and serious bridge strikes.

Core Valley Lines transfer

We're supporting TfW's £5bn plan to transform rail services, with increased capacity, new rolling stock and improvements to stations across the network in Wales & Borders. This included the transfer of the Core Valley Lines infrastructure to TfW on 28 March 2020. The Core Valley Lines are now owned by TfW and the infrastructure maintained by Amey Keolis Infrastructure.

Case study | Putting Passengers First

Wales and Western manages three stations and has improved facilities for passengers at London Paddington, Reading and Bristol Temple Meads over the past year. All three stations have also seen improvements in results on the National Rail Passenger Survey. Bristol Temple Meads saw a 12 percentage point improvement in overall satisfaction, Paddington increased by four per cent (driven by 25 per cent increase from toilet facility improvements) and Reading improved by one per cent overall.

We have begun to make journeys simpler for those passengers with accessibility needs; we have changed the way car parking has been organised at Paddington, allowing disabled passengers to park with increased ease, as well as developing a 'one team' approach with operators, recruiting over 20 additional mobility assistance staff. We have also further increased the flexibility for passengers with accessibility needs by removing the requirement to pre-book assistance at London Paddington.

Wales & Western continued

Network Rail and TfW are producing joint customer scorecards to ensure that performance issues are addressed and aim to continue to work together to improve the passenger experience.

In the year ahead (2020/21)

The next year will see some vital infrastructure projects begin to progress, this includes:

- Renewal of the Grade II listed Barmouth Viaduct connecting passengers to North West Wales;
- Reduced delays into and out of London Paddington through £50m of investment in new signalling equipment;
- The delivery of the South West Rail Resilience Programme, including phase 1 of a new sea wall in Dawlish, to maintain the vital rail link between Devon, Cornwall and the rest of the UK;
- New pumps at Sudbrook pumping station to keep passengers moving through the Severn Tunnel;
- Bi-directional signalling at Bristol Parkway to enable new, faster services; and,
- West Wales re-signalling scheme to improve reliability of services west of Swansea.

The region experienced a very limited impact to the 2019/20 outturn due to the Coronavirus outbreak, however we do expect a much bigger impact in the 2020/21 year both financially and in outputs. In this constantly evolving situation we will continue to do whatever is needed to keep our passengers, colleagues and the public safe. That includes playing a critical role in transporting vital goods, and making sure those who need to travel can get to their jobs.

Case study | Efficiencies

While delivering asset renewals, the Wales & Borders route exploited the closure of the Conwy Valley line due to flooding to efficiently deliver track, drainage and structures improvements. This proved the effectiveness of better access planning and utilisation during blockade activity, rather than prolonged possessions, leading to reduced unit rates for renewals work delivering approximately £5.4m of efficiency.

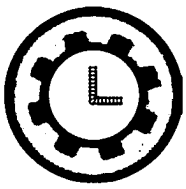
Network Services

Nick King,
group director, Network Services

16 July 2020

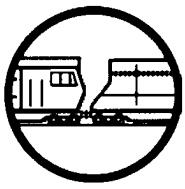
Network Services exists to support the regions, routes and functions. It was created as a direct response to the Putting Passengers First programme (PPF) in June 2019. We provide network operational, freight, telecoms and technical expertise as well as the co-ordination of national programmes and initiatives that help the regions to deliver for passengers and freight users.

The team aims to deliver operational, performance and customer service excellence both now and for the future, putting passengers and freight users first.

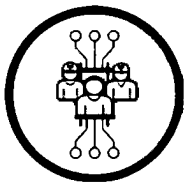


Network Strategy & Operations

National Passenger and Customer Experience

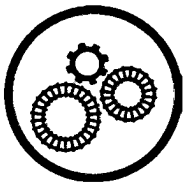


Freight



Operational Programme Delivery

Telecoms



Technical Services

Freight and National Passenger Operators (FNPO)

FNPO now sits under the Network Services umbrella. The FNPO organisational structure focuses and links with our diverse range of customers and stakeholders as well as Network Rail's regions and routes and the System Operator. We have a central role to support and promote our customers' interests.

The FNPO scorecard outturn for 2019/20 was 54.33 per cent which, given the weather-related challenges across three periods, was a robust result, but one that we must improve.

Highlights:
- During the first year of Control Period 6 (CP6), FNPO has sought to lengthen existing services where possible as well as develop and facilitate new services to enable growth. We have also worked with the sector to increase speed, capability and understand better our customers' business priorities.
- FNPO has been working very closely with Caledonian Sleeper (Serco) and GB Railfreight to introduce the new rolling stock and to support the performance targets that Serco must deliver each and every night.
- A lot of progress has been made with the charter sector to develop strategic paths and look at joint initiatives to improve the longevity of the sector.
- FNPO has engaged with and held a successful freight end-user safety forum with the sector promoting the sharing of safety information and key messages.

Network Rail Telecom

Network Rail Telecom's (NRT) CP6 delivery plan focuses on providing the railway industry with telecoms capability, infrastructure and services, which enable the safe, secure and efficient operation of the railway.

The team supports Network Rail's strategic plans such as the roll-out of European Train Control Systems schemes and development of intelligent infrastructure, as well as delivering an always connected digital railway for customers, passengers and lineside neighbours.

Highlights:
- Delivered telecoms elements for over 24 re-signalling schemes across the country
- Completed the GSM-R V4.0 upgrade operational trial and commenced roll-out of the national deployment across 9,000+ driving cabs
- Launched the only rail 5G trials and testbed facility in Europe at the Rail Innovation and Development Centre in Melton Mowbray
- Completed the TransPennine fibre deployment supporting rail and rural connectivity.

Over the next year, NRT will continue its transition away from being predominantly focussed on asset management to become a service driven team with passengers and freight users at the heart of its activities. The team will also continue to develop its stakeholder engagement activities.

Digital Railway Programme

The Digital Railway Programme (DRP) is now part of the Operational Programme Delivery team.

In the last year the long-term deployment plan (LTDP) was published, setting out a long-term vision for the transition to European Train Control System (ETCS). The key decision requested by the LTDP was that the Department for Transport (DfT) funds the rolling stock fitment with in-cab ETCS equipment to enable signalling renewals from Control Period 7. It was agreed with funders that rolling stock should be fitted in tranches.

Accordingly, the first three schemes in CP7 have been selected with the regions and routes. The DfT has made rolling stock decisions on the basis of the schemes, starting with the ETCS fitment of the West Coast Partnership train fleet to support Warrington and Wigan renewal.

ETCS deployment schemes in CP6 are largely enhancement funded. The East Coast Digital Programme has recently completed its outline business case and funding for the next stage of development of the infrastructure and the fitment of all trains needed for the scheme has been committed.

Highlights:
- Handed over the East Coast Digital Programme to Eastern so that the region and its contracted partners can complete the deployment of ETCS and traffic management systems as planned
- Completed a trial of the Luminate traffic management system with Western for the route to decide its next steps.

In 2020 the Rail Innovation and Development Centre (RIDC) at Melton Mowbray will be made ready for testing of ETCS first in class rolling stock, a critical enabler for delivery of the East Coast Digital Programme.

The year ahead for Network Services

- Guide and lead the industry through the Train Service Delivery initiative
- Deliver phase 3 of the Putting Passengers First programme, optimising Network Services and delivering a new customer experience model
- Define and deliver a new target operating model based on Network Services' principles, core accountabilities and region and route interface requirements
- Design and introduce a system of management that provides the necessary levels of governance, risk management, assurance and improvement.

Route Services

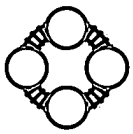
Susan Cooklin,
managing director, Route Services

16 July 2020

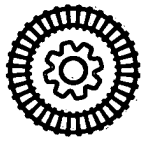
Route Services is a customer focussed business that meets the needs of our route, region and national customers by supplying a diverse range of services.

In 2019, 1,400 colleagues joined Route Services from other parts of Network Rail. Today we are comprised of nearly 5,000 people, spending £1.5bn per annum delivering or investing in our 60 services. We support and facilitate the indirect spend of a further circa £5bn per annum across the wider business through our Commercial & Procurement team. Route Services is committed to spending this money wisely, delivering best value to our customers and passengers.

Route Services consists of six primary functions:

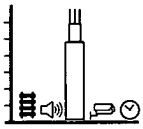


Supply Chain Operations (SCO) delivers the logistics, materials, components as well as rail and road fleet that enable the maintenance and renewal of the railway.



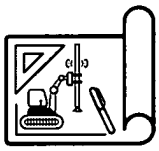
Business Services manages the support services needed to keep Network Rail working effectively, including finance and HR shared services, training and national records management.

Commercial & Procurement strategically sources and manages contracts of scale to optimise value for money across the network.



Asset Information Services collects, analyses and shares data and intelligence about Network Rail's infrastructure assets.

Information Technology (IT) shapes, builds and runs the IT services needed to support the railway.



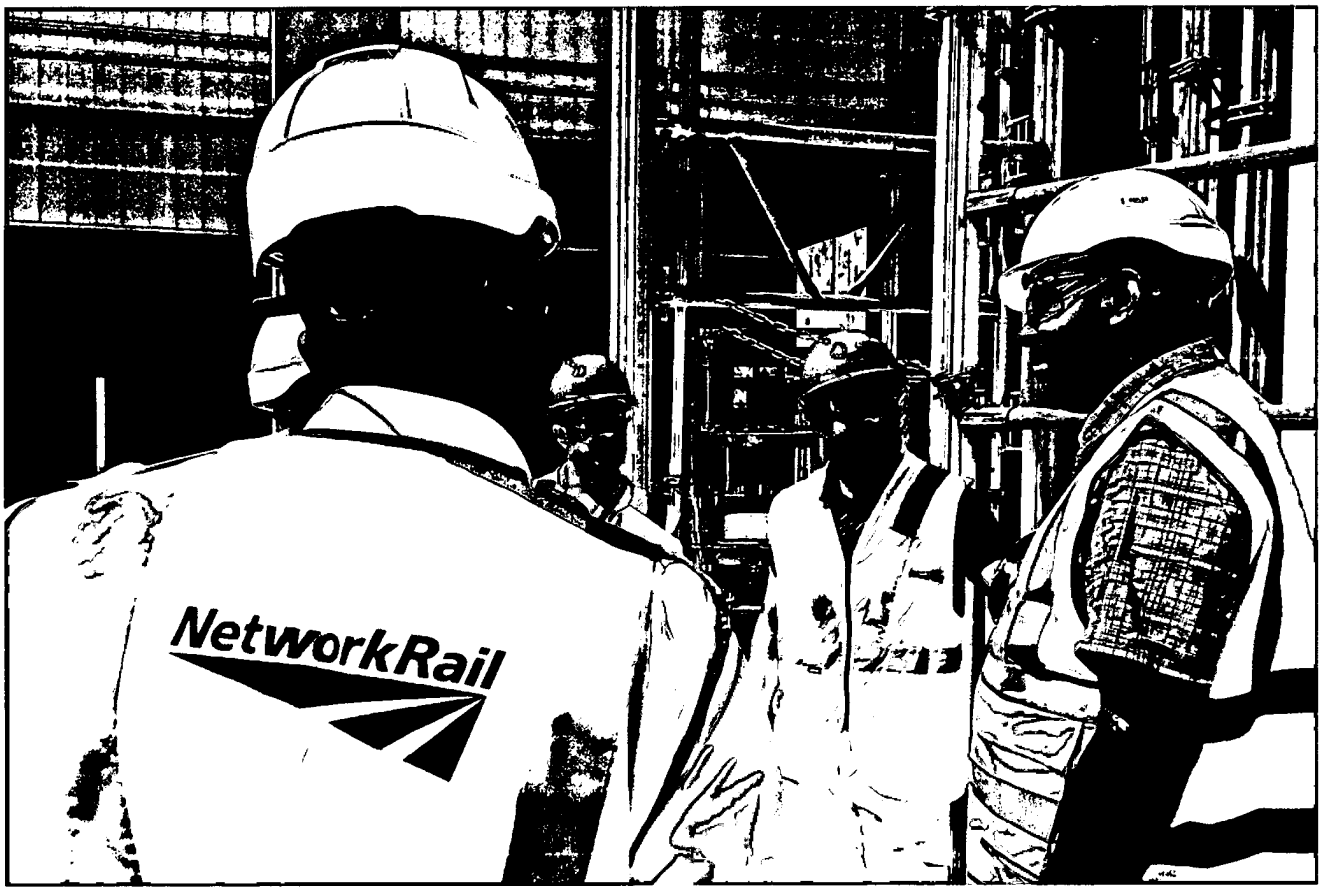
Engineering Services has been created to lead Route Services' safety strategy and provide efficient and effective delivery of multidisciplinary design and engineering services.

Route Services had a good year in 2019/20 with an overall scorecard outturn of 54 per cent (target 50 per cent). In achieving our safety target (lost time injuries), we have continued our journey to improve safety, although we recognise there is more to achieve. Our safety strategy for 2020/21 will focus on maturing our safety culture to aim for an accident free workforce, improving safe systems of work and increasing positive mental health.

In 2019/20 we also exceeded our efficiency target, delivering £44.9m of financial savings to the business. Through our desire to attract and retain the best talent we have increased the proportion of our workforce that is female to 32.4 per cent, and 18.5 per cent of our colleagues have formal flexible working arrangements in place. We are continuing our strong focus on diversity into 2020/21.

Route Services continued

Half of our scorecard for 2019/20 was dedicated to services we deliver for our customers and passengers. In this area, our performance has been inconsistent. Positively, we met or exceeded the target for three of six designated customers, but for two customers in particular (Southern and North West & Central regions), performance fell below expectations and this is recognised as an important area of focus for 2020/21.



Other achievements include:

- Engagement with our small and medium-sized enterprise community and responding to their insights by publishing an action plan making it easier for them to do business with us.
- Establishing eight category strategies covering £4.8bn of Network Rail's Control Period 6 (CP6) third party spend and enabling a range of benefits including safety and sustainability.
- Completing procurement for Network Rail's major signalling framework contracts worth up to £3.6bn which will improve asset reliability, reduce service delays and increase network capacity.
- Managing the disappointment of not gaining planning permission for a new concrete sleeper facility at Bescot by working innovatively with the supply chain to find and deliver alternative solutions.
- Delivering seven new regional distribution centres to provide materials faster and more efficiently for our route customers, creating a safer, more reliable railway.
- The deployment of new Windows 10 IT hardware commenced, delivering 6,586 new devices to colleagues. The rollout of enhanced IT capability was also accelerated to improve how we work remotely in support of Coronavirus business continuity plans.
- Completing the robotics automation proof of concept in Shared Services to identify opportunities to improve service provision for our customers.
- Delivering the training modernisation programme to meet region customer requirements and significantly pull forward financial benefits.

Having now brought together experts in a broad range of specialisms, we have a robust plan to transform our business to meet the changing needs of our customers through CP6 and beyond, whilst delivering the value for money services that our customers demand.

System Operator

Planning and delivering capacity for passengers and freight users is at the heart of everything System Operator (SO) does. Our activities span the entire railway lifecycle - from the current timetable through to railway requirements in 30 years' time.

In 2019/20 we have strengthened our ability to develop long term network strategy, and integrated changes to the network from major projects such as High Speed 2 (HS2) and East West Rail. We have also devolved some accountabilities for planning to the regions as part of Putting Passengers First.

Safety

We're developing strategic network planning as a profession. To do that, we have introduced a standard operating procedure - embedding safety into strategic planning at the earliest opportunity.

We have also improved our timetable planning process by introducing a measure to identify and target errors where there are conflicts between engineering work and timetabled trains.

Delivering an improved timetable service

The May 2019 timetable was delivered on time and attracted little media coverage. The December 2019 timetable was also delivered on time and included the largest change to Western region train services in a generation.

This was all underpinned by Industry Timetable Programme Management Office (PMO) assurance reviews. They provided increased confidence in the readiness of infrastructure, crew, stock and overall operational capabilities ahead of each timetable change date.

Strategic planning

We have worked with stakeholders across the network to produce a number of strategic studies, setting out how rail can drive and support economic growth.

Rail development programmes

This year we have made good progress with three of the most pressing cases for investment in London. The strategic outline business cases for upgrading Lewisham and Peckham Rye stations and the outline business case for Denmark Hill have all been completed and submitted to the Department for Transport (DfT). All three stations currently suffer from significant overcrowding.

We have continued work on strategic plans for West Sussex and Solent to help funders for local and regional services make the best decisions for services in South East England.

We have undertaken development activity with Transport for the North, completing the design reviews for Northern Powerhouse Rail.

Working with HS2 Ltd and the DfT we have refreshed our integration plans for the delivery of Phase 1 and 2a of HS2.

This takes into account the recommendations emerging from the Government's independent review of HS2 led by Douglas Oakervee. We are working closely with North West & Central to identify opportunities to align their long-term plans with the direction of travel for HS2.

We're also pleased that the integration approach that we developed and co-ordinated was recommended to the Infrastructure Projects Authority by DfT as good practice.

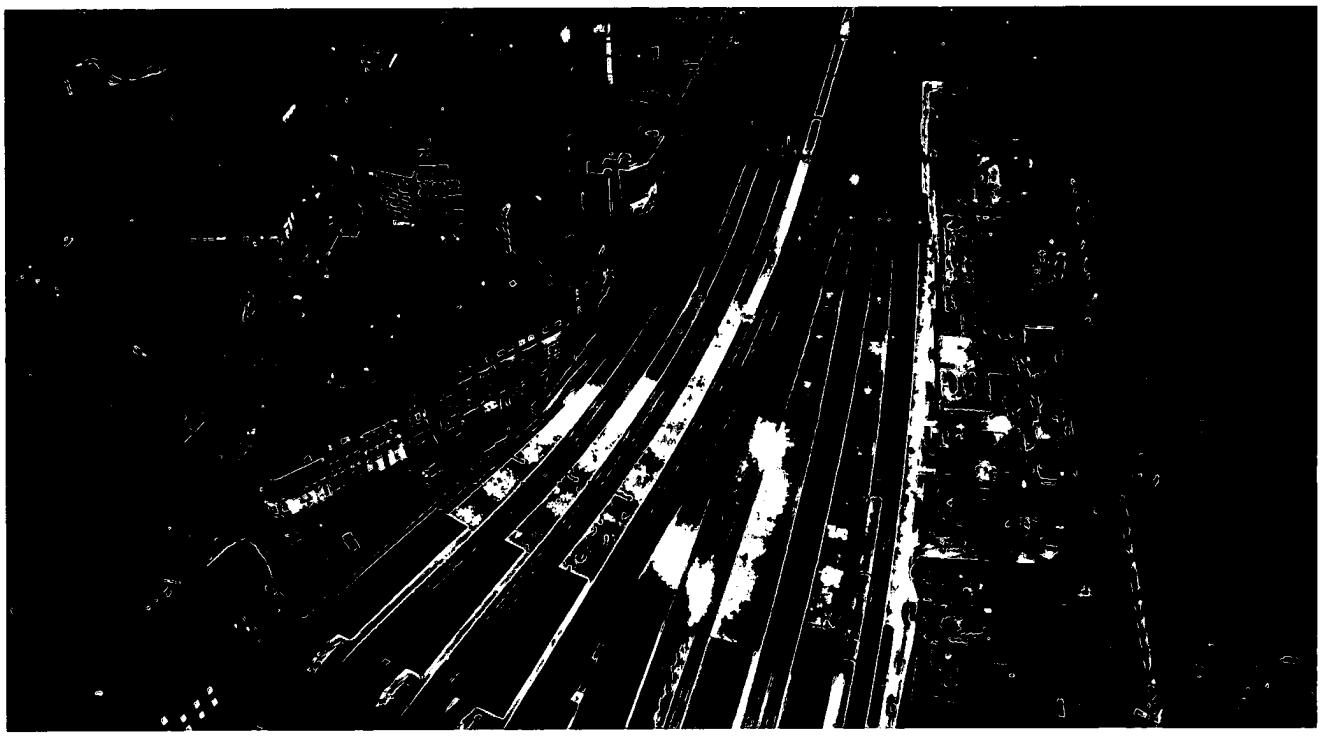
Train service specification and procurement

We are working with DfT to advise on the future approach to the Chiltern and Thameslink, Southern and Great Northern (TSGN) franchises and supporting the regions in their leading franchising role. We are jointly running a programme with DfT to improve and integrate train service specifications in future procurements. This includes a focus on how this delivers benefits and optimised services for passengers and freight across the network while assuring high-performing delivery.

Looking ahead

Over the next year we are focussed on:

- Working with Government, DfT and the wider rail industry on the implementation of the upcoming Williams Review recommendations.
- Developing a whole industry strategic plan to provide a long-term strategy for the industry and advise funders on choices and options for the railway over the next 30 years.
- Taking forward the recommendations of the Oakervee Review and collaboratively developing a coherent strategy for the development of the rail network. This will include the integration of key mega-programmes into the national mainline rail network, such as HS2, Northern Powerhouse Rail and East West Rail.
- Working with industry to improve the framework for capacity allocation, including changes to the sale of access rights process and the network code.
- Continuing to strengthen our capabilities and processes, and working with regions to support their increased accountabilities.
- Leading on Network Rail's traction decarbonisation network strategy (TDNS) in collaboration with regional teams, Safety, Technical and Engineering (STE) and other industry bodies – assessing which recommended technologies can help achieve traction decarbonisation, and assessing the case for deployment in Great Britain.



Property

£254m

Income from Network Rail Property

£227m

Value of our investment property portfolio

£30m

Commercial property income (excluding retail)

87%

Occupancy rates at our business space estate (some properties held vacant for development purposes)

638,145sqft

Rental space at our managed stations - up from 636,206 last year

3.89%

Network Rail managed stations like-for-like retail sales growth (April – December 2019) pre Coronavirus

4.57%

Network Rail managed stations retail total sales growth (April – December 2019) pre Coronavirus

We are experts in helping the railway grow and improve for passengers and creating great places for communities and businesses to thrive. Our work helps deliver regeneration, housing and economic growth by developing railway-owned land and property assets to help fund and improve the railway, reducing the burden on the taxpayer, and providing great spaces for our passengers.

In Control Period 6 our plan is to deliver a "sustainable income model" of investment and growth for our commercial assets, be more ambitious in terms of major developments and increase our support to regions and major projects.

Supporting the regions to deliver

As the company drives towards deeper devolution, our newly formed regional property teams will enable us to work even closer with our route colleagues, to better serve our passengers and improve the communities we work within.

By embedding property expertise in the region, we are able to develop route-based land strategies that optimise the use of operational land, generate capital receipts to reinvest in the railway, release land for new homes, and improve conditions and access for our frontline staff. We will also have the opportunity to work more closely with the directors of business development to access funding for railway infrastructure.

Putting passengers at the heart of everything we do

We continue to help create world-class environments for passengers, customers and communities, by working together with teams across Network Rail.

This year we launched the digital station programme, which will see free, fast, reliable WiFi delivered across Britain's biggest and busiest stations. We're working closely with each region to determine their individual requirements, to drive the best possible service for passengers and station users.

In planning and land services, our property experts have been fundamental in helping the business progress projects such as the new, taller and improved, Dawlish sea wall as

Property continued

part of the south west coastal resilience programme. The project will significantly strengthen the coastal protection and reduce overtopping of the sea, helping to prevent future storm damage and minimise disruption to the operational railway.

Developing sites through partnerships and delivering land for housing

Over the last year, we have delivered £58.3m in development income (£13m over target) and land for 4,200 homes. Since the scheme began five years ago, we have delivered land for 9,276 homes, surpassing our initial estimate of 9,000.

Through our joint ventures, Solum and Blocwork, we continue to deliver mixed-use regeneration including much needed new homes close to transport hubs.

In January, we opened a brand-new station in Twickenham, delivering more space for passengers, step free access to platforms, 250 cycle spaces, a larger revamped ticket office and an enhanced queuing system for match days. The scheme, which is partly decked over the railway, will also provide over 100 new homes and six new retail units when it's completed next year.

In Nottingham, we received consent for a 337 unit build to rent scheme at Queens Road, which has been pre-funded by Grainger Trust.

We also completed a number of notable development sales, including a Waitrose store at Haywards Heath station and the sale of a development site in Old Jamaica Road.

Providing great places for passengers and communities

Across retail, we opened 23 new retail units, introduced five new brands to our estate and hosted a number of pop-ups with brands including Not on the High Street and Rituals, further enhancing managed station environments for passengers. Between April and December 2019 our like-for-like sales increased by 3.89 per cent despite challenging conditions in the wider retail environment. However, as many of our retail units closed in March 2020 during the Coronavirus pandemic, our final annualised average ended at -0.57 per cent.

Our station advertising contract with JCDecaux also generated £34.5m, putting brands in front of millions of people every day.

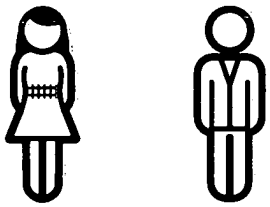
Following the sale of over 5,000 arches to The Arch Co. in February 2019, our commercial estate has been going through a period of transformation. The remaining estate is comprised of nearly 2,000 properties - covering office, industrial, residential and rural use - which were kept back for future development. The commercial estate team is now working closely with sales and development to maximise income from these assets in the interim, with pop-ups such as Red Bank in Manchester, Bishopgate Goodsyard close to Shoreditch High Street and Vinegar Yard at London Bridge.

Supporting our partners

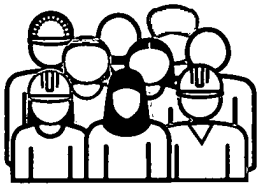
More recently, we have put in place measures to support our retail and SME commercial estate tenants during the Coronavirus pandemic to maintain facilities for passengers and help protect the safe operation of the railway. For the first quarter (25th March – 23rd June 2020) rent payments due from retail tenants were based on a share of sales made by the retailers (no minimum guaranteed rents were charged) and SME tenants across the commercial estate portfolio were given full relief from rent for that quarter. By supporting retailers during these unprecedented times, we help retain a great retail offer in our stations ahead of footfall returning.

Focussing on our people

42,206
employees



18.4% **81.6%**



9.02% black, Asian and minority ethnic
72.7% white
16.73% unknown
1.54% prefer not to share

1.77% disabled
49.09% non-disabled
48.31% not known
0.82% prefer not to say

Of those who shared their data
5.54%
indicated that they were LGBT+

7.95% over 60
1.69% over 65

Putting passengers first is at the heart of our people strategy, which also embodies our values of empowerment, safety, care and teamwork.

Empowered to **ACT**

Always safe

Care about people

Teamwork is key

By focussing on our people, alleviating the things that burden them and prevent them from delivering their best; ensuring that their work adds value; providing an environment that recognises diversity and, through inclusion, will nurture and develop them; then we will be on the side of passengers.

On the side of passengers

Improving services for our front-line colleagues

This year we commenced activity in support of our people strategy. This focussed on the adoption of a systems thinking approach to look at issues that were impacting our front-line people in their delivery for passengers and freight users. Systems thinking is a holistic approach to analysing how systems work, how their parts interrelate and takes account of system complexity.

Working with regional colleagues, our HR systems thinking teams identified areas of "pain" – hassles and barriers, albeit well intended, that were preventing our front-line people from delivering the best outcomes for our passengers.

The pain points were prioritised, and systems thinking interventions commenced on two key areas: employee relations service and the volume recruiting of signallers.

Re-designed systems of work in both these areas have been trialled with pilot regions, and have shown a significant improvement in the services provided to our front-line colleagues. The redesigned service is now being rolled-out across our regions and functions.

The interventions are being undertaken by multi-functional teams comprising colleagues from across functions and regions, including those directly affected at the front line and those who supply the services. Industrial relations specialists and representatives from the trade unions work within the teams in the spirit of collaboration.

Together, we are designing work that relieves hassles and barriers, and creates efficient and effective operating systems. This allows us to be on the side of passengers, delivering a better railway, and easy to do business with.

Improving the wellbeing and welfare of our people

We reached our 2019/20 target, having trained 10 per cent of line managers as part of our mental wellbeing line manager training programme. Next year we aim for a total of 40 per cent of line managers to be trained.

Our self-referral physiotherapy service went live, and we have seen a significant increase in utilisation of services from 0.65 per cent to around four per cent. There has been a corresponding periodic reduction in absence due to musculoskeletal issues across the business.

We have opened a dedicated unit in Milton Keynes, providing wellbeing and occupational health services onsite. Occupational health services are also being provided at sites in York, Bedford, Newcastle, Derby and Doncaster, with plans to open other regionally-based units during 2020.

The welfare of our people whilst trackside has been at the forefront of innovation during 2019. Collaboration between Network Rail, the Track Safety Alliance and supply chain partners, Selectequip, has seen the development of a new welfare facility to address trackside access to hygienic and inclusive toilet facilities within two minutes of worksites – as well as providing essential life-saving equipment.

Delivering a better railway

Becoming more diverse and inclusive

Having a diverse workforce helps us to better understand and meet the different needs of the huge variety of passengers who travel by rail every day. We now have nearly 2,000 colleagues who act as diversity and inclusion champions located throughout our organisation, actively promoting initiatives and helping to drive our diversity and inclusion strategy.

The female population in Network Rail now stands at 18.4 per cent, an increase from the previous year's figure of 17.3 per cent. We continue to address the gender diversity of our workforce. This year we launched a menopause project and guidance, a returners' programme and female mentoring programme.

Our 2019 gender pay gap increased slightly to 11.6 per cent from 11.2 per cent from the previous year. This is still below the national average of 17.9 per cent, however the fluctuation was expected, as reported in last year's report.

In 2019, we took part in a project commissioned by the Royal Academy of Engineering for Women in Science and Engineering to examine the gender pay gap specifically in engineering roles and we were cited for our approach.

We have produced our first ethnicity pay gap report. Our ethnicity pay gap is 8.7 per cent, which is above the national average of 3.8 per cent. We have created the Race Matters programme with a steering group to specifically address black, Asian and minority ethnic under-representation in our organisation. The programme will include a series of initiatives that over time should help to reduce our pay gap. We believe having a workforce that is representative of the passengers and freight users we serve, will help us better understand their needs as well as fostering new and innovative ways of working.

Network Rail participates in the Department for Work and Pensions (DWP) business leaders' group to improve access to employment for disabled people. Being a disability confident leader means that we guarantee interviews to disabled applicants who meet the essential criteria.

In 2019 we celebrated International Day of Disabled Persons by lighting up some of our stations and offices in purple. We also recognised World Aids Day by lighting our Milton Keynes building in red.

Developing talent for the future

We view all our people as a source of talent and will seek to build our capability from within. To that end, during 2019 we revamped our accelerated leaders programme to ensure that talent across Network Rail was recognised and developed, with the consequence of launching two new targeted talent pool programmes: the emerging leaders programme (ELP) and leadership exploration and development (LEaD). The first cohort have begun on each of the two programmes. Developing our talent pipeline, particularly for senior roles should also reduce our gender pay gap in the long-term.

We are represented on the Routes into Rail board, which acts as the strategic steering and co-ordination board for sector promotion and attraction, and recruitment and retention activities as part of the rail sector skills delivery plan, including addressing potential funding required for activities. The board also outlines the varied career opportunities that are available for school leavers and graduates.

Focussing on our people continued

We are also part of an industry steering group on early engagement, where we collaborate on campaigns such as "engineering - take a closer look" and rail week; in addition to being part of the business and industry steering group led by engineering UK, encouraging industry collaboration.

Our STEM education programme focuses on increasing the number of young people entering STEM jobs. Projects and campaigns within the programme aim to increase the diversity of the future workforce and enable social mobility. In 2019 the events we attended as exhibitors reached over 107,000 people, and 44 per cent of those were female.

In February 2020 we opened the "STEMLAB", a dedicated space in our Milton Keynes office. It is being used to improve engagement with local communities, universities and schools, and to train colleagues on sharing their knowledge and enthusiasm for STEM subjects as part of our STEM ambassador programme.

We are leading the development of a whole-sector connected leaders programme to build a cadre of leaders for the industry who can think through and drive systemic improvement across the railway. Alongside demonstrating the commitment of organisations from across the rail industry to a system-wide approach to customer-centred change, the new community of leaders will be able to synthesise, generate and share thought leadership, based on the issues that matter most.

Apprentices & graduates

In 2019/20 we invested £7.6m of our apprenticeship levy into training apprentices across 44 different apprenticeship standards, and separately invested a further £3.4m in training our rail engineering technician apprentices. £3.5m of the apprenticeship levy directly funded skills in engineering professions, while a further £1.5m funded training in rail operations.

790 apprenticeships have been started on 40 different Network Rail programmes. We have introduced 11 new apprenticeships, including: Passenger Transport Operations Manager, Customer Service practitioner, Rail and Rail Systems Senior Engineer, and Rail and Rail Systems Principal Engineer.

Apprenticeship starts were comprised of 22 per cent women (with more than 12 per cent of new entrant starts being women, an increase of two per cent from 2018/19) and 30 per cent BAME, which was consistent across new entrants and upskilling (providing existing colleagues with development and qualification opportunities).

Since 2016 1,690 engineering and 811 non-engineering apprenticeships have been taken up. The investment in developing our employees over the apprenticeship programmes totals more than £45m. 145 apprentices successfully passed their End Point Assessments and were retained by the business during 2019/20; and of apprentices who completed their schemes before 2019, 92 per cent were still retained in the company in 2019/20.

Our flagship Level 3 Rail Engineering apprenticeship continued to bring high numbers of technician talent into the industry, with over 300 starting in 2019/20. The scheme continues to be held in high regard – it was voted a top 50 scheme by apprentices at the RateMyApprenticeship.com awards, is accredited by the Institute of Engineering and Technology, and was shortlisted for the 2020 Women in Rail awards best apprenticeship scheme.

We recruited 238 graduate and placement opportunities across 15 different schemes in 2019. This is an increase of 48 places, with a gender diversity of 32 per cent. We have also increased our ranking in the Times top 100 graduate employers by nine places to 72, whilst winning the graduate employer of choice for transport and logistics for a third year in a row.

Engaging our people

Each year Network Rail runs a series of business briefings, aimed at updating internal colleagues on what's happening across the business, and providing opportunities for staff to raise questions directly to senior management. Business briefings are held around the country to allow as many employees as possible to attend. Material from those briefings is made available on the company's intranet for those who cannot attend. Our intranet is updated daily with news from around the business, as well as information on the major industry and political events that impact Network Rail, and weekly round-up emails are circulated to the whole business. Our monthly internal magazine, Network, is also available to read in hard copy or via our intranet.

More than 24,000 colleagues completed the 2019 employee engagement survey – up five per cent from 2017. The survey was made even more accessible, when Route Services undertook a tour of fleet and engineering depots and worksites so that frontline colleagues were given the opportunity to complete the survey over nine locations, covering both day and night shifts.

Colleague engagement has increased to 57 per cent (up by four per cent) with many demonstrating they have made a connection with Putting Passengers First. Work on our organisational values has landed well with our people, with 77 per cent understanding them, and nearly two thirds feeling empowered. The focus on a safe culture at Network Rail has continued and 83 per cent of employees trusting that their manager will act on a safety issue if identified.

We recognise that there are areas for improvement, though, and work is continuing through 2020 in this regard, with pulse surveys planned to re-measure engagement.

Being responsible

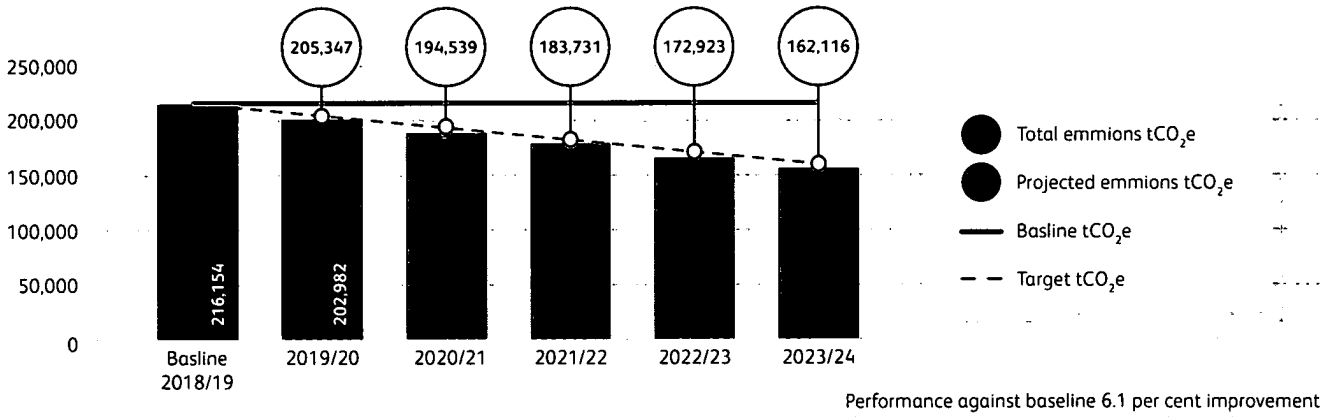
This year we have done significantly more to reduce Network Rail's impact on the environment and support sustainability across the railway. This includes the decarbonisation and sustainable land use programmes, and developing a new environmental sustainability strategy which will set out our ambitions and targets for Network Rail up to 2050.

Low emission railway

Network Rail's carbon reduction performance continues to improve. We have a challenging target of 25 per cent reduction in CO_2e was set for Control Period 6 (CP6), and the year one target of reducing emissions by five per cent has been exceeded, achieving a six per cent reduction. Improvements in data are enhancing our understanding, and a rebaselining activity has been carried out.

This year saw the start of a long-term decarbonisation programme that aims to develop and push forward plans for integration of renewable energy generation, energy storage and other carbon reduction initiatives such as moving Network Rail's road vehicle fleet to ultra-low emission vehicles by 2035. At the same time, we have adopted 'science-based' targets for reduction of our scopes one and two (our own operations) carbon emissions, and will be developing scope three targets, setting out our pathway to net zero emissions by 2050 at the latest. This work will mean Network Rail can support delivery of a net-zero transport system as part of the Government's forthcoming Transport Decarbonisation Plan, minimising our carbon emissions and maximising offsetting opportunities presented by our large estate. These targets are supported by a strategy and programme of works which are being progressed through the decarbonisation programme.

Network Rail actual and forecast scope 1 and 2 CO_2e emissions for CP6



Performance against baseline 6.1 per cent improvement
Performance against target 1.1 per cent better than target

Our reporting against the new Streamlined Energy and Carbon Reporting (SECR) requirements are set out on page 57.

Air quality

Diesel trains and dust emissions on our network contribute to a risk of poor air quality for railway users, workers and neighbours. The risk of poor air quality is elevated in our more enclosed stations and depots primarily due to the presence of diesel trains. To date we carried out air quality monitoring in nine of the covered stations that we manage to identify poor air quality. Where poor air quality has been identified, action plans have been put in place locally to tackle the problem. For example, at Birmingham New Street, an enhanced ventilation system was installed to remove exhaust gasses from diesel trains. In Scotland, the ScotRail Alliance has introduced policies to reduce Diesel Engine Exhaust Emissions and idling times for High Speed Trains. Network Rail will be carrying out further monitoring

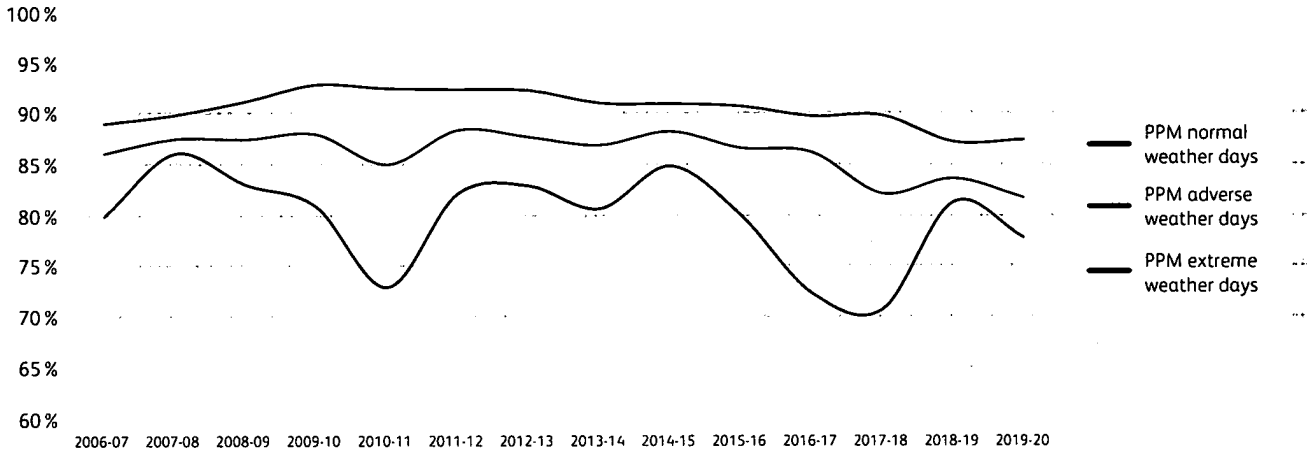
Being responsible continued

at its managed stations and depots to further assess air quality levels. A guidance note and standard will be produced for managing air quality and a plan to ensure all our managed stations undertake air quality monitoring.

Weather and climate change

The hottest recorded day in the UK in July 2019 brought widespread disruption to the railway as did the significant flooding across the country in the autumn and winter. The dry summer combined with the wet winter resulted in multiple landslips which have caused major disruption, particularly in Southern region. The graph below provides an overview of annual variations in Public Performance Measure due to impacts from weather events since 2006.

Public Performance Measure 2006-2020



Network Rail is developing a framework for integrating management of climate change within business as usual activities. Key achievements this year included: publication of company-wide guidance defining the climate change scenarios to be used in business planning; work with the chief engineer's asset teams to assess climate change risk and develop action plans; support to routes on CP6 weather and climate change plans; collaboration with operational weather management teams on the seasonal challenge steering group and industry weather resilience review. Work has started to develop sustainability and climate change adaptation planning assumptions for Control Period 7.

The weather and climate change enterprise risk register has been raised to an industry-wide level zero risk in recognition of the significant impact weather has on performance and passengers.

This year has seen the creation of the industry wide climate change adaptation working group involving train operating companies, government and regulators; support to the national infrastructure commission 'resilience study' and the committee on climate change national 'third climate change risk assessment' as well as regular engagement with transport and other infrastructure operators on climate change adaptation.

Biodiversity

Following John Varley's independent report to the DfT on Network Rail's management of lineside vegetation, Network Rail has initiated the sustainable land use programme that aims to improve the way we manage our lineside habitats by delivering no-net biodiversity loss by 2024 and biodiversity net gain by 2035.

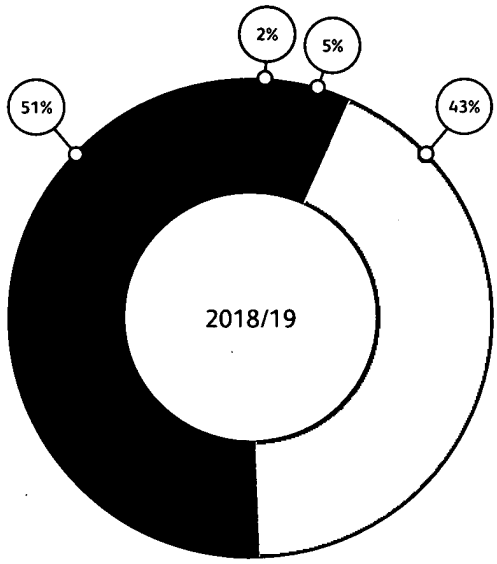
Progress over the last year includes the development of an ambitious vision supported by a biodiversity action plan which together set out our approach to managing our estate. Once implemented, our estate will support high-quality and biodiverse habitats which support the safe and efficient operation of the railway. We have developed a new methodology for baselining our biodiversity – this will use remotely-sensed data to create a network-wide map of our habitats augmented by ground-based truthing surveys and publicly available data. A demonstrator project has been set up in Kent route to trial different vegetation management and habitat creation techniques, the learning from which will be rolled out company wide. Demonstrator projects for all other regions are currently being scoped and will be set up in the next year so that each region can learn to manage vegetation for biodiversity locally.

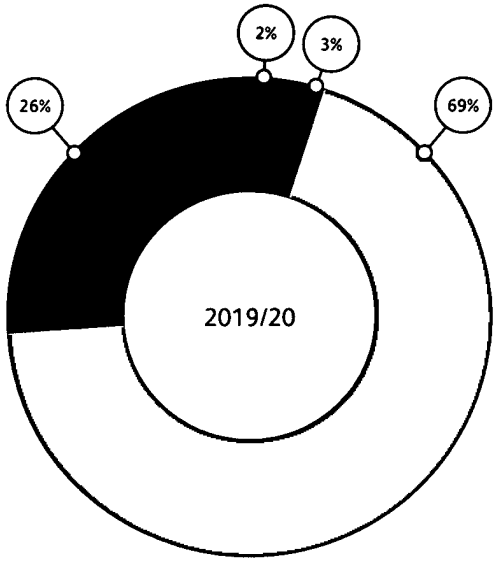
Changes have been made to our vegetation management standards and our asset management system to make it easier to manage our vegetation as an asset. Work has begun on a railway sustainability design guide – this will provide Network Rail and the wider industry with guidance on the range of options that can be used to improve sustainability on our estate. Network Rail's Board received training from the Cambridge Institute of Sustainability Leadership to raise awareness of global sustainability issues and to make the case for business change. This training will be rolled out across the business and augmented with more practical training, and additional resource to embed good biodiversity management at ground level. Research and development proposals are being prepared to understand how to measure sequestered carbon and the carbon-balance implications of our vegetation management practices.

Minimise waste

Network Rail has improved its waste management performance (see charts below) in 2019/20 with a decrease in the overall volume of waste generated by 29 per cent compared to 2018/19. We have increased our recycling percentage by 26 per cent, disposal to landfill has remained stable at two per cent and recovery (energy from waste) has decreased from five per cent (2018/2019) to three per cent (2019/2020).

We have achieved 98 per cent diversion from landfill for non-hazardous waste, which is three per cent higher than our target of 95 per cent. Network Rail has excelled in our 65 per cent target for non-hazardous waste re-used or recycled with an end-of-year achievement of 95 per cent, demonstrating our successful application of the waste hierarchy to maximise opportunities to reduce, reuse and recycle our waste.





Disposed Recovered Recycled Reused

Environmental Sustainability Advisory Committee

In October 2019, Network Rail's environmental sustainability advisory committee was established, recognising that Network Rail has a unique opportunity to put environmental sustainability at the heart of the organisation's strategy and to provide leadership to the wider sector.

The committee's purpose is to identify, facilitate discussions and advise on environmental sustainability initiatives and programmes within Network Rail. The committee is instrumental in developing and endorsing an overarching environmental sustainability strategy and ambitious vision, so we can meet the needs and expectations of our staff,

Being responsible continued

stakeholders, our passengers and freight users, and ensure we are keeping pace with wider environmental issues and addressing these appropriately.

The committee's membership consists of Network Rail Board members and is attended by various other subject matter experts (both internal and external) and the Network Rail senior leadership team.

In 2019/20, the committee met twice – in December 2019 and February 2020. These were deep dive meetings focussing on decarbonisation, air quality in our stations, and station and property initiatives. In 2020/21, the committee will discuss: biodiversity and sustainable land use, opportunities to transform our road fleet to become greener and how we will engage our supply chain in environmental sustainability practices. Each of our regions will also present their own individual strategies to the committee.

An overarching environmental sustainability vision and strategy until 2050 is being developed, which will empower the regions and routes to develop their own action plans. The strategy will be completed in 2020/21 and endorsed by the committee.

As part of our external engagement activities, a listening exercise was begun, seeking the views and insights from relevant organisations and specialists. This exercise is still underway and the feedback received will be used to help shape the overall strategy.

Streamlined Energy & Carbon Reporting 2019/20

Description	Amounts	Units
Energy consumption used to calculate emissions		
Total Electricity used	501,251,328	kWh
Total Gas used	64,523,301	kWh
Total Fuel for company fleet	249,433,982	kWh

Emissions breakdown				Conversion Factor (kgCO2e)
Scope 1	Emissions from combustion of gas	11,900.0	tCO2e	0.18443 natural gas
Scope 1	Emissions from combustion of fuel transport purposes	61,395.0	tCO2e	2.20904 unleaded 2.59411 diesel 1.52260 LPG
Scope 2	Emissions from purchased electricity	128,119.8	tCO2e	0.25560 UK Grid mix
	Total Gross CO2e based on the above	**201,414.8**	**tCO2e**	

Intensity Metrics		Intensity Ratio
Number of Employees	40,925	4.922 tCO2e / employee
Passenger kilometres (billions km)	66.75	3.018 gCO2e / passenger km

Methodology

We have used the EMA SECR tool which follows the GHG Reporting Protocol, populated with invoiced consumption and metered data.

Principal Energy Efficiency Measures (PEEMs)

During 2019/20 we have concentrated our efforts on collating relevant data and establishing our SECR baseline. We have devolved responsibility for utilities management to our Regional businesses to allow much closer control on a local level and in doing so we recognise that our Regional teams require the right tools and support to be able to manage their utilities use effectively. We have, therefore, sourced an appropriate reporting tool supported by correct methodology to enable our Regions to report their PEEMS in future years and to understand their impact on carbon performance.

We have commenced a major programme of work designed to accelerate carbon reduction across Network Rail. Consisting of 13 workstreams, the Decarbonisation Programme will progress activities such as metering, utilities process improvement, enhancing energy management capability, energy efficiency measures, renewable energy generation & storage, transitioning Network Rail's road fleet to electric / Ultra-Low emission vehicles and low carbon design. We will report progress on these initiatives in future reports.

We have also adopted Science Based Targets for our Scope 1 & 2 emissions and are developing our Scope 3 targets, to set our trajectory to net zero by 2050. We expect to publish our Science Based Targets in Summer 2020, following approval of the Scope 3 strategy.

Social performance

Through our social performance agenda we want to deliver value to communities and neighbours, to passengers, the economy, and our people.

For the 5 year funding period, our charitable strategy takes the theme of homelessness. Network Rail is partnering with a number of charities under a banner of 'Routes out of Homelessness' and we aim to engage our workforce and lead the industry on how we support and engage in the agenda.

Network Rail is committed to doing business in a responsible way, which includes a commitment to do all that we reasonably can to prevent all forms of modern slavery and human trafficking in any part of our business and our supply chains. The steps taken to prevent modern slavery and human trafficking are described in our modern slavery and human trafficking statement, which can be found on Network Rail's website: **www.networkrail.co.uk**. Network Rail does not tolerate any form of bribery in its business; our Anti-Bribery policy is also available to view on the website.

Working with small and medium-sized enterprises (SMEs)

This year we published our plan for how we work with SMEs. We have created champions in each region to help make

Being responsible continued

our processes more inclusive and accessible: from this year we will have at least 10 per cent of our buying decisions based on social and environmental value.

We paused the 2019/20 indirect SME spend data collection exercise due to Coronavirus. This data will now be gathered over June/July 2020 for publication to Department for Transport (DfT) in August 2020.

An early indication based on direct spend data only, is that we contracted with 4,245 suppliers in the 2019/20 financial year, of which 3,113 (73 per cent) were SMEs.

Charitable giving and volunteering

Network Rail offers up to five days volunteer leave for every employee to support charities and community projects. Most (83 per cent) of our volunteers choose to support a charity, the rest for community safety, early engagement activities or community rail volunteering. Ten per cent of our staff used one or more of their volunteer leave days.

57,913 hours

4,363 colleagues

In 2019/20, £1,020,518.84 was raised through 817 bucket collections at our managed stations, averaging £1,249 per collection. During this period, around 4,000 of our employees registered on the Payroll Giving scheme raising a total of £585,904.28.

Suicide prevention

283 suicides or suspected suicides took place on Great Britain's rail network during 2019/20 an increase of 4.4 per cent against the 271 recorded in 2018/19. The industry continues to commit resources to reduce the likelihood of suicides and to support its 'neighbours' in their attempts to do so as well. The industry's suicide prevention programme is held up as an exemplar by many bodies including the UK Government.

Whilst physical mitigation measures to prevent suicide exist at many locations, at the heart of the industry's approach to prevention is the training of its people (now in excess of 20,000) to make interventions (which totalled more than 2,000 this year), to support those in emotional crisis, and the promotion of its Small Talk Saves Lives campaign – which now reaches television and cinema audiences as well as those on social media.

In its attempt to understand why people take their lives on the railway the industry has and continues to invest in ground-breaking anthropological, academic and pracademic research. The outputs are shared widely with other agencies to support their work.

The British Transport Police and Samaritans continue to support the industry in this area whilst new partners will join the programme in 2020/21 to complement and augment their activities.

Community safety and level crossings

Keeping communities safe

Our community safety campaigns to reduce trespass on the railway across Great Britain intensified again this year through the Trespass Improvement Programme. Working with industry partners, the You Vs Train campaign targeted hotspots through powerful partnerships with StreetGames, the English Football League Trust and LearnLive. Together with local engineering solutions like platform-end barriers, we successfully shifted the trespass patterns at many hotspots, enabling activity to move on to other critical locations. In schools, our award-winning partnership with LearnLive has now reached over five million youngsters, over half the school-age population. Changing societal attitudes requires a long-term approach, reaching all age groups. We continued to promote family conversations about safely using the railway using the innovative 'Stay Safe with Thomas' publications featuring Thomas the Tank Engine.

Level crossings

Level crossings remain one of the greatest risks to public and passenger safety on the rail network. In December 2019 we launched Enhancing Level Crossing Safety 2019-2029, our long-term strategy for improving level crossing safety. In 2019/20, working with local communities and private landowners, we closed a further 77 level crossings as the most effective way to improve safety. This takes the total number of closures since 2009 to 1,253. We further improved safety through level crossing upgrades and wider deployment of technology to provide an active warning to users. We have developed a series of toolkits to support community education – helping people understand the risks and how they should safely use crossings. Continuing to install more red light safety equipment, we enabled more effective enforcement, re-training and holding to account those who flout road traffic legislation. We developed proposals for the next generation of mobile enforcement vehicles too. We continued to work with ORR and DfT to improve signs for footpath, bridleway and user-worked level crossings, but progress is not as swift as we would like, delaying response to several RAIB recommendations. New signage for user worked crossings has been agreed with all parties. However Parliament has not yet debated the changes required to the Private Crossings (Signs and Barriers) Regulations 1996.

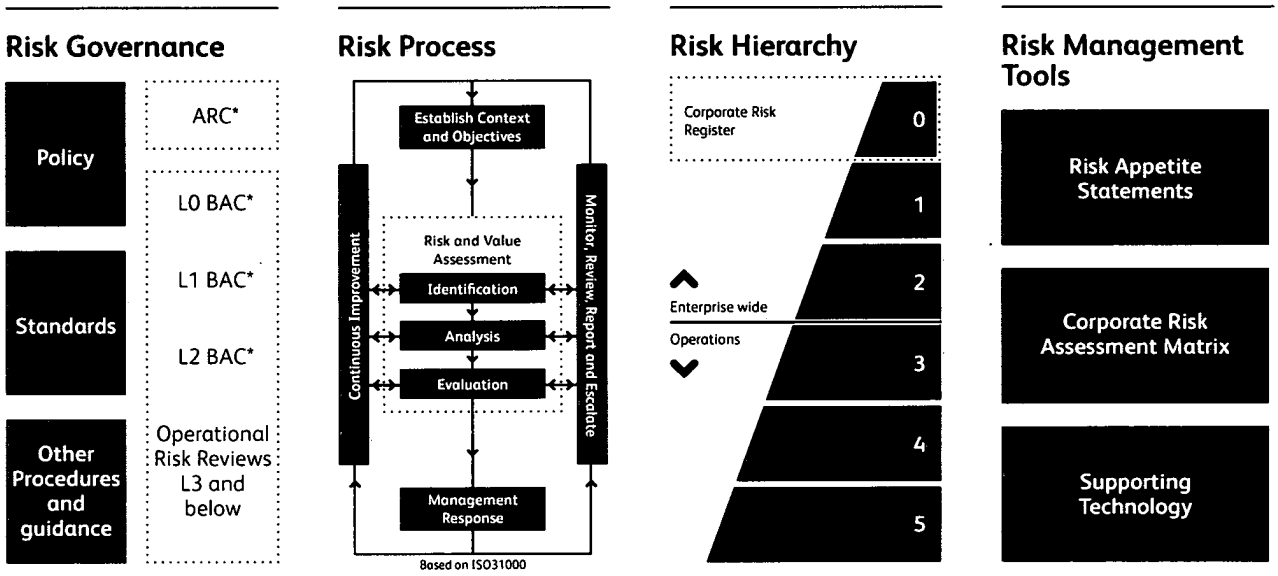
Our approach to risk management

Network Rail recognises that the effective management of risk is critical to maintaining essential service provision and improving the experiences of passengers and freight users. Our approach to risk management therefore balances the threats associated with our operational environment with identifying opportunities to improve performance through careful acceptance of some risk.

The operational railway is continuously susceptible to changing environmental conditions. The success of the railways in the UK, measured by the growth in passenger numbers, and the continued drive for efficiency mean that we must be both flexible and innovative in our risk mitigation strategies. Our enterprise approach to risk management provides the opportunity to review, monitor and enhance mitigations depending on the changing conditions and challenges.

Embedded risk management processes

*ARC - Audit & Risk Committee *BAC - Business Assurance Committee



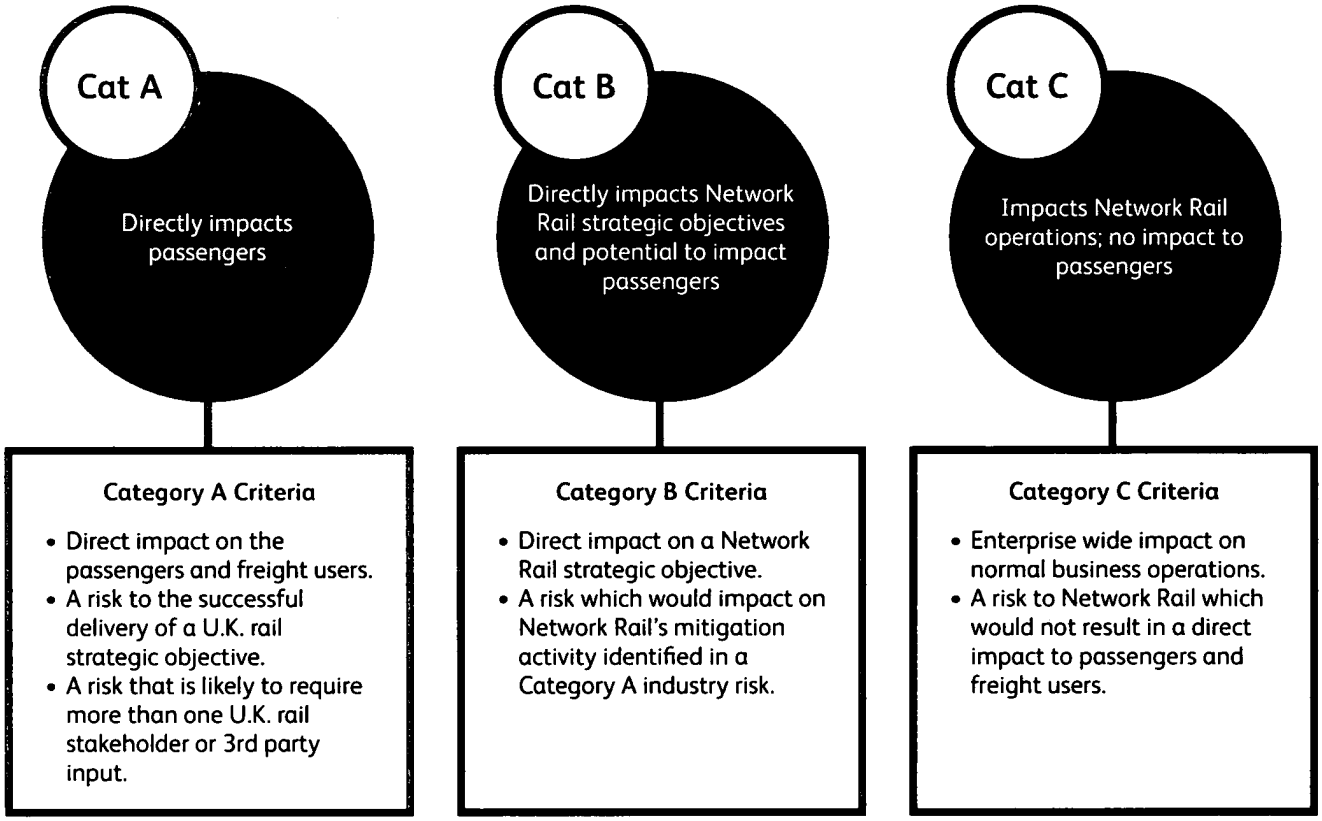
Risk Management Culture

Risk Capabilities and Training

We have an enterprise risk management (ERM) framework in place for the identification, analysis, management and reporting of all risks to strategic objectives. Our ERM framework supports all areas of the business to recognise both threats and opportunities early. Early recognition of risk allows us to work collaboratively and proactively with customers, stakeholders and suppliers to manage our extensive portfolio of work better.

Risk management continued

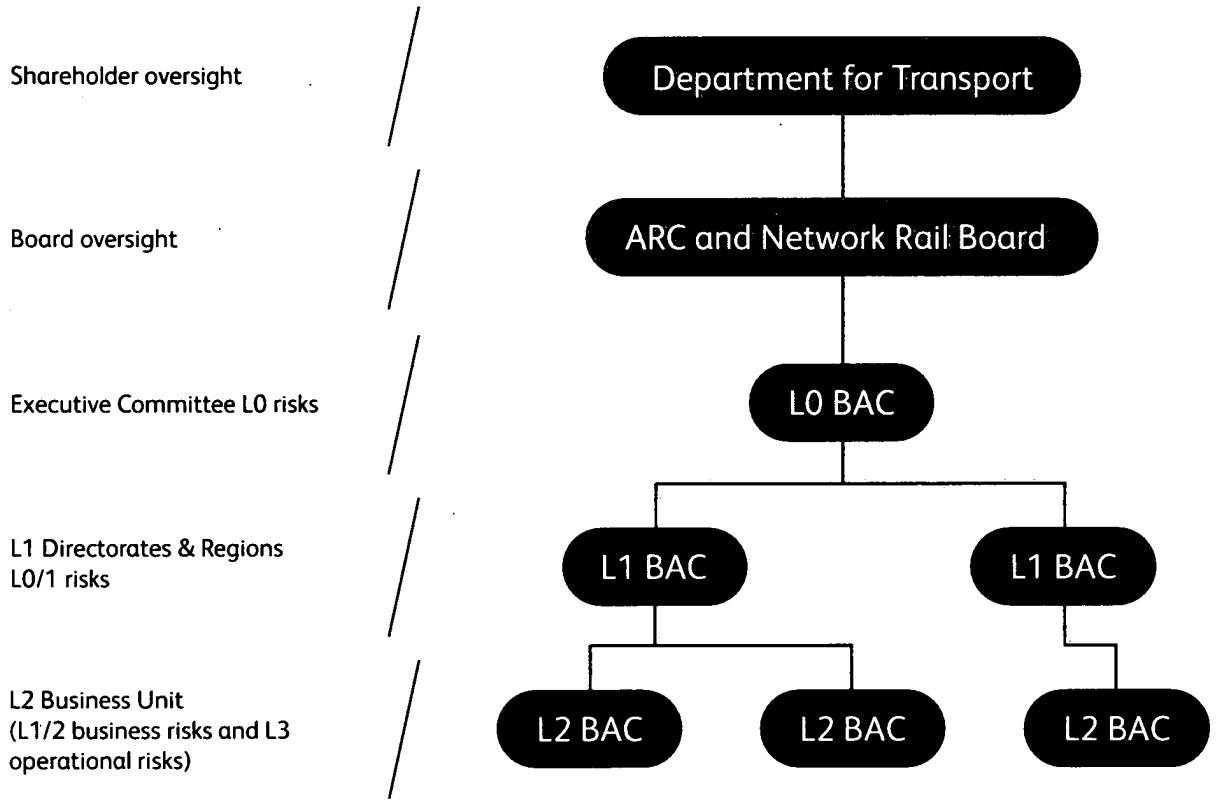
Industry risk
Collaborative risk management means we are better able to understand and manage the interdependencies, threats and opportunities that we face collectively as an industry. This year we introduced risk categories to identify when a strategic risk could impact on passengers, the wider industry, or third parties.



Tools & technology
Network Rail uses a suite of standardised tools to ensure consistency across our enterprise wide approach. A standard risk assessment matrix and defined risk appetite enables integration of operational and strategic risks. Line of sight and links between risks are documented and visualised through our award-winning risk visualisation approach.

Oversight
Whilst the ultimate responsibility for risk management rests with the Board, it delegates the more detailed oversight of risk management and internal control principally to the audit and risk committee, which reports the findings of its reviews to the Board. The audit and risk committee receives regular reports from the internal and independent auditors and reviews progress against agreed action plans to manage identified risks. Detailed oversight of safety-related risks is delegated to the safety, health and environment committee.

This level of oversight is underpinned by the business assurance committee process (BAC), which operates at three levels in the organisation; the purpose of these forums being to act as a mechanism for leadership teams to govern the management of risk within their function, as well as escalating risks that cannot be managed locally or have wider impact. Each risk is assigned an owner, with the most significant risks (L0 risks) each owned by a member of the executive leadership team.



Network Rail has defined its risk appetite as follows:
Network Rail has no appetite for safety, health or environmental risk exposure that could result in serious injury or loss of life to public, passengers and workforce or irreversible environmental damage. Safety, health and environment drives all major decisions in the organisation. Network Rail will consider options to reduce risk where the business case goes considerably beyond our legal obligation to reduce risk so far as is reasonably practicable.

In the pursuit of its objectives, Network Rail is willing to accept, in some circumstances, risks that have high potential for positive return but may result in some financial loss or exposure including a small chance of breach of funding provision as set out in the business plan. It will not pursue additional income generating or cost saving initiatives unless returns are probable (85 per cent confidence interval (CI) for income and 60 per cent CI for cost reductions where potential returns are high).

Where trade-offs are required in order to prioritise service provision the company will tolerate low to moderate gross exposure to delivery of operational performance targets including network reliability, capacity, asset condition, breakdown in information systems or information integrity. Climate change will lead to a more difficult operating environment, but this will be responded to within plans leading to acceptable levels of impact on overall delivery and asset reliability.

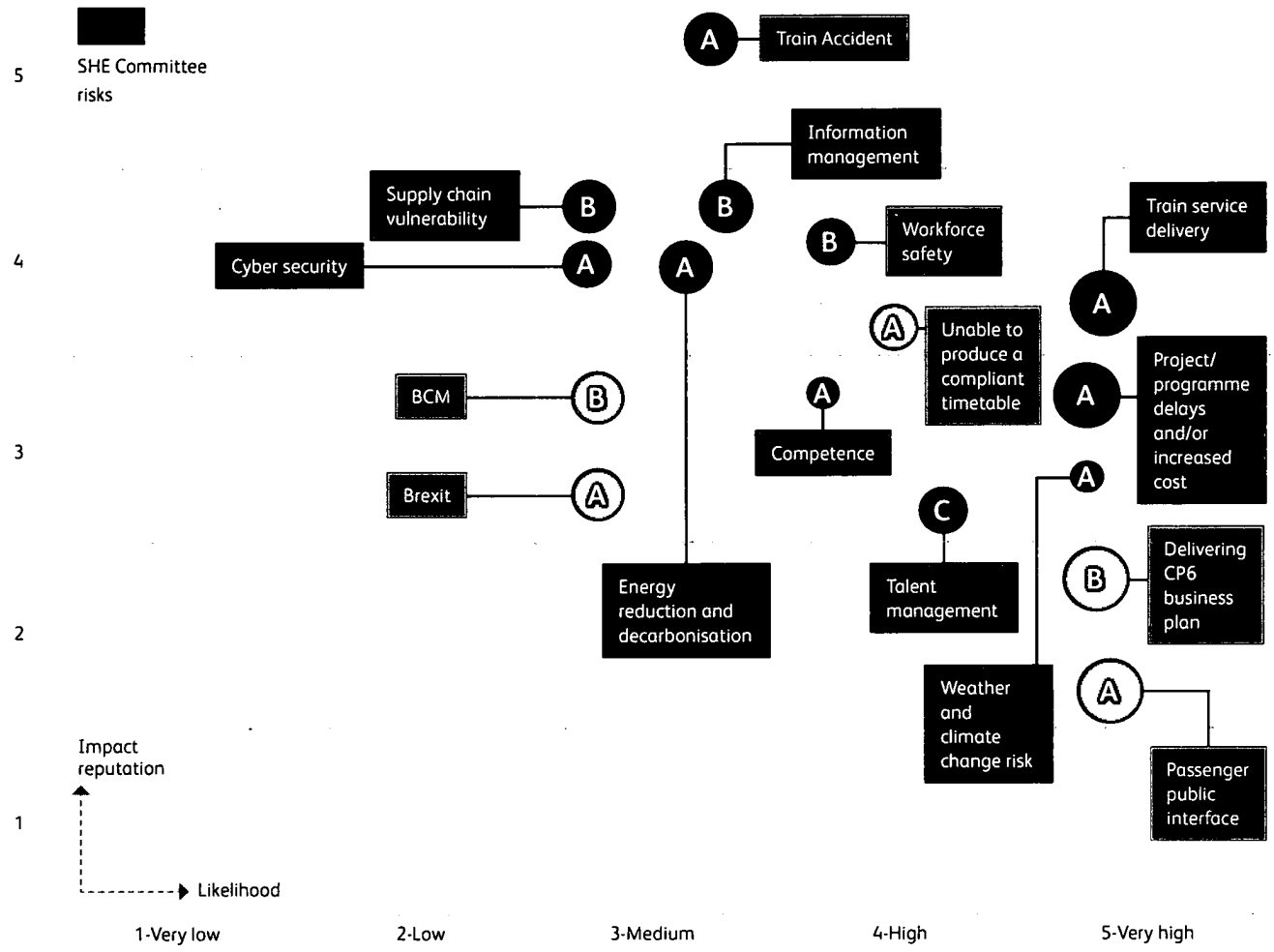
The company wants to be seen to be best in class and respected across the industry. It will only tolerate low to moderate exposure that may result in short term negative impact on reputation and stakeholder relationships and is easily recoverable, i.e. minimal negative local or industry media coverage, and/or minor employee experience and political impact. This should be balanced by regular positive media coverage at national and local level.

Risk management continued

Risk themes (i.e., safety, performance, people, environment and value)

All principal risks are mapped to strategic objectives. The risk movements described below for 2019 preceded the pandemic response in the UK and will be subject to revision in 2020 in light of emerging understanding of the impact.

Corporate threat profile movements



Control opinion

Good
Fair
Unsatisfactory
Unacceptable

Financial Value

>£250m
£50-£250m
£10-£50m
£2-£10m
£0-£2m

Industry risk category

A Category A
B Category B
C Category C

Risk theme
Safety

Britain's railway is one of the safest in Europe, however we are not complacent. Network Rail continues to assess and monitor all areas of safety and continues to invest in preventive measures to keep the likelihood of safety incidents to a minimum.

Key strategic risks in this area include:

Train Accident	Train accident risk (the failure to prevent an avoidable train accident (collision, derailment etc.) which results in multiple injuries/fatalities to members of the public/passengers and a subsequent loss of reputation, finance and reduced performance). Cat A. There has been a decrease in control rating in 2019/20 from 'fair' to 'unsatisfactory'. This was based on concerns raised by the Professional Head of Signalling regarding the knowledge and competence of signalling works and maintenance testers in light of a number of recent wrong side failures. An action plan has been put in place to reduce levels of non-compliance leading to wrong side signalling failures.
Passenger & public safety	Passenger & public safety (the failure to have suitable and sufficient infrastructure, systems and controls in place to safeguard passengers and public at the interface with trains and the railway (excluding train accident risk), resulting in a fatal or major injury). Cat A. There has been no change in risk impact, likelihood, financial exposure or control rating in 2019/20.
Cyber security	Cyber security (hostile or malicious acts exploiting vulnerabilities in Network Rail's cyber systems leading to loss, compromise or disruption impacting the operational railway, business services and supporting processes). Cat A. There has been a reduction in the assessed likelihood in 2019/20 as a result of observed occurrences across the industry.

Risk management continued

Risk theme

Performance

Managing train service reliability to meet performance targets remains a challenge. In 2019/20 there has been progress in both Network Rail and industry initiatives which means we remain confident that over the longer term we will reduce risks in this area to within acceptable levels.

The Network Rail train service delivery plan provides a strong focus on rebuilding operational capability. The emphasis placed on timetable readiness and resilience is demonstrated through the evolution of our programme management office for timetabling and programmes such as the integrated train planning system to modernise planning practices in Control Period 6 (CP6).

We are also committed to ensuring we have the right capability and resources in place to deliver a more resilient timetable, having recruited more than 80 roles into the timetable planning function and upskilling our employees with the required competencies.

We understand the impact that poor performance has across the entire industry and therefore we are continuing to collaborate in initiatives and programmes to manage this industry risk. The industry timetable performance modelling programme allows us to more accurately identify risk to our timetable and to look for areas of resilience. Along with an industry performance improvement management system to provide structure, and Network performance boards to steer strategic direction, we are continuing our commitment to improving performance for our industry as a whole.

We continue to invest in our recovery and business continuity planning to reduce the long-term impact of business interruption. This includes further controls in the areas of physical and cyber security.

Key strategic risks in this area include:

Train service delivery	Train service delivery (not achieving TOC/FOC performance targets as agreed with stakeholders, resulting in loss of reputation and financial penalties). Cat A. There has been no change in risk impact, likelihood, financial exposure or control rating in 2019/20.
Safe and resilient timetable	Safe and resilient timetable (failing to produce a resilient timetable in line with license obligations, contractual commitments or political demands, resulting in loss of reputation and financial penalties). Cat A. Improved control rating from 'unsatisfactory' to 'fair'. This is as a result of evaluating the effectiveness of controls introduced following the May 2018 timetable change.
Delivery of capital projects to time and cost	Delivery of capital projects to time and cost (schedule slippage and/or cost growth could occur on individual or multiple infrastructure projects/programmes due to unforeseen internal/ external factors resulting in delayed benefits and stakeholder dissatisfaction). Cat A. There has been a decrease in control rating from 'fair' to 'unsatisfactory' based upon reduced confidence in the control of cost for certain projects.

Business continuity management (BCM)	Business continuity management (BCM) (severe prolonged business interruption caused by poor business continuity planning and exercising, resulting in a failure to reinstate the operational railway, loss of customer confidence and potential breach of licence conditions). Cat B. No change in risk impact, likelihood, financial exposure or control rating in 2019/20. BCM plans are being reviewed following the Coronavirus pandemic after a lessons learnt process to identify and incorporate improvements or enhancements required.
Information management	Information management (we fail to effectively manage our data, information and knowledge resulting in poor decision making and waste of resources). Cat B. There has been a reduction in likelihood as a result of meeting key mitigation milestones.
Brexit	Brexit (failure to identify, communicate and manage risks and opportunities to Network Rail (and the industry) as Brexit negotiations proceed or during subsequent implementation). Cat A. Improvement in control rating from 'unsatisfactory' to 'fair' as a result of an assessment of existing control effectiveness and growing confidence in an ability to manage the risk.
HS2 integration	HS2 integration (the opportunity to effectively integrate all phases of High Speed 2 (HS2) with the existing rail network in order to maximise the national social and economic benefits, and opportunities presented by HS2 to railway users and stakeholders). Cat A. No change in risk impact, likelihood, financial exposure or control rating in 2019/20.
Traffic management	Traffic management (the opportunity for routes to deploy the modernised Traffic Management (TM) System to help address the decline in performance). Cat B. New opportunity recorded in 2019/20.
Supply chain vulnerability	Supply chain vulnerability (A gap in critical service provision due to loss (for either financial, safety, ethical, reputational or political reasons) of strategic or critical suppliers to Network Rail and a lack of preparedness to fill the service gap leading to reputational damage and financial loss). Cat B. No change in risk impact, likelihood, financial exposure or control rating in 2019/20.

Risk management continued

Risk theme
People

Network Rail is committed to recognising the importance of great people and great teams. This vision underpins ongoing transformation and drives forward initiatives on diversity and inclusion and employee engagement. Our people strategy is key to ensuring Network Rail becomes one of Britain's best employers.

Key strategic risks in this area include:

Talent management and succession planning	Talent management and succession planning (failing to attract, retain and develop the full potential of our pipeline of talent for key roles, resulting in sub-optimal leadership capability, and a compromise of our ability to deliver business outcomes). Cat C. Impact and financial exposure increased in 2019/20.
Competence	Competence (failing to manage the competence of all its employees regardless of where they are working and others working on Network Rail managed infrastructure leading to safety incidents, adverse health impacts, poor train performance or significant uncontrolled/ unplanned costs). Cat A. New risk recorded in early 2020.

Risk theme
Value

Network Rail is committed to enabling the business to deliver against its CP6 targets and focusses on this through management of the CP6 deliverability risk.

Key strategic risks in this area include:

CP6 financial delivery	CP6 financial delivery (failing to identify deficient business and/regional performance resulting in late intervention and loss of stakeholder confidence) Cat B. New risk recorded in 2019.

Risk theme

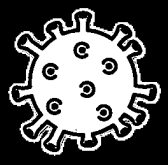
Environment

Network Rail is committed to preventing any risk exposure which would result in irreversible environmental damage. We will consider all options to reduce this risk so far as is reasonably practical. We understand that climate change will lead to a more difficult operating environment, but this will be accommodated within plans leading to acceptable levels of impact on overall delivery and asset reliability.

Key strategic risks in this area include:

Weather and climate change	Weather and climate change (the railway not meeting normal levels of performance during adverse and extreme weather events, today and in the future as a result of climate change.) Cat A. No change in risk impact, likelihood, financial exposure or control rating in 2019/20.
Energy reduction and decarbonisation	Energy reduction and decarbonisation (failure to decarbonise the GB rail industry, leading to negative environmental impact, non-compliance and reputational damage.) Cat A. New risk recorded in early 2020.

Risk management continued

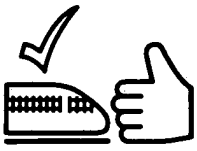


Risk theme

Coronavirus: Pandemic risk response

Coronavirus was designated a pandemic on 11 March 2020, as such Network Rail moved to follow all guidance and procedures as mandated by the UK Government and devolved administrations. Network Rail enacted a strategic crisis management team (SCMT) to enable the continued and safe operation of the network.

The strategic objectives and inputs of the SCMT are as follows:



Keep the network open

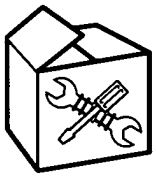
Maintain sufficient staff availability to operate routes and stations for those who need to travel and freight

- SCAT[1]
- NACG[2]
- Freight
- System Operator
- Industrial relations
- Coronavirus testing

Look after our people

Look after our colleagues' health and wellbeing

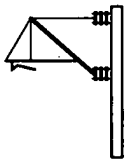
- Medical
- HR
- Internal communications



Maintain infrastructure integrity

Maintain safe and secure infrastructure

- Engineering
- Maintenance
- Stations
- Monitoring trains



Deliver capital investment

Protect our investment and renewals programme for improving the network

- Capital delivery
- Easter and May 2020 bank holidays

Ensure business continuity

Keep Network Rail and supply chain partners operational, and support the communities in which we work

- Supply chain
- Business services
- Finance
- Legal
- External communications

1. Strategic Crisis Action Team
2. National Action Coordination Group

Regions, Services and Group functions

The following activities have been initiated by the SCMT:

- Published emergency standards for safe on track works to minimise the risk of exposure to Coronavirus.
- Recruiting former professional signallers to help the railway keep those who need to travel and freight moving.
- Review and amendment of the timetable to maintain safe operations.
- Moving to immediate payments for suppliers to strengthen the supply chain for thousands of British firms.
- Membership of the Joint Executive Oversight Team to advise on and clarify industry-wide strategy.

Viability statement

The Directors have assessed the viability of Network Rail to maintain the UK's rail infrastructure over a three-year period, taking account of Network Rail's current position and the potential impact of defined scenarios on its principal risks and financial viability. Based upon this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2023. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, made on page 121.

Network Rail is funded in five-year blocks called control periods. This five-year block runs from 2019-2024 and the next runs from 2024-2029. The Office of Rail and Road (ORR) determines charges and outputs before the start of each five-year period. In doing so the ORR has statutory obligations with regard to producing a settlement that is equitable to the license holder, Network Rail. This allows Network Rail a high degree of certainty regarding funding for its operations and investment activities.

The regulatory process towards setting charges and outputs allows stakeholders to define their required outputs from the network, and governments in Westminster and Holyrood to set out the funding they have available. These are built into Network Rail's strategic business plan. Once the ORR has determined outputs and charges, Network Rail produces a Delivery Plan. This plan is refreshed by bottom up forecasts on a quarterly basis to manage outputs within the resources available.

Network Rail is not expected to undertake any new borrowing during 2019-2024. Instead its activities are largely funded by grants from the Department for Transport (DfT) and Transport Scotland, and revenue from customers. Network Rail has a £31.9bn loan facility with the DfT, which it intends to draw upon to specifically refinance its existing debt with DfT of £29.4bn and legacy commercial borrowing of £2.4bn in the period to March 2024. This facility remains within its parameters.

Network Rail has eight separate grant agreements in place with DfT and Transport Scotland to fund activities in the period 2019-2024. These grants are:

- With DfT: Network Grant; Enhancements Grant; British Transport Police Grant; Financing Costs Grant for DfT interest; Financing Costs Grant for external interest (bonds and swaps); and Corporation Tax Grant.
- With Transport Scotland: Network Grant and Enhancements Grant

Network Rail is also investigating methods of attracting third party capital to finance enhancements to the railway network.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast future funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those risks. This analysis takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on pages 60 to 63, is taken into account.

The Coronavirus pandemic has resulted in a significant impact on rail industry revenues. The financial impact on Network Rail has been mitigated by the steps taken by the DfT and Transport Scotland to change train operator franchises to emergency management contracts. This has secured the financial position of our key customers and we continue to be paid as normal. In addition modelling has assessed the impact of Coronavirus responses on Network Rail's financial viability and shows that these may be mitigated by the financial risk buffer and the ability to safely defer works as required.

In addition, as Network Rail is a central government body and a member of the DfT Group for consolidation purposes, its creditors can rely on Her Majesty's Government security, and the statutory obligations on the Secretary of State for Transport, with regard to settling liabilities.

We have set out the details of the principal risks facing Network Rail on pages 64 to 68 described in terms of our ability to meet our strategic objectives. We identify our risks through a robust assessment that includes a continuous cycle of bottom up reporting and review. In making this statement the directors have considered these principal risks and Network Rail's ability to withstand severe but plausible scenarios based on them. This included consideration of the political environment, industrial relations and the safety of the rail network. The scenarios were considered in terms of the impact on the financial resources of Network Rail and the impact on delivery of future improvement work.

Viability statement continued

The assessment considered Network Rail's current financial position and any headroom in its current forecasts, it also considered other sources of funding or actions such as deferral of improvement works.

Several mitigating actions were identified including the adequacy of the financial risk buffer, coupled with the ability to safely defer works, the plans to improve performance, and the group's insurance arrangements.

The approach was to assess three severe but plausible scenarios covering seven of the principal risks, note that these scenarios augmented scenario assessments made in previous years:

Scenario 1

A failure of a level crossing (as a result of an attributable error to Network Rail), causes a derailment which leads to injuries and fatalities to members of the public, reputational damage and ORR intervention.

Risks: Train Accident; Business Continuity Management; and Level Crossing Safety.

Scenario 2

Network Rail suffers significant degradation of performance due to multiple performance risks materialising, leading to significant performance regime costs and reputational damage.

Risks: Business Continuity Management; Train Service Reliability; Asset Management Excellence; Weather Resilience and Climate Change Adaptation; Unable to Produce a Resilient Timetable; Putting Passengers First; and Industrial Relations.

Scenario 3

Network Rail is unable to deliver its outputs in CP6 and fails to satisfy the regulator due to a combination of high inflation, poor train performance, poor delivery of efficiencies, and significant emerging asset management requirements.

Risks: Delivering the CP6 Business Plan; National Efficiency; Train Service Reliability; Loss of Agreed Funding; Project or Programme Delays/Increased Costs

On the basis of this robust assessment of the principal risks facing the group and, on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that Network Rail will be able to continue in operation and meet its liabilities as they fall due over the period to March 2023.

Directors' approval statement The strategic report has been signed on behalf of the board of the company.	**Sir Peter Hendy CBE,** chair		16 July 2020

Corporate governance

Corporate governance

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Our board of directors

Sir Peter Hendy CBE
Chair

Skills and experience
Sir Peter was commissioner of Transport for London (TfL) from 2006 to 2015. He led the successful operation of London's transport for the 2012 Olympic and Paralympic Games. Sir Peter's experience in leading urban transport in a world city is critical to chairing Network Rail and managing its complex relationships.

Sir Peter is a past international and UK president of the Chartered Institute of Logistics and Transport, is a fellow of the Chartered Institute of Highways and Transport, and of the Institution of Civil Engineers. He was knighted in the 2013 New Year's Honours List, having been made CBE in 2006 for services to public transport and the community in London.

Current external appointments
Chair of the London Legacy Development Corporation; trustee of the Science Museum Group; trustee of the London Transport Museum; chair of the London Freight Enforcement Partnership; president of the International Association of Public Transport (UIPT); patron of the Independent Transport Commission; vice-president of the Widcombe Social Club.

Committee membership
Nomination and remuneration committee; safety, health and environment committee; chair property supervisory committee; environmental sustainability advisory committee.

Appointed to the Board / **2015**

Andrew Haines OBE
Chief executive

Skills and experience
Andrew was previously chief executive officer of the Civil Aviation Authority from 2009-2018. Prior to that Andrew had a wide-ranging career within the rail industry. He started his career with British Rail and followed on to work for Railtrack, Network Rail's predecessor. He served as managing director of South West Trains and managing director FirstGroup plc where he led the rail division which included intercity, commuter, rural, freight, open access and tram services in England, Scotland and Wales. In addition, he was a non-executive director at a rolling stock leasing company.

Andrew was awarded an OBE in the 2016 New Year Honour's list for services to transport and is a fellow of the Chartered Institute of Logistics and Transport, the Royal Aeronautical Society, the Institute of Railway Operators and the Permanent Way Institute.

Appointed to the Board / **2018**

Jeremy Westlake
Chief financial officer

Skills and experience
Jeremy was formerly senior vice-president for finance at Alstom Transport in France, responsible for investor management, financial performance and control, and project finance. Prior to this he spent 14 years at Rolls-Royce in a range of senior finance and supply chain roles both in the UK and the United States.

Jeremy is a fellow of the Institute of Chartered Accountants in England and Wales and has a Master's in manufacturing from the University of Cambridge.

Committee membership
Property supervisory committee.

Appointed to the Board / **2016**

Board of directors continued

Mark Bayley, CBE
Non-executive director

Skills and experience
Mark has spent much of his career in the rail sector. He has particular experience in major projects, restructurings, and corporate finance.

Mark was finance director and later chief executive of London & Continental Railways Limited, developer of the High Speed 1 (HS1) railway and owner of the UK arm of Eurostar. He led the sale of HS1 for £2.1bn and was a board member of Eurostar. Mark was also chief executive of the Green Deal Finance Company (GDFC), a public/private vehicle set up to finance household energy efficiency measures on a pay-as-you-save basis. He completed the sale of the GDFC to a private equity consortium in 2017. Mark's interim work includes commercial director of High Speed 2 Ltd, and Chief Financial Officer and board director of the Submarine Delivery Agency at the Ministry of Defence.

Mark was appointed CBE in 2012 for services to the rail industry.

Current external appointments
Non-executive director of Ofwat and of the UK Atomic Energy Authority and director/trustee of Shadwell Opera Limited.

Committee membership
Audit and risk committee; treasury committee.

Appointed to the Board **2020**

Rob Brighouse
Senior independent non-executive director

Skills and experience
Rob has 40-years' experience in the rail industry and was previously the managing director of Chiltern Railways where he was responsible for the operation and safety of the passenger rail service between London and the West Midlands and the introduction of the Chiltern Railways service between London and Oxford. Rob first joined the rail operator in 2000 as projects director, where he led the Evergreen 1 and 2 infrastructure projects as well as the building of Chiltern's Wembley depot. Rob brings vast rail industry experience to the Board and understands the complexities facing train operating companies.

Rob is a fellow of the Institution of Civil Engineers and the Institute of Directors and is a chartered director. Rob holds an MBA from Aston Business School.

Current external appointments
Chair of East West Rail Company Limited; chair of the Advisory Board at Aston Business School; and chair of LIFE Trust.

Committee membership
Safety, health and environment committee; audit and risk committee; environmental sustainability advisory committee.

Appointed to the Board **2016**

Sharon Flood
Non-executive director

Skills and experience
Sharon has experience in a number of senior finance and strategy roles, most recently as group chief financial officer of Sun European Partners LLP, an international private equity investment advisory firm. From 2005 to 2010 she was finance director of John Lewis department stores. Sharon therefore strengthens the finance experience and customer focus on the Board.

Sharon holds an MBA from INSEAD and is a fellow of the Chartered Institute of Management Accountants.

Current external appointments
Non-executive director of Crest Nicholson Holdings plc; non-executive director of Pets at Home Group plc; trustee of the Science Museum Group; and a member of the Cambridge University Council.

Committee membership
Chair of the audit and risk committee; chair of the treasury committee, chair of the environmental sustainability advisory committee.

Appointed to the Board **2014**

Board of directors continued

Michael Harrison
Special director and non-executive director

Skills and experience
Michael is a director in UK Government Investments (UKGI) an arm's length body of HM Treasury. As part of this role Michael has been a non-executive director of a number of companies in which the UK Government has a shareholding including Porton Biopharma, Ordnance Survey, the Met Office and Working Links.

Prior to working in UKGI Michael had a broad international corporate finance advisory career, with over 20 years working for Credit Suisse First Boston, Barclays de Zoete Wedd and as independent corporate finance advisor at Caliburn in Australia. He started his career as an accountant at PricewaterhouseCoopers.

Current external appointments
Employee of UK Government Investments (UKGI).

Committee membership
Nomination and remuneration committee.

Appointed to the Board **2020**

Silla Maizey
Non-executive director

Skills and experience
Silla has over 34 years' experience in the aviation sector, and most recently was British Airways' (BA) managing director of Gatwick. She was part of BA's executive leadership team, and BA's customer director.

Silla brings a range of experience and insights to the Board, from operations to procurement, the shaping of the customer proposition and business reorganisations.

Silla is a fellow of the Chartered Association of Certified Accountants and a fellow of the Chartered Institute of Purchasing and Supply.

Current external appointments
Chair of NHS Business Services Authority; non-executive director of John Menzies plc; a non-executive director of the Crown Commercial Service; and a non-executive director of Saffron Solutions Limited.

Committee membership
Audit and risk committee; treasury committee.

Appointed to the Board **2016**

David Noyes
Non-executive director

Skills and experience
David has spent his career working in the leisure and transport sectors. Having joined British Airways as a graduate trainee some 30 years ago, he held various senior positions, including director UK Regional operations, executive vice-president North America and director worldwide customer services. Most recently David was chief executive officer of Cunard and P&O Cruises.

David is experienced in leading corporate transformations with a focus on improving customer service whilst driving cost efficiency and is also skilled in managing devolved businesses in a safety critical industry.

Current external appointments
Non-executive chair of Grays of Cambridge (International) Limited; corporate advisory board member for The Teenage Cancer Trust; and parish councillor Membury (Devon).

Committee membership
Chair nomination and remuneration committee; safety, health and environment committee; environmental sustainability advisory committee.

Appointed to the Board **2018**

Board of directors continued

Mike Putnam
Non-executive director

Skills and experience
Mike has worked across the development, construction and services sectors. He has over 25 years' experience at senior management level.

Mike was president and chief executive officer of Skanska UK plc from October 2009 until May 2017. Prior to this, he was executive vice-president and director of Skanska UK plc and was responsible for leading first the infrastructure, and then the building and construction businesses. He was also involved as a non-executive director on several of the international Skanska businesses.

Throughout Mike's career, he has been closely involved with the successful delivery of high-profile projects and programmes.

Mike is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and Royal Institution of Chartered Surveyors.

Current external appointments
Non-executive director of Southern Water Services Limited and Bazalgette Tunnel Limited; and a member of the Supervisory Board of Arcadis NV.

Committee membership
Chair safety, health and environment committee; environmental sustainability advisory committee.

Appointed to the Board **2018**

Fiona Ross
Non-executive director

Skills and experience
Fiona is an experienced public and private sector chair and non-executive director, having served on boards in Ireland and the UK. In 2018 she was appointed by the Irish Government to Chair Córas Iompair Éireann (CIÉ), Ireland's pubic transport provider and to the Board of the HSE, Ireland's public health service. In May 2019 Fiona was appointed a non-executive director at The Scottish Government.

Fiona began her career as a stockbroker in the City of London and spent 25 years working in Capital Markets in Dublin, London, Eastern Europe and the United States. Fiona is a graduate of Trinity College Dublin, University College Dublin, Queen's University Belfast and the Institute of Art and Design (IADT). In 2012 Fiona was awarded a fellowship in Governance at George Washington University in the United States.

Current external appointments
Chair Córas Iompair Éireann; non-executive director HSE Ireland; non-executive director The Scottish Government; founding director EPIC Ireland The Irish Emigration Museum; non-executive director for the Heaney family; non-executive director JK Funds; and Smith & Williamson Europe where she chairs the audit and risk committee.

Appointed to the Board **2020**

Stuart Kelly
Group general counsel and company secretary

Skills and experience
Stuart is responsible for the Legal and Corporate Services function. Stuart has extensive in-house legal and corporate governance experience gained within the listed environment, having joined the company from Severn Trent plc where he held the position of Deputy General Counsel.

Stuart started his in-house legal career with Network Rail, prior to which he was a solicitor in private practice. Stuart is also a qualified civil engineer having begun his career working for VolkerFitzpatrick.

Chris Gibb resigned as a director on 30 November 2019.

Richard Brown's appointment ended and Bridget Rosewell resigned as a director on 31 March 2020.

Corporate governance report

Network Rail recognises the value of good corporate governance, believes that good corporate governance is essential to the success of the company and for delivering our strategy for passengers and stakeholders. During 2019/20, we have acted upon the feedback we received from the listening programme conducted last year across the organisation and externally, and aligned our internal governance processes accordingly.

Putting Passengers First programme

Network Rail is changing to be more responsive to the needs of passengers and freight users. The Putting Passengers First programme was launched in January 2019. Some of the changes being made are structural, but Network Rail has also developed new corporate values and a customer experience programme.

Our values bind us together as an organisation and remind us of what we collectively believe to be important. They guide how we act and make decisions. During the year, almost 4,000 colleagues from routes and functions worked together to identify our four values:

- **Always safe**: Safety is not negotiable. We challenge ourselves and our people every time we witness unsafe behaviour.
- **Care about people**: Respect, kindness and empathy are all part of treating others the way we wish to be treated. It is simply about asking ourselves 'how can we better care for the passenger that we serve every day?'
- **Teamwork is key**: It is about mutual support. We pull together as one rail industry, with the needs of the passengers and freight users at the heart of what we do.
- **Empowered to ACT**: We are empowered to do the right thing for those who use the rail network.

These values focus us on how we operate in relation to customers on a day-to-day basis. Acting in line with our values is how Network Rail will deliver great service to passengers and freight users – they are the means by which we will put passengers first.

The Customer Experience Programme is designed to improve how Network Rail serves its passengers, partners, people and the public. The work supports the company's vision to be on the side of passengers and freight users, easy to engage with and a dependable partner; a company people are proud to work for; and instinctively recognised as an industry leader.

During 2019/20, alongside these cultural changes, we took steps to strengthen devolution to make our routes more responsive to local needs and make Network Rail easier to engage and work with.

In June 2019, Network Rail created five new regions (Eastern, North West & Central, Scotland's Railway, Southern and Wales & Western) each with its own managing director. There are now 14 routes across the five regions. This new structure enables us to respond more effectively to the needs of passengers and freight users.

The programme will enable us to be closer to the customer. The changes started in June 2019 and are expected to be finalised towards the end of 2020.

Each route has responsibility for the delivery of its operations, maintenance and renewals work.

Engaging with our stakeholders

Network Rail considers our stakeholders to be at the heart of our strategy. The Board has considered how the interests of key stakeholders and the matters set out in section 172 of the Companies Act 2006 (i.e. promoting success of the company), have been considered in Board discussions and decision making. Refer to the section 172 statement on page 12 for further details.

The Putting Passengers First programme was built on an extensive listening programme.

We listened to a wide variety of stakeholders to help us understand what we do well, but also what we need to improve. As part of that process, Network Rail engaged with more than 300 colleagues (at all levels, across the country, whether frontline or office based), as well as external partners and organisations. The outcomes have been used to inform our Putting Passengers First programme.

We launched the #MakeTheirDay campaign and used this to engage with some of our passengers and freight users to better understand what truly matters to them. This enables us to think about their needs whenever we are making decisions that impact them.

The Board also holds meetings in locations across the country and this provides an opportunity to engage with local stakeholders, including employees.

Railway supervisory boards comprising Network Rail, train operating companies, Transport Focus, and other key stakeholders continue to be used as forums for discussions to identify opportunities to better serve the needs of all passengers and freight users. The aim of these boards is to bring track and train closer together. Meetings were held in the Western route, Wales route, Anglia route, West Coast Main Line and Chilterns and for the System Operator.

Williams Review

In September 2018, the Government commissioned Keith Williams to carry out a root and branch review of the rail industry and the way passenger and rail services are delivered. Network Rail recognises that this is a once-in-a-generation opportunity to improve the outcomes for passengers, freight users and taxpayers, and we support the work that the Williams Review team have done.

We have already started to make changes in this respect through our Putting Passengers First programme, which will make us a more customer-focussed and service driven organisation.

In March 2019 we responded to the Review's call for evidence. Our key recommendations were:

- Reduction of contractual complexities in the industry to create clear line of sight to passenger and freight user outcomes;
- Recognition of the importance of delivering for freight users;
- Adopting an industry model that supports innovation and adapts to the changing needs of passengers;
- Facilitating private sector participation to generate greater value for rail users and taxpayers.

Our full response to the evidence papers can be found at **www.networkrail.co.uk**.

Details of the Williams Review can be found at **www.gov.uk/government/collections/the-williams-rail-review**.

Secretary of State for Transport

In July 2019, the Rt Hon Grant Shapps MP was appointed as Secretary of State for Transport. The government has made clear its commitment to delivering wholescale reform of the rail industry to put the priorities of passengers first and support the country in its recovery from Coronavirus, including by securing benefits from rail freight.

Independent Review into High Speed 2

In August 2019, the Government appointed Douglas Oakervee CBE to lead an independent review into High Speed 2 ('HS2'). The purpose of the review was to enable the Government to take a properly-informed final decision about the future of the project. Our chair, Sir Peter Hendy CBE, joined the review panel in an independent capacity.

Following the publication of the review, on 11 February 2020, the Prime Minister confirmed that the Government had taken the decision to proceed with HS2. Network Rail supports this decision, and we believe HS2 will create much-needed capacity to better serve our customers by unlocking passenger and freight benefits across the country.

Network Rail is working with HS2 Ltd to integrate the new railway into the existing network.

The Network Rail Board

During 2019/20, the Board focussed much of its time on:

- Network Rail's six strategic themes (see pages 9 to 11)
- Williams Rail Review
- Workforce safety and the Safety Task Force

During 2020/21, it is anticipated that the Board's focus will be on:

- The outcomes of the Williams Rail Review
- Our six strategic themes, identified above
- The Environmental Sustainability Strategy
- Managing the business through, and recovery from, the Coronavirus pandemic

Compliance with the UK Corporate Governance code

The Board considers that the company has complied with the principles and provisions of the UK Corporate Governance Code 2018 in 2019/20, save for the following provisions it is unable to comply with, due to its status as an arm's length body of the Government:

- Provision 5 in respect of the prescribed methods of engagement with the workforce. The three options suggested by the Code were considered by the Board, however, each was discounted as an appropriate way for Network Rail at this time, because Network Rail's workforce engagement activities exceed the requirements of the Code. This will be reviewed in 2020/21;
- Provision 9 in respect of appointment of the chair. The Secretary of State will appoint the chair in accordance with the Governance Code on Public Appointments;
- Provision 10 in respect of circumstances which are likely to impair or could appear to impair a non-executive director's independence. Bridget Rosewell, formerly Senior Independent Director served on the board for two months beyond her nine-year term;
- Provision 25 and 26: in respect of the appointment, re-appointment and removal of the external auditor. Under the terms of the Framework Agreement (FA) between the company and the Department for Transport (DfT), the Comptroller and Auditor General assisted by the National Audit Office acts as Network Rail's external independent auditor; and
- Provision 34: in respect of the remuneration for the chair. Under the terms of the FA, the remuneration of the chair is agreed by the Secretary of State.

Corporate governance report continued

The Code can be found on the Financial Reporting Council's website: **https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.**

The Board considers that the company was mindful of and complied with the Corporate Governance in Central Government Departments: Code of Good Practice. The Code of Good Practice can be found on the government's website: **https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017.**

Board leadership and company purpose

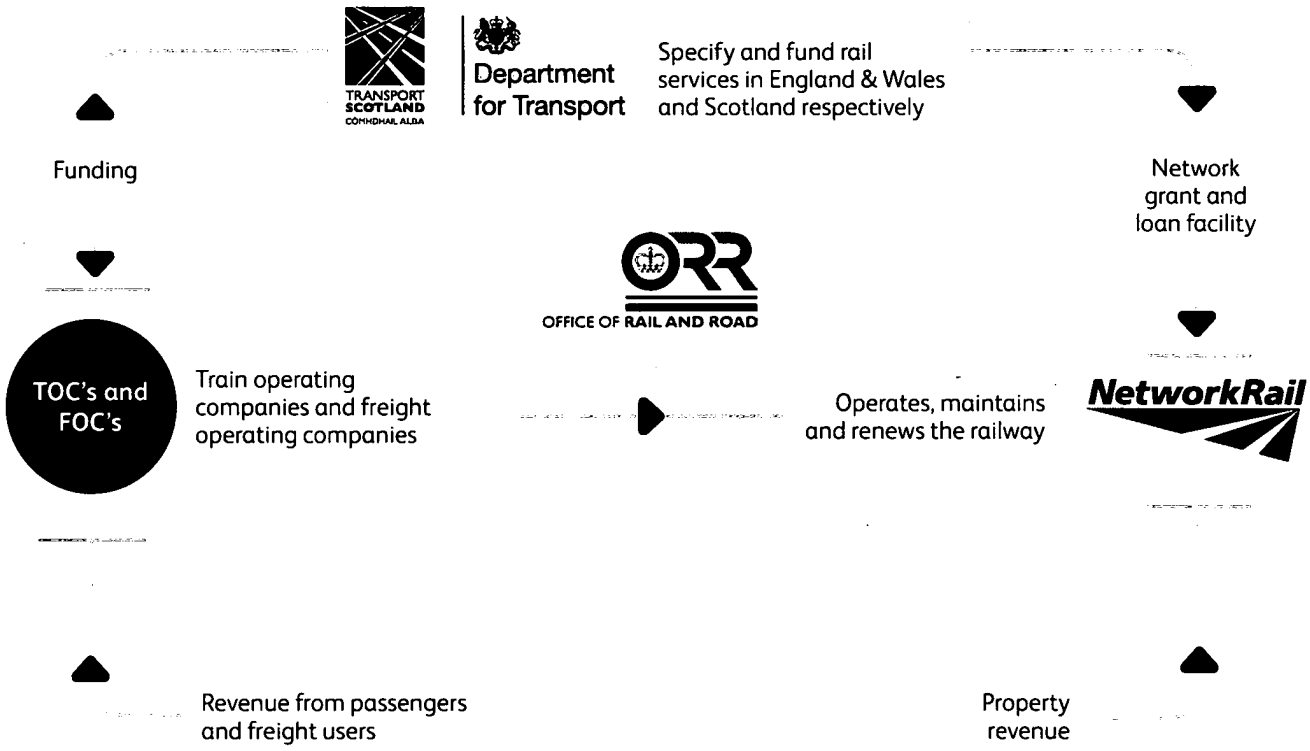
Network Rail is responsible for managing Britain's railway infrastructure within regulatory and control frameworks. Network Rail is an arm's length government body, and the terms of our financial management and corporate governance arrangements with the DfT are described in the Framework Agreement. A copy of which is available on our website **www.networkrail.co.uk.**

The Board ensures there is effective engagement with its stakeholders and encourages participation from them. In 2019/20 Michael Harrison, an employee of UK Government Investments attended Board meetings to advise Network Rail and the Government on their views on the robustness and effectiveness of Network Rail's governance with the objective of strengthening those processes and building assurance around them. On 11 May 2020 Michael Harrison was appointed by the SoS to act as the company's special director.

Network Rail is regulated by the Office of Rail and Road (ORR) under its Network Licence, for its stewardship of the rail infrastructure and the network. The ORR determines the level of income Network Rail receives from government and the outputs that must be achieved during each five-year control period. The Board is also accountable to the Secretary of State for Transport for the leadership and management of the business.

The Board oversees workforce policies and practices ensuring these are consistent with our values and support our long-term sustainable success. More information on our whistleblowing policy and Code of business ethics can be found on our website **www.networkrail.co.uk.**

The Board is also responsible for running Network Rail to the standards required of a company with shares listed on the London Stock Exchange.



The Board's role and responsibilities

The Secretary of State is the sole member of the company. The Secretary of State is the Special Member of the company and his rights are set out below.

Rights of the Special Member (i.e., the Secretary of State for Transport)	How these rights were exercised in 2019/20
To appoint and remove the chair of Network Rail.	The Secretary of State reappointed the chair for a further two years from 16 July 2019 until 15 July 2021.
To approve the Board's suggested candidate for chief executive of Network Rail.	N/A
To appoint a special director of Network Rail.	Richard Brown's appointment was extended until 31 March 2020. On 11 May 2020 Michael Harrison was appointed as the company's special director.
To be consulted on non-executive director appointments.	Network Rail consulted with the DfT in relation to the appointment of Mark Bayley and Fiona Ross as new NEDs.
To hold regular meetings with the chair, to discuss corporate strategy and raise concerns.	The chair regularly meets with the SoS and the Permanent Secretary of the DfT.
To approve the three-yearly remuneration policy for executive directors of the company.	The three-yearly remuneration policy is due for approval at the 2020 AGM. Network Rail has consulted with the DfT and Chief Secretary to the Treasury on the content of its proposed policy.
To set the pay for the chair and non-executive directors.	The remuneration of the chair and his contractual time commitment were reviewed and agreed by the DfT during the year.

Under the direction of the chair, the Board is responsible for developing and establishing the company's strategy to deliver the agreed outputs required in each control period and for ensuring that appropriate resources are in place to deliver this strategy.

The remit of the Board is described in the list of matters reserved for the Board, which can be found on Network Rail's website: **www.networkrail.co.uk**.

The Board has been mindful of and considered the principles set out in the Code of Conduct for Board Members of Public Bodies, the 7 Nolan Principles of Public Life and the Civil Service Code, as part of its decision-making process and the importance of delivering value for money. The 7 Nolan Principles of Public Life can be found on the Government website **http://gov.uk/government/publications/the-7-principles-of-public-life**.

Board committees

The Board has delegated a number of its powers to its four committees. The full powers of these committees are set out in the terms of reference, which can be found on Network Rail's website: **www.networkrail.co.uk** and a summary of the key elements are included in each committee's report on pages 85 to 119.

The audit and risk committee reviews the group's risk management strategy, risk profile and the company's risk appetite. It also monitors and reviews key financial reporting elements, internal control structure and processes and the effectiveness of these controls. The audit and risk committee's report is on pages 88 to 95.

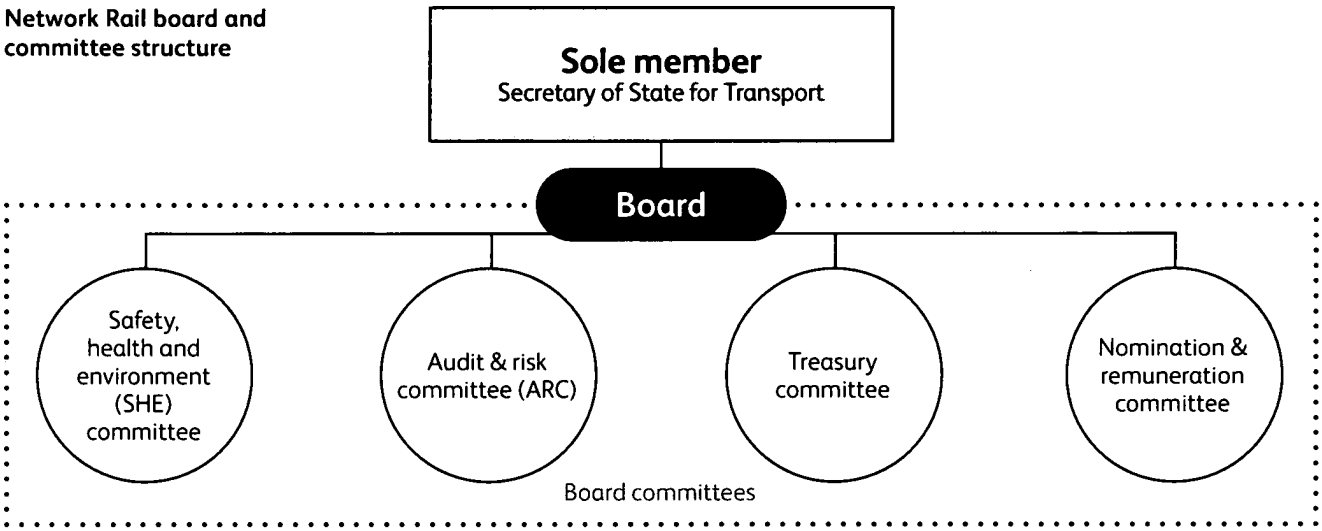
The key activities carried out by the nomination and remuneration committee during 2019/20 are included in the committee report on pages 98 and 99.

A summary of the activities considered by the safety, health and environment committee in 2019/20 is included in the committee report on pages 85 to 87. The report for the treasury committee is on pages 96 and 97.

During the year the Board established the environmental sustainability advisory committee. Information on that committee's work during the year can be found on page 56.

Corporate governance report continued

Network Rail board and committee structure



The executive leadership team

During 2019/20, the executive leadership team's composition changed as a result of the Putting Passengers First programme. The executive leadership team now comprises the chief executive, chief financial officer, and 12 other senior executives, including our five region managing directors. The executive leadership team is responsible for the day-to-day management of the company and it meets regularly to consider strategic and operational matters.

Board composition and division of responsibilities

At the date of this report, the Board consisted of one non-executive chair, two executive directors and eight non-executive directors.

Photographs and biographies of the board of directors, including details of their skills and experience can be found on pages 73 to 76.

Chair – Sir Peter Hendy CBE
Responsible for leading the Board, its effective functioning and promoting the highest standards of corporate governance. Encourages all directors to actively contribute to board meetings and sets the conditions for constructive relations between the executive and non-executive directors. Represents Network Rail at its highest level and works with the chief executive to develop strategic relationships with the customers of Network Rail, DfT, HM Treasury, Parliament, the Cabinet Office, the non-executive directors, Transport Scotland, Welsh Assembly Government and other stakeholders. Reviews the performance of the NEDs.

The chair's contractual time commitment to Network Rail was reduced to two and a half days per week until 15 July 2021.

Senior independent director (SID) – Rob Brighouse
(although Bridget Rosewell CBE held this position for the 2019/20 financial year) acts as a sounding board for the chair and serves as an intermediary for the other directors when necessary. Responsible for the chair's performance review. Available to the Secretary of State if they have concerns where contact through the chair has failed to resolve an issue or for which such contact is inappropriate. The Board considered Bridget Rosewell CBE and Rob Brighouse to be independent of the company.

Chief executive – Andrew Haines OBE
Responsible for setting the strategic direction of the company and for the company's performance. He keeps the board informed and brings to its attention all matters that materially affect, or are capable of materially affecting, the achievements of Network Rail. Provides clear and visible leadership in business conduct and promotes the requirement that all executive leadership team members and employees are exemplars of the company's values. Accountable to the board for all elements of Network Rail's business, and specifically for safety performance. Additionally, he is the accounting officer.

In this role, the chief executive is personally accountable to Parliament for safeguarding the public funds available to Network Rail, for ensuring regularity and propriety, value for money and feasibility in the handling of those public funds, for the day-to-day operations and management of Network Rail and for signing the accounts, the annual report and the governance statement. In addition, he is required to ensure that Network Rail is run following the principles, rules, guidance and advice set out in Managing Public Money.

As the accounting officer, he is supported by the Board for the discharge of his obligation in Managing Public Money, for the proper conduct of business and maintenance of ethical standards. The internal audit function also supports the accounting officer. The director of risk and assurance provided his audit opinion to both the accounting officer and the audit

and risk committee. The opinion detailed the overall adequacy and effectiveness of Network Rail's framework of governance, risk management and control. For further details on the internal audit function and on the audit and risk committee, see pages 88 to 95.

Chief financial officer – Jeremy Westlake
Responsible for leading Network Rail's finance function which includes the teams working on matters related to (i) planning, finance and efficiencies, (ii) financing, funding and commercial matters, and (iii) governance, risk, assurance and improvement. In June 2020 a new Capital Delivery Centre of Excellence was established in the finance function, when the former Infrastructure Projects function was fully devolved to regions and functions.

Independent non-executive directors
Rob Brighouse, Sharon Flood, Silla Maizey, David Noyes and Mike Putnam are considered by the Board to be independent of the company. Chris Gibb stepped down from the Board on 30 November 2019, after serving on the Board for six years. Mark Bayley, CBE and Fiona Ross were appointed as non-executive directors on 11 May 2020.

The non-executive directors provide independence, skills and challenge through broad business and commercial experience from the rail and other industries. They provide assurance that the executive directors are exercising good judgement in delivery of strategy and decision making.

The Board reviews the independence of its non-executive directors as part of its Board effectiveness process. It has considered if there are any circumstances which are likely to impair or could appear to impair the independence of a non-executive director.

When considering the appointment of new directors, the Board has taken into account the other demands on the proposed director's time. The Board requests that significant commitments and an indication of the time commitment, are disclosed to the Board, prior to appointment.

The Board notes that the Code includes guidelines on the meaning of 'independence' and it is appropriate to disclose that Rob Brighouse, Richard Brown CBE and Chris Gibb are beneficiaries of the Railway Pension Scheme (RPS). Over 150 companies from the rail industry participate in the RPS and the scheme is run by independent trust managers. Given this structure, the Board considers that Rob Brighouse, Richard Brown CBE and Chris Gibb are or were independent, as Network Rail is only one of the contributing companies to RPS.

The links to the statements of responsibility for each of the chair, chief executive, senior independent director and the non-executive directors can be found on the Network Rail website **www.networkrail.co.uk**.

Group general counsel and company secretary – Stuart Kelly
Provides advice and support to the Board, the chair and the directors on legal and governance matters to ensure that corporate governance practices are complied with, in order for the Board to function effectively and efficiently. The appointment and removal of the company secretary is a matter for the Board as a whole.

Directors' attendance at meetings

The Board met 10 times during 2019/20 and it has also held one risk assessment meeting, one strategy meeting; and cybersecurity training.

Directors' attendance at Board meetings for the year ending 31 March 2020, is shown in the table below. Non-executive directors are also required to attend various committee meetings and their attendance is specifically included in the respective Board committee reports on pages 85 to 119.

During 2019/20, there were a number of changes to membership of the Board. Chris Gibb resigned on 30 November 2019; Bridget Rosewell resigned on 31 March 2020; and Richard Brown's appointment ended on 31 March 2020. Sharon Flood is expected to resign in August 2020, having served on the Board for six years.

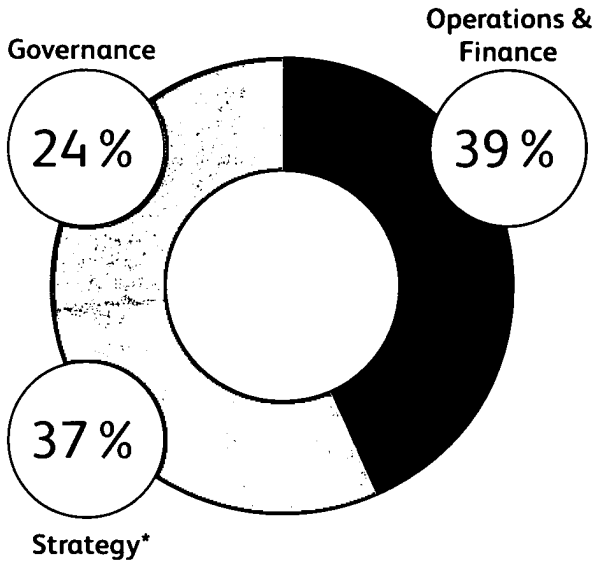
	Total
Rob Brighouse	10/10
Richard Brown CBE[1]	9/10
Sharon Flood	10/10
Chris Gibb[2]	7/7
Andrew Haines OBE	10/10
Sir Peter Hendy CBE	10/10
Silla Maizey	9/10
David Noyes	10/10
Mike Putnam	10/10
Bridget Rosewell CBE[3]	8/10
Jeremy Westlake	10/10

1. Richard Brown's appointment ended on 31 March 2020
2. Chris Gibb resigned on 30 November 2019
3. Bridget Rosewell resigned as a director from 31 March 2020

Corporate governance report continued

Board activities during the year

The chart below shows an overview of the key activities that the Board considered during 2019/20 and how the Board allocated its time. From September 2019 onwards, the Board's activities were shaped around our six strategic themes: sustainable growth; customer & communities; safety; efficiency; people; and train service delivery.



*Strategy discussions include our six strategic themes

Composition, succession and evaluation

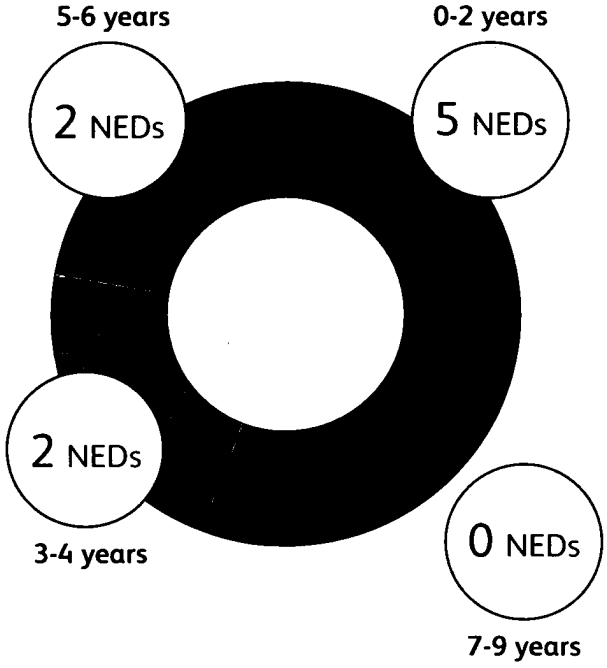
Board recruitment and induction
A comprehensive induction programme is in place for newly appointed directors, which is tailored to the director to take account of their background knowledge, skills and experience. New directors are also provided with key corporate, strategic and financial documents to help them familiarise themselves with the company's business. The induction programme also includes individual meetings with Board members, the company secretary, senior executives and other key stakeholders.

Succession planning
The Board and the nomination and remuneration committee review the appropriateness of the appointment process and the approach to succession planning to support a diverse and sustainable pipeline of talent for senior roles within the business. The Board recognises that effective talent management programmes are necessary to improve diversity within all levels of the company and are essential for the delivery of the company's long-term strategy and objectives.

Board and executive diversity
The Board is aware that diversity extends beyond gender, and includes amongst other things age, social, ethnic, educational and professional backgrounds. Further details about Network Rail's diversity and inclusion policies and how these have been implemented in the year can be found in the 'focussing on our people' section on pages 51 to 53.

The Board is comprised of nine non-executive directors and two executive directors. These individuals come from a variety of backgrounds and experience. The Board is 73 per cent male and 27 per cent female, however, when considering non-executive directors only, the split is 67 per cent male and 33 per cent female.

The following chart shows the length of service of the NEDs.



Engagement with the workforce

In September 2019 we undertook the 'Your Voice' survey to provide our people with the opportunity to share how it feels to work for Network Rail. The results have been shared within the business and we are working together to create action plans to address concerns raised.

The Board wants to create an environment that allows everyone to reach their full potential. Network Rail is working with others in the rail industry to enable it to become more diverse and inclusive and by the end of CP6 Network Rail aims to increase the number of women in our business by 50 per cent and have gender balanced recruitment of apprentices and graduates.

Network Rail's Board actively demonstrates its safety vision of 'everyone home safe every day'.

Corporate governance report continued

Board effectiveness

The Board is committed to complying with the highest standards of corporate governance. In March 2019 our former Senior Independent Director, Bridget Rosewell CBE, led an internal review process of the effectiveness of the Network Rail Board. The outcome of that review, including a number of recommendations was provided to the Board in July 2019.

The Board and the Group General Counsel and Company Secretary have considered the recommendations made in July 2019 and created action plans to address the issues raised in the effectiveness review. As appropriate, actions have either been completed or work is in progress to complete these.

Professional development, training and support for directors

The Board is offered a range of training and development opportunities each year, to support their continuing professional development and directors regularly receive corporate governance and legal updates as appropriate. During 2019/20 the Board undertook a cybersecurity training session, and a risk assessment session. Region managing directors and function heads regularly attend Board meetings to provide updates on the key issues affecting their areas of the business.

The directors have access to the advice and services of the group general counsel and company secretary, who is responsible for compliance with Board procedures and the provision of information to the Board in a timely manner. The directors have the right to seek independent professional advice, at reasonable expense to Network Rail.

Election and re-election of directors

Each of the directors is subject to (re-) election at the 2020 Annual General Meeting. The Board considers that all directors act in good faith, for the long-term benefit and success of Network Rail and they continue to perform effectively.

Directors' conflicts of interest

The Board operates a policy to identify and where appropriate, manage potential conflicts of interests that directors may have. Each Board meeting begins with disclosure of potential conflicts of interest. At the date of this report, the following key potential conflicts of interest have been declared:

- Rob Brighouse is chair of the East West Rail Company Limited;
- Michael Harrison is director of UK Investments at UKGI;
- Sir Peter Hendy CBE is chair of the London Legacy Development Corporation;
- Mike Putnam is a member of Arcadis NV's supervisory board; and
- Fiona Ross is a non-executive director at The Scottish Government.

Directors' and officers' (D&O) liability insurance

Network Rail maintains D&O liability insurance. Network Rail did not indemnify any directors during 2019/20.

The Annual General Meeting (AGM)

The formal business of the AGM is set out in a number of separate resolutions to be considered at the meeting. The company's sole member, the Secretary of State for Transport, is provided with a copy of the notice of meeting, alongside the annual report and accounts (as is the National Audit Office). The Secretary of State can vote either for or against a resolution or can withhold his vote (although a withheld vote is not considered to be a vote in law). Final voting figures are announced to the London Stock Exchange.

Sir Peter Hendy CBE,	Andrew Haines OBE,	
chair	chief executive	16 July 2020

Safety, health and environment committee report

Running a safe railway will always be our priority. We want everyone to feel safe whether they are working on, living near or traveling on the railway.

Tragically, two of our colleagues, Gareth Delbridge and Michael 'Spike' Lewis, died after being struck by a train in South Wales on 3 July 2019. An internal investigation has been completed with actions and recommendations published so that we can prevent this from ever happening again. That same month we also set up the safety task force to deliver a step change improvement in the safety of our track workers.

Since the end of the financial year, we have tragically lost another colleague, when on 8 April 2020 Aden Ashurst, working for AmcoGiffen, was fatally struck by a train in Roade, Northamptonshire. An investigation is under way.

Although we have seen a two per cent improvement in the fatality weighted injury rate (FWI) since the end of 2018/19, we did not hit our year-end target. We have seen a reduction in the number of major workforce injuries in the year, but a similar reduction in the amount of hours worked has dampened the overall impact on the FWI rate.

Towards the end of the year we saw an increasing trend in the number of high potential events in relation to workforce safety and train accident risk. This trend highlights the need for all of us to focus on the things that make the biggest differences.

We have changed our approach to reporting and addressing close calls so that we focus on the more important incidents. As a result, close call raised numbers have reduced by nearly 80,000 year to date, and the close call close out rate has dropped by six per cent.

This year saw a big increase in the frequency of flooding compared to previous years and an increase in the number of signals passed at danger (SPAD), resulting in a rise in the train accident risk as measured by the precursor indicator model.

We take any rise in risk to our passengers very seriously, and we are working hard with the train operating companies to understand the underlying factors that have led to the rise in SPADs so we can work harder to protect our passengers.

Since April 2019, we have closed 77 level crossings and improved the way we gather risk data at our level crossings so we can make them safer in the future. Despite being ahead of our plans to install safer technology, an increase in the number of trains running on the network and an increase in the number of people using our crossings has led to a slight increase overall in level crossing risk.

Our corporate level crossing safety strategy, Enhancing Level Crossing Safety 2019-2029, was officially launched in December 2019. This is a significant milestone in promoting broader awareness across the company and highlighting the importance of effective collaboration in our management of level crossing safety. We will be launching the strategy externally in early 2020, and will work closely with the whole rail industry, British Transport Police, Government and level crossing users to promote its success.

The number of suicides that took place on the railway rose by 11 from the previous year (283). Trespass fatalities were at a 10-year low of 17. The remit of the Trespass Improvement Programme extends to all trespass, including that which takes place as part of route crime. The programme is seeking to build on the partnerships that have already seen more than five million school children participate in the "learn live" initiative which has coincided with an encouraging reduction in reported child trespass. Our route crime and trespass groups are working closer together and this is identifying many good practice ideas and encouraging the sharing of intelligence both strategic and tactical. Also, communications outreach toolkits are under development for the routes and preparations for the Serious About Safety awareness campaign were launched at the end of the year.

The company set itself a target to train 10 per cent of its line managers in supporting mental health wellbeing by the end of the year: this has been exceeded.

Mike Putnam,
chair, safety, health and environment committee

16 July 2020

Safety, health and environment committee report continued

Committee members	Formal appointment to the committee	Number of meetings attended during the year, inc. site visit
Mike Putnam	Feb 2018	6/6
Rob Brighouse	Jan 2016	6/6
Chris Gibb[1]	Nov 2013	4/4
Peter Hendy	Oct 2015	6/6
David Noyes	Nov 2018	5/6

1. Chris Gibb stepped down from the Committee when he resigned as a director on 30 November 2019.

Committee attendees

The executive directors of the company and the chief health and safety officer normally attend meetings by invitation of the committee. Other members of the Board and other senior executives of the group also attend as and when requested by the committee.

Mick Cash, general secretary of the RMT Union is invited to attend committee meetings and participates in discussions. This aids scrutiny and challenge and enhances transparency of the work of the committee.

Ian Prosser CBE, chief inspector of railways and director, railway safety at the Office of Road and Rail (ORR), attends committee meetings twice a year to present the regulator's view on Network Rail's safety performance.

Role of the committee

Revised terms of reference for the committee were approved by the Board in October 2019.

The committee's role is to monitor the integrity of the methods of discharge of the safety, health and environmental responsibilities of Network Rail. The committee must satisfy itself as to the adequacy and effectiveness of the safety and health policies and strategies, and the effectiveness of environmental compliance within the Network Rail group.

The committee's activities include:
- Reviewing the Group's safety and health strategies, systems, policies and practices and environmental compliance;
- Considering significant corporate and individual safety, health and environment risks and whether the executive is managing these risks effectively.
- Reviewing the safety, health and environment governance and management structures within the Group;
- Reviewing the scope and results of any:
  > safety, health and environment audit on the effectiveness of the group's safety, health and environment strategies, systems, policies and practices;
  > environmental regulatory and legal compliance audit.
- Considering the major findings of internal and external investigations and the executive's response to them.
- Making recommendations to the nomination and remuneration committee relating to the Group's safety and health performance and environmental compliance during the preceding financial year for the purposes of assisting that committee's decision in the exercise of discretion in relation to the outturn of the performance related pay scheme.

Following each committee meeting, the chair provides a summary of the committee's activity to the next Board meeting and makes recommendations as appropriate.

The committee's terms of reference can be found on our website: **www.networkrail.co.uk**.

Matters considered by the committee during the year included:
- An ongoing review of safety, health and environment performance for each of the periods which comprise Network Rail's year.
- Scrutiny of safety, health and environment-related incidents including lessons learned from incidents such as those at Margam.
- Monitoring the implementation of the safety task force which was set up to address necessary step-changes in safety culture and behaviours.
- Receiving presentations from duty holders and route managing directors to demonstrate the adequacy and effectiveness of their safety and health systems and environmental systems. The following routes and regions attended the committee:
  > London North East and East Midlands
  > Freight and National Passenger Operators
  > Network Rail High Speed, and
  > Southern

Safety, health and environment committee report continued

- The committee also visited:
  - Victoria station to review the newly opened medical centre, the personal safety environment, and escalator safety;
  - East Croydon station to review trespass and suicide hot spots, and;
  - Three Bridges Delivery Unit to review behavioural safety training and product development for safe and effective working.
- Reviewing the progress of the company's occupational health and wellbeing strategy in supporting mental wellbeing and resilience, providing health services, and the improving data collection and analysis.
- Reviewing our asbestos management plan and our compliance with the control of asbestos regulations (2012), to ensure the risks of exposure to our employees, and users of passenger and freight services are minimised.
- Reviewing environmental matters including the vegetation management plan.
- Reviewing the impact of weather and climate change on the resilience of the group's assets, the performance and safety of the railway, and the changes to the likelihood and severity of weather and climate-related risks.
- Reviewing findings from our corporate-level audits and action plans including the sharing of issues and solutions across the network. Audits conducted during the year included: trespass management, close call system, safe hand-back of the line, asset management of bridges, workforce separation from trains, and suicide prevention.
- Deep dive reviews into, amongst other things:
  - Public safety: level crossing engineering safety improvements including the automatic full barrier crossing locally monitored protection system at Princes Street, Ardrossan; trespass and suicides;
  - Station safety: a review of safety performance at Network Rail's managed stations and measures to mitigate risks;
  - Passenger safety: using the precursor indicator model and reviewing the risks of self-evacuation from trains.
- Discussion of the plan for the eradication of effluent discharge to track which will significantly improve the working environment for our staff.

Particular areas of focus for 2020/21 will include:

- Assurance that safety management procedures continue to be strengthened particularly in relation to ongoing devolution to region and route levels, and other relevant changes across the company.
- Assurance that the safety task force delivers improved safety outcomes for our track workers.
- Developing the committee's approach to ensuring compliance with environmental regulations and legislation across Network Rail.
- Conducting a site visit(s) to substantiate on-the-ground activities with the information received in committee meetings.
- Ongoing improvement of controls to reduce near-misses between trains and track workers.

Audit and risk committee report

I am pleased to present the committee's report into the key activities undertaken during 2019/20, alongside its anticipated activities for 2020/21.

My thanks go to Bridget Rosewell CBE, who left the Committee and the Company at the end of March 2020, for her immense contribution to the Committee over many years.

I also welcome Mark Bayley CBE, who joined the Committee and the Company on 11 May 2020.

During 2019/20 the committee continued to focus on the audit, assurance and risk management processes within the business, and maintained its oversight of financial and other regulatory requirements. There was particular focus on the significant and emerging risks facing the business, to enable the committee to better understand the areas of concern and provide assurance to the Board on the effectiveness of the associated internal controls. These included the Putting Passengers First programme, cyber security, Brexit and reviewing enhancements to the business controls framework to improve assurance activity across the group.

This is my last report as Chair of the Committee as I will be retiring from the Network Rail Board in August 2020 having served as a director for six years. I would like to thank my fellow committee members for their very valuable challenge and insight. I believe Network Rail's Internal Audit and Risk functions are stronger than ever and I am confident that their future plans will continue their development.

Sharon Flood,
chair, audit and risk committee

Sharon Flood

16 July 2020

Composition of the committee

The committee met four times during 2019/20. Members collectively have a broad range of financial, commercial, aviation/transport and rail sector expertise that enables them to provide effective oversight of financial, operational and risk matters and to advise the Board accordingly. All members of the committee are independent non-executive directors, and the chair has recent and relevant financial experience.

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Sharon Flood	Sept 2014	4/4
Mark Bayley CBE [1]	May 2020	0/4
Rob Brighouse	Jan 2016	4/4
Silla Maizey	Nov 2016	4/4
Bridget Rosewell CBE [2]	July 2012	2/4

1. Mark Bayley CBE was appointed to the Board and Committee on 11 May 2020
2. Bridget Rosewell CBE resigned from the Board and Committee on 31 March 2020

Audit and risk committee report continued

Committee attendees

The chief financial officer, director of risk and internal audit, group controller (finance), head of group risk and the group general counsel & company secretary will normally attend meetings of the committee by invitation. The chair of the board, the chief executive and other board or executive leadership committee members attend meetings when invited by the committee. Representatives from the National Audit Office (NAO) also attend each meeting and periodically meet with committee members without executive management present. Periodically the director of risk and assurance meets the committee without executive management present. The committee is supported by the company secretary.

Role and responsibilities of the committee

The terms of reference govern the structure and operations of the audit and risk committee, including its delegated responsibilities and authority. The terms of reference are reviewed regularly to ensure the activities of the committee reflect current regulatory and governance requirements and best practice. The terms of reference can be found at **www.networkrail.co.uk**.

The role of the committee falls into the following broad areas:

Financial reporting
- Monitoring the integrity of the group's annual report and financial statements.
- Reviewing significant accounting judgements and policies and compliance with accounting standards.
- Reviewing the consistency of accounting policies both on a year-to-year basis and across the company; the methods used to account for significant or unusual transactions; applicable accounting standards followed or reconciled in the financial statements; and any other significant financial reporting judgements made by management.

Narrative reporting
- Considering whether the annual report and financial statements as a whole are fair, balanced and understandable.
- Providing information to shareholders to assess performance, business model and strategy.
- Internal controls and compliance
- Reviewing the adequacy and effectiveness of financial reporting and internal control procedures.
- Reviewing and approving statements to be included in the annual report and financial statements.
- Reviewing compliance with statutory and regulatory requirements.
- Reviewing procedures for detecting fraud, malpractice and theft.
- Reviewing the adequacy and security of arrangements for employees and contractors to raise concerns.
- Reviewing systems and controls for preventing bribery.

Risk management
- Considering proposals for the level of risk appetite, tolerance and strategy, and reviewing the risk profile, current exposure and future strategy against the risk appetite.
- Considering management's report on potential major risks.
- Reviewing risk assessment processes, parameters and methodologies.
- Reviewing the capability to identify and manage new risk types.
- Reviewing the process undertaken and the associated work required to complete the viability statement.
- Considering the remit of the risk management function and to ensure its independence and adequate resourcing.
- Reviewing management's responsiveness to the risk findings and recommendations.
- Reviewing how risk mitigations and controls are tested.
- Advising the Board on the risk aspects of significant strategic transactions.

Internal audit function
- Reviewing the effectiveness of the internal audit function considering the need for independent reviews of its processes.
- Reviewing the internal audit programme and ensuring it is adequately resourced and is appropriately independent from management.
- Reviewing internal audit reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
- Reviewing and approving the internal audit plan.
- Considering major findings of internal investigations and management responses.

External audit
- Reviewing the nature and scope of the independent auditor, its approach, and the level of fees.
- Considering the results of external audit work and how any weaknesses are to be addressed.
- Approving the terms of engagement and reviewing the management letter and management's response.
- Reviewing wider implications of the external auditor's work across the company.
- Annually assessing and reporting to the Board on the independence and objectivity, expertise and resources of the independent auditor.

Complaints procedures
- Reviewing the procedures for dealing with complaints relating to accounting, internal audit controls, or auditing matters.

Cyber security
- Providing assurance that cyber risk is being appropriately managed.
- Annually reviewing cyber resilience.

Regulatory Escalator
- Report of Office of Rail and Road regulatory matters

Following each meeting, the chair provides a summary of the committee's activities, main discussion points and

findings to the next Board meeting and makes recommendations as appropriate.

Principal activities during the year

At each meeting the committee receives business updates from group finance, internal audit, group risk and the independent external auditor. Updates are planned on a 12-monthly basis to coincide with key events within the financial reporting and audit cycle. If any matter is identified as in need of discussion sooner than 12 months, it is added to the agenda of a future meeting. In addition to regular updates, the committee undertakes deep dives on the emerging and principal risks facing the business and elevates these to the Board where necessary. The committee conducts an annual evaluation of its effectiveness, details of which are provided below.

The significant issues that the committee considered during 2019/20 were:

Accounting standards and judgements
The changes in IFRS16 Leases have not had a material effect on Network Rail's profitability, but have increased net debt and non-current assets and have budgetary implications. We will bear the budgetary implications in mind when entering future leases. Further details can be found in note 2 to the accounts on page 137.

Fair, balanced and understandable
At the request of the Board, the committee considered whether, in its opinion, the annual report and financial statements 2019/20, are fair, balanced and understandable and whether they provide the information necessary to assess the company's position and performance, business model and strategy. The committee received an outline of the structure of the annual report and financial statements 2019/20 and a broad indication of its content in early stages. A draft of the report was submitted prior to the meeting at which the committee was asked to provide its final opinion.

The assessment of such an opinion drew on work of the disclosure committee, the annual report and financial statements project group responsible for the coordination of content, verification, detailed review and challenge. Senior management confirmed that the content in respect of their areas of responsibility was fair, balanced and understandable. The committee considered the following questions:

Is the annual report balanced?

- Has the whole story been presented and has any sensitive information been omitted that should have been included?
- Is the messaging in the front half of the annual report consistent with the financial disclosures?
- Is the score card disclosed at an appropriate level based on financial reporting?

Is the annual report understandable?

- Is there an over-emphasis of matters that are not material?
- Is the narrative report in the strategic report consistent with the financial reporting in the accounts, and does the messaging reflected in each remain consistent when read independently of each other?
- Is there an appropriate balance between statutory and non-statutory measures and are non-statutory measures clearly defined?
- Are the risks in the narrative consistent with the committee's view on risks and issues and key areas of uncertainty and judgments?
- Are the key risks aligned with the audit report?

Following its review, the audit and risk committee stated that the annual report and financial statements 2019/20 present a fair, balanced and understandable overview, providing the information necessary to assess the company's position and performance, business model and strategy. The committee therefore proposed the document for approval to the Board.

Audit and risk committee report continued

Significant accounting judgements, key assumptions and estimates

With the support of the NAO, the committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and disclosures were balanced and fair. The main areas of focus during the year are set out below.

Accounting judgements	How the committee addressed these judgements
Valuation of rail network and compliance with regulatory requirements The revaluation model used to measure the value of the rail network consists of a number of estimates and judgements made both by the company and the Office of Rail and Road (for example anticipated financial and operational outperformance in the control period).	Detailed reports from management were considered by the committee and the methodology applied to the revaluation model was also reviewed and agreed. The committee also challenged management and the independent auditors on: • The reasonableness of key judgements and estimates in respect of the forecast for CP6. • The appropriate level of disclosures in the annual report and accounts around the valuation process and the related assumptions and judgements.
Capital accruals	The estimate of cost of work done is a key judgement in Network Rail's accounts. The additions to Property, plant and equipment are valued at an estimate of the cost of work done (COWD) in the year to 31 March 2020. To the extent that the COWD is greater than the invoiced amount, fixed asset accruals are recognised based on expected amounts required to settle contractual obligations. To value the cost of work done on, capital projects, appropriately skilled commercial managers assess the progress to completion of the project at the expected cost. Both progress and expected costs have elements that are estimates and require accounting judgement.
Risk of management override of internal controls	Reports on managements approach to measuring cost of work done were reviewed alongside details of internal validation and the external auditors report on sample testing. It was noted in the prior year that managements approach had a tendency towards optimism bias concerning estimates of progress and cost. When taken together these judgements were unlikely to cause a material misstatement. Management has implemented changes to ensure that information after the balance sheet date is taken into account when determining the estimate. The independent auditors have focussed attention on this area and provided satisfactory reporting to the committee on this matter.

Deferred tax It was considered whether it was still appropriate for Network Rail to not recognise a deferred tax asset in relation to its brought forward tax losses.	With continued high levels of investment in the rail network, it was hard to judge that Network Rail would return within a predictable period to the level of taxable profits that would allow for the utilisation of tax losses. It was agreed to not recognise a deferred tax asset.
Valuation of investment properties Investment properties are stated at fair value. The valuations are based on assumptions and estimates that require judgement.	The committee agreed the appropriate methodology had been used. The methodology was consistent with prior years and included valuations and additional assistance from external valuation specialists. The valuations were reviewed by management and the external valuation specialists.
Pension assumptions and asset valuations The group operates defined benefit and defined contribution pension schemes. Valuation of these schemes is dependent on certain key assumptions and complex calculations. External actuaries are engaged to assist in advising on key assumptions and determining the value of the pension obligations.	The committee discussed the key assumptions, including the degree to which these were supported by professional advice from the actuaries. The independent auditors also focussed attention on this area and provided reporting to the committee on this matter. Given the market volatility at year end caused by the Coronavirus pandemic, we have also focussed greater attention on the valuation of the scheme assets.

The committee is required to review any correspondence received from regulators in respect of financial reporting. There has been no correspondence from the FRC in relation to Network Rail's financial reporting during the 2019/20 financial year.

Audit and risk committee report continued

External audit

Committee effectiveness

The committee continued to monitor and implement the action plan developed from the self-evaluation effectiveness review which had been completed in 2017/18. The review had shown that overall the committee was functioning effectively. In addition, as part of the Board effectiveness evaluation undertaken in July 2019, feedback was provided on the effectiveness of the committee. No areas of concern related to the committee were raised during this review.

The approach taken to the appointment of the external auditor

The Comptroller and Auditor General (C&AG), supported by the NAO, was appointed as Network Rail's independent auditor in 2015. In addition to providing an opinion on the Network Rail Limited group accounts, the C&AG also audits the Network Rail Infrastructure Limited group accounts and the individual accounts of Network Rail Infrastructure Finance PLC and Network Rail (High Speed) Limited.

Gareth Davies assumed the post of C&AG on 1 June 2019.

PricewaterhouseCoopers (PwC) acted as the independent auditors for the remaining subsidiaries in 2019/20. The obligation to appoint the C&AG as Network Rail's independent auditor is a direct impact of the reclassification of Network Rail as an arm's-length government body and is in line with standard arrangements for other public sector bodies.

The company is, therefore, unable to comply with the Competition and Markets Authority's Order or the UK Corporate Governance Code 2018 in respect of tendering prior to the appointment of an auditor and this will remain the company's position for the foreseeable future.

Effectiveness of the external auditor

A review of the independent auditor's performance and effectiveness is undertaken as part of the overall effectiveness review of the auditing process. Following the conclusion of the reporting cycle, the auditing process was assessed. The independent auditor was also invited to comment on what worked well and where improvements could be made. The committee was satisfied that the independent auditor was fully effective and performed as expected in discharging its duties and obligations.

Objectivity and independence of the independent auditor

The NAO is independent of Network Rail in accordance with the ethical requirements relevant to the audit of financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities/public interest entities.

The committee has put in place safeguards to maintain the independent auditor's objectivity and independence. To enhance independence and in line with established auditing standards, a new senior statutory auditor of the independent auditor is appointed at most every seven years (five years in the case of subsidiaries administering listed debt).

The committee has established a policy whereby employment of the independent auditor on work for the company is prohibited without prior approval by the committee, other than for audit services or tax compliance services. Such requests are unlikely as the NAO does not offer non-audit services. The NAO does carry out value for money assessments for Network Rail, but this does not represent a service to Network Rail as it is performed under statute and on behalf of Parliament.

In 2019/20 the fee for audit services was £0.57m (£0.59m in 2018/19). This includes the NAO's cost of auditing Network Rail Infrastructure Limited, Network Rail Infrastructure Finance plc, Network Rail (High Speed) Ltd, the regulatory accounts and review of interim financial statements of Network Rail Limited and Network Rail Infrastructure Finance plc. It excludes the cost of the audit of some smaller subsidiaries which continue to be audited by PwC.

The fee paid to PwC for auditing the smaller subsidiaries was circa £150k in 2019/20 (£134k in 2018/19).

Internal audit

The committee reviews the annual internal audit plan to ensure it aligns with the group's strategic priorities and key risks. At each meeting the director of risk and internal audit updated the committee on any changes to the plan and the reasons for deviation from the plan, notable audits, overdue actions, and themes and key issues arising from the internal auditor's work.

Our assurance processes have identified areas for improvement in our internal controls. Activities to address these are being monitored closely by the committee. Examples of these include:

– Asset Management
This was highlighted by internal audit as an area requiring focussed, continuous improvement of control activity. Through the Engineering community and as part of the Intelligent Infrastructure Programme, activities are under way to shift to 'predict and prevent' maintenance and management of the railway – fixing faults before they cause disruption to passengers.

– Track Worker Safety
In response to control issues identified across the business relating to the planning and delivery of safe work, a Safety Task Force was created, bringing together multiple strands of work from across the company aimed at improving safety for employees and contractors that work on the railway.

– Corporate Security
Further to internal audit activity assessing the national security control framework, progress is being made to establish a Security Management System and to implement the organisational structures and processes required for sustainable implementation. Risk Records are being revised to provide an enterprise view of security risk.

– Business controls framework
The work of internal audit continued to find some instances where controls were either not fit for purpose or not always operated as designed, usually due to the absence of clearly defined or up to date processes and controls both in the second and first lines. In response, the quality improvement programme in Southern has provided a platform to identify key processes, risks and controls to which assurance activities can be aligned. Separately, a governance, risk, assurance and improvement framework is in development, identifying accountable owners for core processes and the mechanism by which risk, assurance and improvement will be managed.

The committee approved the 2020 internal audit plan (the 2020 plan), which was developed through a review of the enterprise risk register, taking into consideration industry trends. The 2020 plan also follows up on previous group assurance letter findings, focussing on control areas with a less than "substantial" rating. These areas include: (i) safety, health and environment risk, (ii) access to systems, (iii) project delivery, (iv) contracts and procurement and (v) competency management.

The committee also approved the internal audit charter, which defines internal audit's purpose, authority, responsibility and position within the company.

Risk management and internal controls

The Board has ultimate responsibility for Network Rail's risk management and internal control systems, but delegates detailed oversight of the function to the committee, which then reports its findings and makes recommendations to the Board. This covers all material controls including financial, operational and compliance controls and risk management systems. The risk management systems and internal controls are designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance that the group's risks are being appropriately managed and mitigated. The delegated responsibilities for risk management and internal control are detailed in 'Role and responsibilities of the committee' on page 89.

The committee receives regular reports from Internal Audit and the independent auditor and reviews progress against agreed action plans to manage identified risks. Detailed oversight of safety related risks is delegated to the safety, health and environment committee.

Network Rail's approach to risk management and identification, its risk appetite, and an assessment of principal and emerging risks is provided on pages 64 to 69.

Audit and risk committee report continued

In addition to regular updates, the committee reviews the emerging and principal risks that require particular attention. During the year, these were:

- The risk of failure to secure support from our people and from trade unions for our programme of organisational change;
- The risk of failure to attract and retain suitably qualified and skilled individuals in executive and leadership roles;
- The risk of failing to identify deficient business and/or route performance against agreed trajectory in a sufficiently detailed or timely manner;
- The risk of failing to deliver and embed the benefits of the Putting Passengers First programme;
- The risk of a gap in critical service provision, due to loss of strategic or critical suppliers;
- The opportunity to transform how we operate through the Putting Passengers First programme to create more localised decision making;
- The risk of failure to deliver the planned scale of enhancement investment in CP6 in the Eastern region;
- The risk of a security event in a Network Rail region;
- The risk that Network Rail was unprepared for a "no deal" BREXIT scenario.

In addition, the committee invited executive leadership team members to attend metings to discuss how they were managing risks.

Evaluating the effectiveness of internal control and risk management systems

The committee regularly reviews the corporate risk profile, including the status of mitigating actions, and reviews and approves any changes to the enterprise risk management (ERM) framework, which determines the design, implementation, monitoring and review and identification of risks.

During the year the committee also reviewed and approved changes to Network Rail's risk appetite statements and reviewed the remit of the risk management function to ensure it remained appropriate for the company's strategy. The committee was satisfied that a robust risk process was in place to manage and mitigate risks with appropriate plans and monitoring. Where risks had materialised, appropriate actions were being taken to manage the impact on passengers, customers and the organisation.

The committee had oversight of the process and assessment of the group's prospects to carry on its business under severe but plausible scenarios undertaken by the risk management and internal audit functions. Further details of the analysis/scenario testing for the viability statement can be found on page 70.

Whistleblowing

The committee reviews and makes recommendations to the Board on the company's whistleblowing procedures and any arrangements for the independent investigation and follow-up of such matters. It also discusses reports on major findings of internal investigations and management's response to them.

In February 2019, the committee assured the Board that the whistleblowing policy and procedures were adequate and effective. In February 2020, the committee was updated on action taken to further enhance the existing framework. This included:

- Distributing posters and wallet cards to promote Network Rail's confidential reporting service (known as 'Speak Out');
- Testing staff confidence in the whistleblowing arrangements in the biennial employee engagement survey. The results indicate that a large majority of staff have confidence in the arrangements; and
- An independent review of the whistleblowing policy and procedures, leading to the policy being updated to reflect the review's recommendations. The policy was published in spring 2020.

Network Rail's confidential reporting service and 'Speak Out' policy has been in place since 2012. The Speak Out service is run by an external company on behalf of Network Rail, and all reports undergo an initial review by our counter fraud and investigation services team (previously known as the 'business integrity department').

In 2019/20, 476 confidential reports were made to the Speak Out service, which is broadly consistent with the number of reports made in 2018/19. Each year, on average, 44 per cent of reports made are substantiated and action taken.

Training modules are in place, designed to enhance our people's knowledge and understanding of business ethics, including information about our whistleblowing policy and how to report concerns. To date, the training has been completed by over 30,000 employees.

Planned activities for the coming year

In the 2020/21 financial year, the committee will continue its oversight of the risk management and internal control systems and the internal audit function, monitoring the integrity of the financial statements including the interim statements, and reviewing the external audit process. Specific focus will be on ensuring that the structure and focus of the committee meetings adapt to the increasingly devolved nature of the organisation in CP6. This will include oversight of the risks specific to each new region; continued monitoring of the Putting Passengers First programme; and review of the CP6 assurance framework.

Treasury committee report

I am pleased to present the committee's report into the key activities undertaken during 2019/20, alongside its anticipated activities for 2020/21.

Throughout 2019/20 the committee continued to consider a range of financing, debt, risk and treasury matters. Network Rail's source of borrowing is via a Department for Transport (DfT) loan facility which is used to repay maturing external borrowings and to refinance maturing DfT loans. Given that Network Rail's funding envelope is determined by the Periodic Review process, statement of funds available (SoFA) settlements process and by any additional DfT agreed enhancements, we are proactively seeking third party funding of rail enhancements in Control Period 6 (CP6).

The committee will continue to oversee these activities in the year ahead.

Sharon Flood,
chair, treasury committee

Sharon Flood

16 July 2020

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Sharon Flood	Sep 2014	3/3
Mark Bayley CBE[1]	May 2020	0/0
Silla Maizey	Nov 2016	3/3
Bridget Rosewell CBE[2]	Jul 2012	1/3

1. Mark Bayley CBE was appointed to the Board and Committee on 11 May 2020

2. Bridget Rosewell resigned as a director on 31 March 2020

Committee attendees

The chair of the Board, chief financial officer, group controller, head of treasury, and the group general counsel and company secretary attend meetings by invitation.

Role and responsibilities of the committee

The terms of reference (ToR) govern the structure and operation of the treasury committee, including its delegated responsibilities and authority level. The ToR are reviewed regularly, to ensure the activities of the committee align with the needs of the organisation.

The most recent ToR were approved by the Board in June 2019. The terms of reference can be found at **www.networkrail.co.uk**.

Treasury committee report continued

The committee's role is to:
- Review proposed treasury transactions including banking, cash management and forecasting, debt management, investment management, treasury risk management;
- Approve or recommend strategies and policies in relation to areas of treasury management including financing, liquidity management and forecasting, regulatory requirements, investor relations, bank relationships, and treasury internal control and governance policies;
- Review treasury function's financial reporting and internal control procedures; and
- Approve specific transactions within treasury responsibility.

Principal activities during the year

The committee received detailed updates from the treasury team at each meeting. The chair then provided a summary of the committee's activities, the main discussion points and findings to the next Board meeting and made appropriate recommendations.

Some of the topics discussed during 2019/20 were:

CP6 financial framework
The committee discussed the implementation and operation of the new loan facility between Network Rail and DfT, and the grant agreements between Network Rail and Transport Scotland and the DfT.

Open for business update
The Open for Business programme was established in September 2017 to expand third party financing and delivery of Network Rail schemes by making it easier for third parties to undertake these activities.

The Putting Passengers First programme and devolution to a regional structure has provided us with more opportunities to drive the Open for Business programme forward. We have established business development teams across our regions to liaise directly with third parties. We have also created a corporate finance team to support and challenge the regional business development teams.

Green Financing
Many of our activities are socially responsible and environmentally friendly. Rail transport takes vehicles off roads, it reduces carbon emissions, it connects people and communities, and drives the UK economy. Accordingly we discussed green, social and sustainability ('GSS') financing options and how this applies to Network Rail.

A stakeholder engagement plan will be developed to explore GSS finance options with the Government. Our discussions will likely focus on the value for money and what part Network Rail should play in the delivery of green finance policy.

Treasury
Further matters considered by the committee during the year included:
- Future participation in the Government Banking Service and the impact on existing use of money market funds;
- Control Period 5 close-out and cash position;
- Pensions investment
- Regular summaries of treasury activities, including:
  - Actual and forecast movements in debt, derivatives and investments;
  - Risks of over or underspend of the DfT loan facility;
  - Financing costs; and
  - Intercompany loans

Planned activities for 2019/20

The committee will continue to monitor the progress of the initiatives underway.

Particular focus will include:
- The impact of the Williams Rail Review conclusions on Network Rail's financing and treasury activities;
- Exploring alternative approaches to raising capital to fund enhancements;
- Monitoring the introduction of the CP6 financial framework;
- Assessing strategic or corporate finance opportunities that may be proposed to the Board;
- Monitoring cash flow and funding limits

Nomination and remuneration committee report

I am pleased to present my first report as chair of the nomination and remuneration committee.

First, I would like to thank Bridget Rosewell for her significant contribution to the committee in recent years. As I take over, thanks to Bridget's guidance the committee is well placed to reap the benefits and address the challenges of Putting Passengers First.

I would also like to recognise the contribution over several years of Richard Brown, the special director. Richard's counsel and constructive challenge has been most valuable.

Much of the committee's work during 2019/20 centred around (i) the organisational changes following devolution to the regions and (ii) sourcing new non-executive directors to replace Chris Gibb and Bridget Rosewell, who retired from the Board in November 2019 and March 2020, and the anticipated retirement of Sharon Flood in August 2020 upon completion of six years' service with Network Rail.

Although the nomination and remuneration committee is a single entity, the nature of reporting on remuneration matters makes it more logical to report on the work of the committee in two parts. Therefore the first section will focus on the 'nomination' aspects of the committee's work, with the latter section comprising the prescribed elements of the directors' remuneration report. There are, of course, elements of overlap between these aspects of the committee's work, and these will be highlighted where appropriate.

David Noyes,
chair, nomination and remuneration committee

16 July 2020

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Bridget Rosewell CBE[1]	Sept 2016	4/4
Richard Brown CBE[2]	Oct 2015	6/6
Sir Peter Hendy CBE	Oct 2015	6/6
Michael Harrison[3]	May 2020	0/0
David Noyes[4]	Oct 2018	6/6

1. Bridget Rosewell stepped down from the committee on 31 January 2020.
2. Richard Brown stepped down from the committee on 31 March 2020, when his appointment as special director ended.
3. Michael Harrison was appointed to the committee on 11 May 2020.
4. David Noyes was appointed chair of the committee from 1 February 2020.

Committee attendees

The committee invites the following people to attend meetings routinely: the chief executive, the group general counsel and company secretary, the group HR director and the head of reward and benefits. Others are invited to attend for specific items.

Nomination & remuneration committee's role and responsibilities

The role of the committee is to investigate or comment on Board appointments (including the diversity of the Board), Board and senior executive remuneration (or any other related matters that are referred to it or as may appear to it to be necessary).

Nomination and remuneration committee report continued

The committee's terms of reference can be found on our website: **www.networkrail.co.uk.**

Following each committee meeting, the chair provides a summary of the committee's activity to the next Board meeting and makes recommendations as appropriate.

Key focus areas during the year - Nomination

Putting Passengers First - organisational changes
The organisational changes flowing from the Putting Passengers First programme were reviewed by the committee, particularly with regard to roles being paid above the HM Treasury threshold. Within the regions there were a number of mandated roles, however the regional managing directors had some flexibility on other roles and the structure of the routes within the regions.

Non-executive directors supported the executive directors by interviewing applicants for many of the more senior roles.

The non-executive directors also monitor overall Network Rail headcount to ensure that any increase in headcount is matched by an increase in productivity and value being delivered for passengers and freight users.

Board succession planning and appointment of non-executive directors
Three non-executive directors planned to retire from the Board between November 2019 and August 2020. Chris Gibb and Sharon Flood, having each served six years on the Board planned to retire in November 2019 and August 2020 respectively. Bridget Rosewell planned to retire in January 2020 having served nine years as a director; in fact Bridget stepped down on 31 March 2020.

The committee reviewed the composition of the Board and its committees, as well as the skills, knowledge and experience of each of the remaining non-executive directors. That review helped the committee create a role and person specification to help guide the search. A sub-committee comprising Bridget Rosewell, Sir Peter Hendy and David Noyes was set up to progress these appointments.

Odgers Berndtson, an independent executive search firm, assisted with the search for replacement non-executive directors. As well as reviewing its own network for suitable candidates, Odgers Berndtson placed an advertisement in The Times newspaper and the roles were also advertised on the Cabinet Office's HM Government Public Appointments website.

Having reviewed the candidates for the non-executive roles, a long-list of candidates was presented by Odgers Berndtson and discussed with Network Rail. The long-list was also shared with the Department for Transport (DfT). A selection of those candidates was interviewed by Odgers Berndtson. Following those interviews, a short-list of candidates was recommended to Network Rail and shared with the DfT.

Network Rail's sub-committee interviewed each of the recommended candidates. Following these interviews and after review by the Secretary of State, two candidates were recommended to the Cabinet Office for appointment.

These were Fiona Ross and Mark Bayley, with Mark identified as the successor to Sharon Flood as chair of the audit & risk committee and the treasury committee.

Executive directors' remuneration policy 2020
Please see page 113 for information on this.

Expected focus areas in the year ahead - Nomination

Particular areas of focus for the nomination and remuneration committee in 2020/21 will include:

- Induction of new non-executive directors.
- Review and consideration of Board diversity targets.

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Annual statement from the remuneration committee chair

I am pleased to present the 2019/20 director's remuneration report from the Network Rail remuneration committee. The nomination and remuneration committee, which has been combined since 2018, is dedicated to the highest standards of disclosure on remuneration and recognises that executive pay is an important issue for a public body. We operate in line with the remuneration requirements which apply to UK listed companies and the provisions of the UK corporate governance code. The committee follows good governance arrangements by reviewing the terms of reference each year.

The 2019 report was approved at the AGM by our member, the Secretary of State for Transport (SoS). The current three-year remuneration policy for executive directors (Policy) was approved at the 2017 AGM and sets out the framework and limits for how executive directors are paid. The Policy was included in the 2017 directors' remuneration report and can also be viewed on our website **www.networkrail.co.uk**.

In accordance with corporate governance regulations, the Policy is reviewed every three years, so at the AGM in 2020, a revised Policy will be put forward for approval by the SoS. This report outlines the key changes and includes the full Policy.

Key agenda items for the year

Our annual remuneration report outlines the outcomes for 2020 in respect of executive remuneration and will be subject to approval from our member, the SoS. The key points to note for 2019/20 outcomes are:

- The proposed executive remuneration framework has three components - base salary, pension and performance related pay.
- Discussions concerning the performance related pay element of remuneration are made by reference to the national dashboard outturn, which replaced, but is still closely related to, the national scorecard.
- A decision on the outturn of the 2019/20 performance related pay scheme has been deferred until later in the year. However, in the light of the financial challenges arising from the Coronavirus crisis, the committee has agreed with those affected that neither the executive directors nor the executive leadership team will receive any payments under the PRP 2019/20 scheme.

The remainder of this statement explains how executive remuneration is determined at Network Rail, gives more details on the outcomes in respect of this year and outlines the proposed three-year remuneration Policy from 2020.

Implementation of Policy in 2020

Decisions made by the committee during the year were all within the framework agreed as part of the Policy in 2017. The policy is underpinned by four key principles which are:

1. **Simple**: the framework should be simple and transparent for all stakeholders to understand.
2. **Competitive and fair**: attracting and retaining leaders of the necessary calibre requires remuneration arrangements that are reasonable in the markets in which we compete for talent and which fairly reflect the appropriate market rates for the skills and experience of the individual. At the same time, we remain cognisant of the need to ensure value for money for the taxpayer and to reflect our status as a publicly funded body.
3. **Performance and safety**: there should be a performance related element of the package which rewards performance in areas that are most important for our stakeholders. There should be no reward for failure. The safety of our workforce, passengers and the general public is at the heart of everything we do and must be reflected in the remuneration framework.
4. **Aligned across Network Rail**: where possible, remuneration structures will be aligned across the organisation. All Network Rail employees continue to be eligible for performance related pay determined using a consistent performance framework across the organisation.

Remuneration report continued

The remuneration framework for executive directors agreed in 2017 is based on these principles and includes the following elements:

Salary	Salaries are set at a level which reflects the skills and experience of the individual as well as the scope of the responsibilities of the role.
Benefits and pension	Participation on the same basis as other managerial positions at Network Rail.
Performance related pay	Our plan is based on the achievement of stretching annual performance targets, aligned to the business scorecard.

2019/20 outcomes for executive directors

Business performance is measured through the scorecards. These assess performance against key measures and targets agreed with customers and stakeholders. For 2019/20, the reference for performance related pay (PRP) was changed to a dashboard with simpler, more outcome focussed set of measures, that Network Rail's stakeholders, especially passengers, would see as success. The measures on the dashboard and the business scorecards are aligned. PRP for senior employees uses the reference of the national dashboard outturn and from 2019/20, one quarter (25 per cent) of PRP is also determined by an individual's performance rating. This gives a direct line of sight between the achievement of individual objectives and PRP.

Overall National scorecard performance was above target at 58 per cent. The PRP dashboard outturn has not been finalised due to the current Coronavirus pandemic but will be lower than the National scorecard, partly due to the impact of fatalities on the key safety measure, and partly due to the weighting given to on time train performance in the PRP dashboard.

A decision on the PRP outcome has been deferred to later in 2020.

The maximum performance related pay for the executive directors is nine per cent of salary for the chief executive and 20 per cent of salary for the chief financial officer.

Further details of the PRP scheme can be found on page 104.

2020 Policy review

The current Policy was agreed in 2017 and has therefore been reviewed, taking into account changes to the business since then. The review considered a range of factors to recognise that senior appointments are balanced with public pay constraints, whilst allowing Network Rail to attract and retain high calibre leaders who can help drive performance. As a result, the following key changes were made and are applicable to new appointments:

- The £95k redundancy cap will be applied to new and existing contracts when the legislation is introduced.
- The removal of car allowance and company funded private medical cover.
- The removal of the pension cash allowance.
- No contractual entitlement to payment in lieu of notice.
- Any travel or relocation payments will be in line with existing Network Rail policies.

The full Policy can be found on pages 113 to 119.

Scorecards

This year saw the introduction of a distinct set of performance measures specifically for performance related pay. Whilst these measures are different from the measures on business scorecards, they have been chosen to closely mirror overall business performance. The measures represent each of the key framework areas of safety, financial performance, train performance, asset management, investment and customer satisfaction.

David Noyes,
chair, nomination and remuneration committee

16 July 2020

Annual remuneration report

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Report) (Amendment) Regulations 2013. Where indicated, some of the disclosures in these sections have been audited.

Single total figure of remuneration for 2019/20 (audited)

The table below summarises all remuneration for the executive directors in respect of 2019/20 (and the prior year comparative). Further discussion of each of the components is set out on the pages which follow.

£'000	Salary		Benefits[1]		Pension[2]		Performance Related Pay (PRP)		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Jeremy Westlake	371[3]	357	12[4]	32	34[5]	31	0[6]	48	417	468
Andrew Haines OBE	593[7]	371	3	0	0	0	0[6]	0[8]	595	371

1. Benefits include car allowance, private medical cover, any annual travel subsidy, life assurance and relocation.
2. Pension includes the value of all pension benefits receivable in respect of the relevant year. This includes any supplementary cash allowance and a value from participation in the defined benefit or defined contribution pension arrangements or allowances for those who have opted out of their respective pension arrangements in the relevant year (calculated in accordance with the methodology prescribed by the Regulations). Further details of these pension benefits are set out in the pension section on page 105.
3. Jeremy Westlake's 2019/20 salary payment is higher than the previous year as he received a pay award in July 2019.
4. Jeremy Westlake's benefits payments were lower in 2019/20 as he received relocation assistance in 2018/19.
5. Jeremy Westlake's pension payments were higher than the previous year as he received an additional pension allowance in error in period one which is being recovered.
6. A decision on the outturn of the 2019/20 performance related pay scheme has been deferred until later in the year. However, in the light of the financial challenges arising from the Coronavirus crisis, the committee has agreed with those affected that the executive directors will not receive any payments under the PRP 2019/20 scheme.
7. Andrew Haines OBE's salary is higher than the previous year as he joined Network Rail as chief executive on 14 August 2018, therefore the payment for 2018/19 was pro-rated to reflect part year's service. The salary for 2019/20 is slightly higher than the base salary of £588k as there were two additional working days in 2019/20.
8. Andrew Haines OBE declined the PRP he earned for 2018/19.

Pay Ratios (audited)

The Government announced new legislation for employers to publish their pay ratios from 2020. The pay ratio highlights the gap between the chief executive and the 25th, 50th and 75th percentile of employees - using the single figure disclosed in remuneration reporting. A historical record will be published incrementally to a 10-year period moving forward.

For transparency and good governance, the nominations and remuneration committee decided to publish the pay ratio information a year early in the 2018/19 report and to also publish the information from 2017/18, the previous year.

There are three calculation methodologies to choose from:

A. Calculate total remuneration for all employees and take the percentiles to calculate the pay ratio against the chief executive single figure total remuneration.
B. Using existing pay data i.e. gender pay gap reporting, take the 25th, 50th and 75th percentiles and then calculate the total remuneration for these and compare against the chief executive single figure total remuneration.

C. Same as option B but using other recent pay data.

The nomination and remuneration committee decided that option B, using existing gender pay gap reporting, would be used. This data already exists and is in the public domain, therefore more familiar and easier to obtain.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017/18	**Option B**	25.1:1[1]	20.0:1	16.2:1
2018/19[2]	**Option B**	20.9:1	16.1:1	13.3:1
2019/20[3]	**Option B**	18.0:1	14.3:1	11:9:1

1. PRP has been removed from the calculations for all years for consistency, as the decision on PRP for employees for 2019/20 has been deferred.
2. Change of chief executive during the year. Pay ratio based on Mark Carne CBE and Andrew Haines OBE's combined single figure total for 2018/19
3. Andrew Haines OBE's single figure total was used for 2019/20.

When taking the employee data for the 25th, 50th and 75th percentile, the total remuneration figure has been calculated based on an office worker at these percentiles rather than other employee groups. Using a front-line or operations worker would have reduced the ratio as these types of roles are eligible for overtime, allowances and shift payments, all of which would have increased the comparator pay and decreased the ratio. The additional payments are not guaranteed and therefore are likely to vary year on year. The total remuneration figure for an office worker at these percentiles is likely to be lower and also less variable year on year. It is therefore considered to be a better comparator.

As with previous years, the ratios for 2019/20 have decreased from 2018/19. This is partly because the figure for 2018/19 is based on the pro-rated remuneration for the current and previous chief executive, who was on a higher total remuneration that the current chief executive.

Executive director changes

There have been no changes this year.

Incentive plan 2019/20 – annual performance related pay (audited)

During the year, two directors were eligible to participate in this scheme, Jeremy Westlake and Andrew Haines OBE. The maximum potential annual performance related pay award for Jeremy Westlake in 2019/20 was 20 per cent of salary. Andrew Haines OBE's maximum potential annual performance related pay award is nine per cent. Stretching performance targets were set at the start of the year in the context of the PRP dashboard, which can be found on pages 14 to 16. The approach for performance related pay is aligned across the businesses, including executive directors. The PRP dashboard outturn, which is closely related to the business scorecard, determines the percentage pay-out against the maximum award. For 2019/20, one quarter (25 per cent) of PRP is also based on an individual's performance rating, and each rating carries a different percentage weighting. For example, a 'good' performance rating will have an 11.25 per cent contribution to the overall PRP.

Performance against the national scorecard is summarised on pages 15 and 16. Overall scorecard performance was above target. Performance against the PRP dashboard measures was lower, partly due to the impact of fatalities on the key safety measure, and partly due to the different way train performance is measured.

In addition, each year the safety, health and environment (SHE) committee considers the overall outturn from a safety perspective and decides whether to recommend any further adjustments to reflect safety performance.

Having reviewed the safety measures outturn and the overall safety performance, the committee concluded that the scorecard outturn on safety measures was a reflection of overall safety performance and no adjustments should be made.

Remuneration report continued

A decision on the outturn of the 2019/20 performance related pay scheme has been deferred until later in the year. However, in the light of the financial challenges arising from the Coronavirus crisis, the committee has agreed with those affected that neither the executive directors nor the executive leadership team will receive any payments under the PRP 2019/20 scheme.

Pension (audited)

1. Executive directors are eligible to participate in one of the Network Rail defined benefit pension schemes or the defined contribution pension scheme on the same basis as other employees.
2. Under the existing executive pension policy, Jeremy Westlake is entitled to an allowance in lieu of pension on the same basis as other employees of Network Rail, subject to the discretion of the group HR director. This allowance is equivalent to the employer's pension contributions otherwise payable, less an adjustment for the cost of providing continued life assurance and the employer National Insurance Contributions payable. Andrew Haines OBE was not eligible to an allowance in lieu of pension as part of his appointment.
3. Previously, executive directors received an additional pension allowance in the form of a cash supplement based on a percentage of their earnings above the notional earnings cap (£166,200 for 2019/20 tax year and previously £160,800 for 2018/2019). This policy will no longer apply to new appointments, which included Andrew Haines OBE's appointment.

The table below sets out details for executive directors for 2020 in respect of all Network Rail pension benefits, split between the defined benefit and defined contribution/additional allowance. The value shown in the final column of this table is included as the pension column in the single total figure of remuneration on page 103.

	Defined benefit schemes				Other pension arrangements[4]		
	Normal retirement age[2]	Accrued pension at 31 March 2020 £000	Increase in accrued pension (net of inflation) during 2019/20)	Transfer value of accrued pension at 31 March 2020 £000[3]	Value included in single figure table (A) £000	Cash salary supplement or contribution to defined contribution scheme (B) £000	Total pension value reported in single figure table (A+B) £000
Andrew Haines OBE[1]	–	–	–	–	–	–	–
Jeremy Westlake	–	–	–	–	–	34	34

1. Andrew Haines OBE does not receive any pension contribution nor cash in lieu.
2. The normal retirement age shows the age at which the director can retire without actuarial reduction.
3. Transfer values as at 31 March 2020 have been calculated in accordance with the 'Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008'.
4. For the defined benefit schemes, the value shown in the single figure table (A) has been calculated in accordance with the regulations by applying a multiplier of 20 to the increase in accrued pension (net of inflation) during the year. For the additional pension allowance (B), the value shown is the gross cash allowance in the year. The value shown in the single figure table is the sum of A and B.

Non-executive directors' fees (audited)

Under the framework agreement the SoS sets the pay for the chair and non-executive directors of Network Rail. The fees for the non-executive directors were last reviewed in 2016 for new appointments were decreased at the time.

The table below summarises the remuneration for the non-executive directors in respect of 2019/20.

	2019/20		2018/2019	
	Fees £000	Benefits £000	Fees £000	Benefits £000
Rob Brighouse	50	–	50	–
Richard Brown CBE	50	–	50	–
Sharon Flood	71	–	70	–
Chris Gibb[1]	47	–	70	–
Sir Peter Hendy CBE[2]	335	0	375	1
Silla Maizey	40	–	40	–
David Noyes[3]	42	–	27	–
Mike Putnam[4]	44	–	40	–
Bridget Rosewell CBE	70	–	69	–

1. Chris Gibb left the Board on 30 November 2019.
2. Sir Peter Hendy CBE reduced his working hours from July 2019 as part of his reappointment as chair for a further two years. Private healthcare cover was not agreed as part of his reappointment and ceased from July 2019.
3. David Noyes' fees are higher than 2018/19 as he joined the Board on 6 July 2018.
4. Mike Putnam's fees are higher than 2018/19 as he became chair of the SHE committee in December 2019 to replace Chris Gibb.

Payments to former directors (audited)

There were no payments made to former directors in 2019/20.

Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2019/20.

Outside appointments

Executive directors are normally required to seek approval from the committee to retain any fees they receive in respect of external non-executive directorships.

Andrew Haines OBE is a director of the Rail Delivery Group and does not receive fees for this appointment, although he does receive a travel pass that comes with the directorship, which allows him free rail travel for personal and business purposes. Jeremy Westlake did not have any outside appointments.

Remuneration report continued

Additional disclosures

The following disclosures are required by the regulations to provide additional context for considering executive remuneration.

Percentage change in remuneration

The table below shows the percentage change in the salary, benefits and annual performance related pay (APRP) of the chief executive and all Network Rail employees from 2018/19 to 2019/20.

For the purposes of the table below, the annual change in the value of each of the components for the chief executive has been calculated using the data disclosed in the relevant columns of the single total figure of remuneration table on page 103.

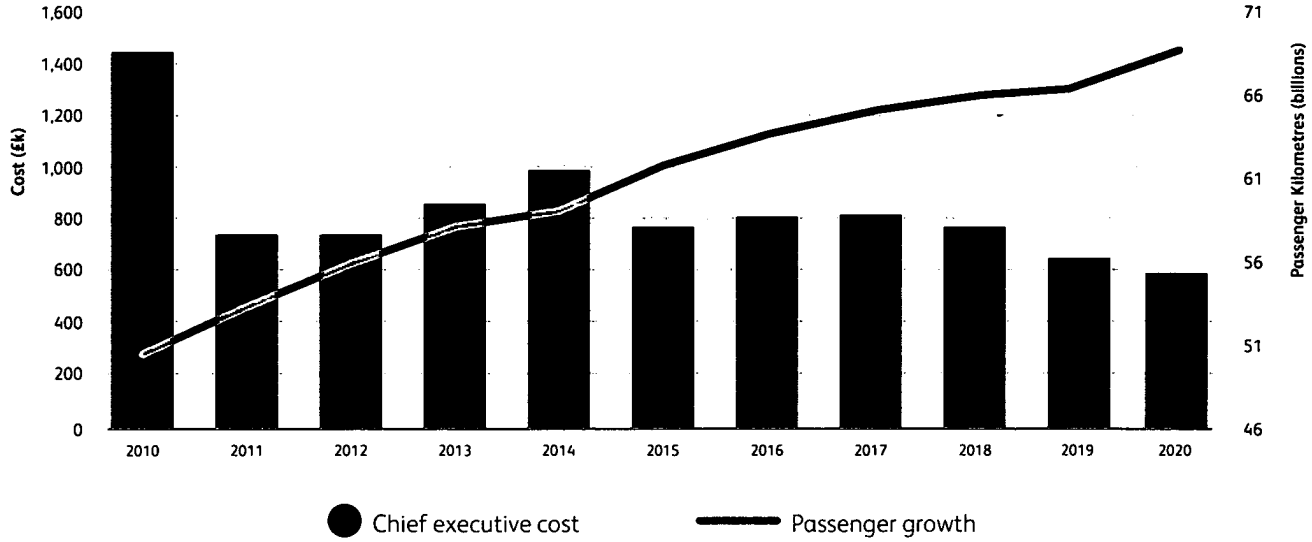
	Chief executive[3]	All employees
Salary[1]	-4.36 %	3.2 %
Benefits	-0.83 %	0 %
Performance related pay[2]	0 %	0 %

1. Based on salary reviews effective on either 1 January or 1 July 2020.
2. 2018/19 was based on a combination of Mark Carne CBE's and Andrew Haines OBE's remuneration, whereas 2019/20 was based solely on Andrew Haines OBE's remuneration which is lower.
3. Performance related pay is based on any changes to maximum opportunity.

Performance graph and table

Under the regulations, companies are required to include a chart showing historic total shareholder return (i.e. share price and re-invested dividends) over an eight-year period alongside a table that shows the remuneration paid to the chief executive over the same period. As Network Rail does not have shares, or a share price, an alternative metric of passenger kilometres travelled has been used.

Number of passenger kilometres travelled



	Chief executive	Single total figure of remuneration	PRP (% of vesting)	LTIP (% of vesting)
2019/2020	Andrew Haines OBE	£595k	0%	N/A
2018/2019	Andrew Haines OBE	£371k	0%	N/A
	Mark Carne CBE	£285k	N/A	N/A
2017/2018	Mark Carne CBE	£769k	54.6%	N/A
2016/2017	Mark Carne CBE	£820k	37%	N/A
2015/2016	Mark Carne CBE	£811	34.7%	N/A
2014/2015	Mark Carne CBE	£771k	0%	N/A
2013/2014	Mark Carne CBE	£200k	20.9%	N/A
	Sir David Higgins	£790k	N/A	N/A
2012/2013	Sir David Higgins	£836k	28.6%	N/A
2011/2012	Sir David Higgins	£736k	0%	N/A
2010/2011	Sir David Higgins	£161k	N/A	N/A
	Iain Coucher	£528k	N/A	N/A
2009/2010	Iain Coucher	£1,447k	56.8%	N/A

Iain Coucher was appointed chief executive on 1 August 2007. He resigned on 31 October 2010.
Sir David Higgins was appointed chief executive on 1 February 2011. He resigned on 28 February 2014.
Mark Carne CBE was appointed chief executive on 24 February 2014. He retired on 4 September 2018.
Mark Carne CBE also voluntarily declined any performance related pay in 2018.
Andrew Haines OBE was appointed chief executive on 14 August 2018. He declined any performance related pay in 2019.
N/A indicates that there was no eligibility for an award vesting in respect of the relevant year.
The combined single total figure of remuneration for Andrew Haines OBE and Mark Carne CBE is £655k.

Relative importance of spend on pay

Under the regulations, companies are required to illustrate the relative importance of spend on pay by disclosing the total employee remuneration and returns to shareholders (i.e. dividends and share buybacks) in the reporting year and the prior year. Network Rail is a not-for-dividend company and therefore cannot provide data on returns to shareholders. Therefore, in line with the principle of this disclosure, the table below includes other key Network Rail metrics to illustrate employee remuneration in the context of overall business activities.

	2019/20	2018/19	Change (%)
Total employee remuneration	£2,715m	£2,561m	6.0%
Total expenditure	£9,392m	£10,824m	-13.2%

Remuneration report continued

Consideration of directors' remuneration – remuneration committee and advisers

The membership of the committee during the year comprised the following independent non-executive directors: Sir Peter Hendy CBE, David Noyes, Bridget Rosewell CBE and Richard Brown CBE. David Noyes replaced Bridget Rosewell CBE as chair during the year.

The group general counsel and company secretary is secretary to the committee. The committee is also supported by the group HR director, and head of reward and benefits. The chief executive attends meetings at the invitation of the committee. No individual is present when their own remuneration is being discussed.

In carrying out its responsibilities in line with best practice, the committee seeks independent external advice as necessary. During the year, the committee retained Deloitte LLP to provide independent advice on executive remuneration. Deloitte was appointed by the committee in 2012 following a selection process undertaken by the committee. The committee is satisfied that the Deloitte engagement partner and team provide objective and independent remuneration advice to the committee and do not have any connections with Network Rail that may impair their objectivity and independence. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at **www.remunerationconsultantsgroup.com**. Deloitte did not provide any advice to the committee during 2019/20, and as such no fees were payable in this respect.

Key remuneration committee agenda items during the year

May 2019	• Review of Board succession and non executive director appointments • Payment of the 2016 deferred element of performance related pay to executive directors • Proposals for performance related pay for 2019/20 and beyond • 2018/19 outturn for performance related pay decisions for executive directors • Executive director and executive leadership team members' annual pay review 2019 • Roles within Network Rail over Her Majesty's Treasury (HMT) threshold
June 2019	• Appointment process to replace retiring non-executive directors • Approval of approach for performance related pay for 2019/20
December 2019	• Review of membership of Board committees following the retirement of non-executive directors • Half year review of performance related pay for 2019/20 • Review of the executive director remuneration policy • Review of Department for Transport's draft response to the Public Accounts Committee recommendations on senior executive remuneration • Review of committee's terms of reference • Roles within Network Rail over HMT threshold
February 2020	• Review of the draft executive director remuneration policy • Proposals for 2020/21 performance related pay • Roles within Network Rail over HMT threshold • Review of executive leavers since 2017
March 2020	• Approval of the executive director remuneration policy • Review of the likely 2019/20 outturn for performance related pay decisions • Targets for 2020/21 performance related pay • Executive directors' annual pay award 2020 • Approval of executive directors' performance objectives

Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
Richard Brown CBE[1]	July 2015	5/5
Sir Peter Hendy CBE	July 2015	5/5
Bridget Rosewell CBE[2]	September 2018	3/3
David Noyes[3]	October 2018	5/5

1. Retired from the Board and the committee on 31 March 2020.

2. Appointed to the committee as chair in September 2018. Retired as chair following the meeting on 18 December 2019.

3. Took over as chair from Bridget Rosewell CBE following the meeting on 18 December 2019.

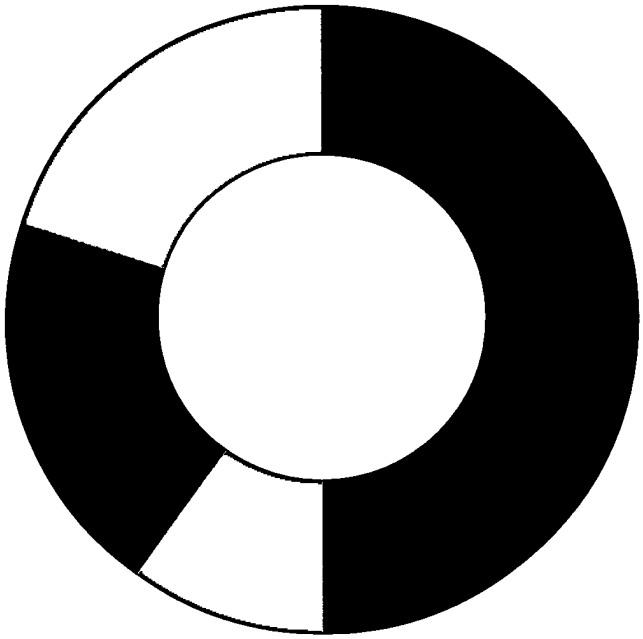
Role of the remuneration committee

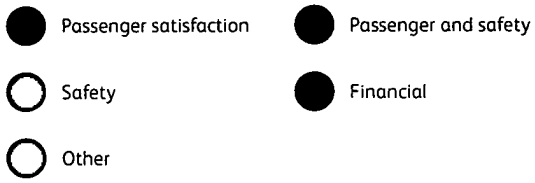
In 2018, the nomination and remuneration committees were combined to form one committee. The committee continues to cover policy, governance and decision making in relation to all senior employees with salaries above the pay threshold.

The full terms of reference of the committee can be found on the website: **www.networkrail.co.uk**.

Pay for performance structure for executive directors – aligned to what is important for customers

The PRP arrangements for executive directors and other employees are aligned to business performance and is based on the national dashboard outturn.





Network Rail moved from route/region/function scorecards to a new dashboard with a set of output focussed measures which more effectively reward delivery. Reducing the number of measures from the previous year enables sufficient weightings to each measure so that it is significant enough to reward success. The national dashboard has been designed to ensure our customers and, through them, our passengers are at the heart of how we operate.

Remuneration report continued

National dashboard for 2019/20

For 2019/20, PRP changed to reflect feedback around the complexity of the scheme and passenger satisfaction not being fully reflected in the previous measures. The new dashboards are designed to bring together the priorities of our customers, passenger satisfaction, our financial performance, efficiency and, our continued prioritisation of safety. The new measures give an appropriate weighting to passenger satisfaction by combining train performance, the National Rail Passenger Satisfaction (NRPS) measure and passenger safety (measured through train accident risk reduction (TARR)), demonstrated in the table below.

Area	Measure	Weighting	Target
Safety	**Fatalities and Weighted Injuries (FWI)** An index representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower FWI represents better performance.	10%	0.058
	Train Accident Risk Reduction (TARR) Measures achievement of the key milestones and metrics to reduce train accident risk. TARR is made up of milestone targets and volume targets, both of which have different achievement weightings.	10%	80%
Passenger	**Freight Delivery Metric (FDM)** The percentage of commercial freight trains that arrive at planned destination within 15 minutes of scheduled time. Freight trains are only considered to have failed FDM where a delay is caused by Network Rail.	5%	94%
	Public Performance Measure (PPM) PPM is the percentage of trains which arrive at their terminating station 'on time' compared to the total number of trains planned. A train is defined as on time if it arrives at the destination within five minutes of the planned arrival time for London and South East or regional services, or 10 minutes for long distance services.	15%	89%
	Passenger Satisfaction (NRPS score) The percentage of passengers surveyed who were satisfied with their overall journey.	20%	81%
Financial	**Financial Performance Measure (FPM)** An assessment of how Network Rail have performed compared to the financial targets set out in the CP6 Business Plan. The measure is an aggregation of the three individual FPM measures (P&L, Renewals and Enhancements).	20%	£0.00
Other	**Investment Milestones** The number of milestones completed ahead of or on time, as a percentage of all milestones planned for delivery in the year.	10%	90%
	Composite Reliability Index (CRI) The Composite Reliability Index is a measure of the short-term condition and performance of our assets including track, signalling, points, electrification, telecoms, buildings, structures and earthworks. The index shows the total percentage improvement in asset reliability compared to the end of the previous Control Period.	10%	-0.4%
	Employee Engagement*	-	-

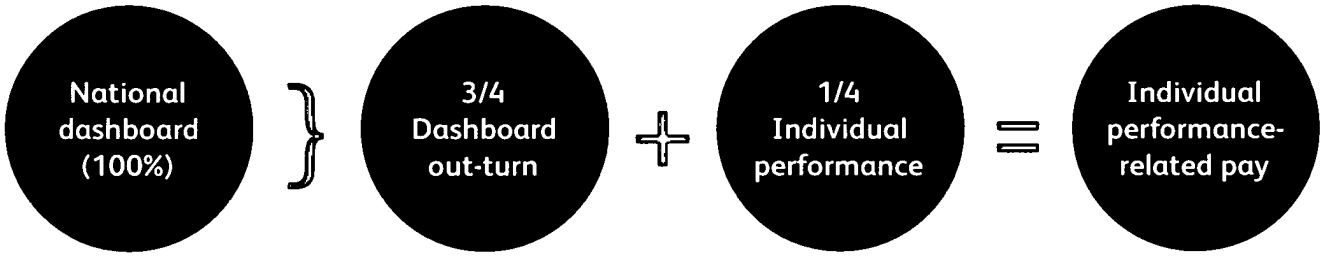
* Employee engagement is zero weighted for 2019/20, the engagement index from the 2019 Your Voice survey will be used as a baseline for the target for future years

Remuneration report continued

Regional dashboards include measures which match each regions' responsibilities along with universal measures such as safety and financial performance. Local scorecards are still used to manage business performance at a local level, but they are not linked to PRP.

In addition, no payment will be made in respect of any performance measure which fails to exceed the minimum level of performance (worse than target threshold) and evidence of under reporting against safety would result in the outcome of the safety measures being reviewed and reducing performance accordingly, including potentially to zero.

From 2019/20, one quarter (25 per cent) of PRP will be determined by an individual's performance rating. This provides a direct line of sight between the achievement of individual objectives and PRP. For executive directors and employees aligned to the national dashboard, the figure below demonstrates how individual performance related pay is calculated:



Executive director's remuneration policy

Network Rail perform an essential role in managing and enhancing the UK's transport infrastructure to drive economic growth for passengers. The Department for Transport (DfT) delivery bodies manage resources at similar levels to FTSE 100 and so it is essential that they can attract and retain the right calibre of senior executives to deliver the Government's economic and transport priorities. It is also recognised that senior appointments must be mindful of public sector pay constraints and the importance of delivering value for taxpayers and passengers.

The remuneration policy ("policy") has been agreed by the Network Rail nominations and remuneration committee ("the committee") in accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019. The policy is subject to approval from the Secretary of State (SoS) and the Chief Secretary to HM Treasury (CST). Following that approval, the Policy will be formally approved by the SoS at the 2020 Annual General Meeting.

The approach reflects Network Rail's position as an arm's length body (ALB) delivering for passengers and freight users, being mindful of managing public money.

The policy is based on a set of pay principles, developed by the committee working closely with the DfT. The principles set out the framework in which remuneration policies and decisions are made. They are intended to provide a framework for senior remuneration. They apply to all new appointments and over time, may be applied to existing executives' packages. It is important that decisions about remuneration are not separated from organisational plans and priorities. Exception to these principles must be agreed by the committee and where required, approval would be sought from ministers.

The framework the principles set out applies to all senior roles, not just executive directors.

Consideration of stakeholder views in developing the policy

In formulating the policy, the committee consulted with the following key stakeholders:

- Department for Transport, as part of our status as an arm's length public sector body
- Employees, through various communication processes throughout the year whereby the views of employees are conveyed to the committee and considered. One of the key underlying principles is that, as far as practicable and appropriate, the remuneration framework for the executive directors should be aligned with that which applies for other managers and employees throughout the organisation. As a result, the pay, remuneration structures and employment conditions throughout the company were considered by the committee in developing the policy.

Senior Executive Remuneration principles

Remuneration benchmarks

Total remuneration benchmarking should use comparator groups and benchmark data sources agreed by CSEP.

Remuneration will normally be offered in the lower quartile against total remuneration benchmark as a starting point for all posts. Clear rationale provided for any packages above lower quartile.

Annual pay awards should be value for money and be mindful of public sector pay constraints.

Appointments above £150k should be based on evidenced business cases which reflects; scarcity of skills, difficulty in recruitment and retention, market comparators and alignment to workforce plan.

Remuneration report continued

Performance related pay / Pay at risk

For most roles, performance related pay should be included. The weighting should take into account the nature, impact of the role and the exposure ro risk.

PRP / Pay at risk polices and processes should:

- Be linked to organisational objectives and KPI's.
- Encourage positive behaviours in accordance with ALB values.
- Balance individual and organisational performance.

Remco (or the board) should be accountable for PRP approaches and processes.

The number of senior executive posts (£150k+)

All relevant remuneration must be disclosed in public sector transparency data.

Any constraint on the number of senior posts (captured by transparency reporting) should be linked to delivery plans, organisation's size, complexity and risk profile. These will be agreed with HMG.

Where practical to meet business needs, posts should be based outside central London to provide access to wider labour markets.

Remuneration committee

Where practical to meet business needs, posts should be based outside central London to provide access to wider labour markets.

Chair / Remco are directly accountable to Ministers for explaining how these principles are being applied.

The Remco (or the board) are responsible for assuring the linkage between workforce plans, pay strategies and delivery plans for staff at all levels.

DfT shareholder observer on each Remco

Remco should be responsible for ensuring appropriate remuneration arrangements to enable the attraction and retention of the right executive capability, and its sustainability (succession).

Other reward benefits

Benefits should be flexible and aligned with budgets, agreed with HMG, be in line with other contractual obligations or public sector norms (e.g. no company cars – except for operational needs – or private healthcare). Cash should not be offered as an alternative to pension.

*Loss of office payments must be consistant with contractual obligations or in line with public sector limits, unless explicitly agreed with HMG in exceptional circumstances, following an evidenced based business case.

* DfT's expectations are that contractual obligations to be brought in line with public sector limits once legislation has been passed by Parliament in this respect.

Remuneration report continued

Summary of remuneration package for executive directors

The remuneration package for executive directors has three components – base pay, pension and performance related pay. Performance related pay is based on performance within the financial year (April to March). Existing incumbents will continue with their current arrangements.

Table of elements of package

Component	Purpose/link to strategy	Operation	Quantum
Base Salary	To provide an element of fixed remuneration which reflects the skills and experience of the individual, allowing the company to recruit the calibre of individual needed to lead the business.	Salaries of executive directors are determined by the nominations and remuneration committee. Salaries are set at a level which reflects the skills and experience of the individual, as well as the scope and responsibilities of the role. In considering the above, the committee takes into account the levels of remuneration in the market based on lower quartiles on information for similar roles in comparable organisations. Salaries are reviewed annually, and any changes are normally effective from 1 July, and would not normally be a higher percentage than that paid to management grades. * Andrew Haines £588,000 * Jeremy Westlake £371,316	The approach to determining remuneration will normally be based on the lower quartile against the total remuneration. Annual pay awards should be value for money and be mindful of public sector pay constraints. Increases above this level may be made by the committee in circumstances where it considers it appropriate, such as to reflect: • An increase in the scope and responsibilities of the role. • A change in role. If recruitment is needed to replace an executive director role, the package will be reviewed by the remuneration committee to ensure the right balance between the fixed elements of the package (base pay) and the variable elements (performance related pay).
Pension	To provide a retirement benefit in line with other senior managers and employees at Network Rail.	Executive directors are eligible to participate in one of the Network Rail pension schemes, on the same basis as other employees. Benefits in the pension schemes are limited to a cap on pensionable earnings (£166,200 from April 2019), subject to annual review.	The DB schemes have an accrual rate of 1/60th of pensionable earnings. The maximum employer contribution under the DC scheme is seven per cent of pensionable earnings. After five years' service employees can opt to join the railway pension scheme (RPS65).

Component	Purpose/link to strategy	Operation	Quantum
Performance related pay	Performance related pay is based on the achievement of stretching annual performance targets in areas which we, our customers and stakeholders care about most. Cascading the performance framework throughout the organisation creates aligned objectives and shared successes.	Performance related pay provides an opportunity to reward performance for our customers and meets the needs of the passengers and freight businesses. Following the end of the financial year, the committee will assess performance against stretching performance targets set at the start of the year. The committee also has overriding discretion to make adjustments to reflect its assessment of the overall business performance in the year, including overall business performance and safety. The overall structure is in line with the pay principles.	There is a maximum opportunity of 20 per cent for the chief executive and chief financial officer subject to performance. As noted earlier, at the time of recruitment to replace an executive director role, the balance between the fixed element of the package (Base salary) and variable element (performance related pay) will be reviewed by the committee. The intention is for the expected value of the total package would not increase.

Approach to recruitment remuneration

New executive directors would be appointed on to the remuneration package described in the above policy table. The approach which the committee would take to each of the components is as follows:

- Salary would be set based on the lower quartile of the total remuneration using comparator groups and benchmark data sources agreed by the Civil Service Employment Policy team.
- Participation in the Network Rail pension schemes would be in line with all employees. No cash supplements will be issued in lieu of pension.
- Eligibility to participate in the performance related pay scheme, in line with the policy table. Participation in the year of appointment would normally be on a pro-rata basis to reflect the period worked in the relevant scheme year. Any pro rata participation would be qualified by an assessment of the realistic impact a new joiner could make in the year of appointment. For new executive directors, they must be employed on or before 30 September of that performance year to qualify for a payment in that scheme year.

Any travel or relocation payments are only to be provided in exceptional circumstances where there is a strong business case and is in line with existing Network Rail policies. Any request outside of policy will require DfT/HMT approval.

Performance related pay – performance framework and target setting

Overall framework

For executive directors, performance related pay will be based on the national dashboard, which is designed to bring together the priorities of our customers, passenger satisfaction, our financial performance, efficiency and, our continued prioritisation of safety. The committee believes this is the most appropriate way to reward performance in the range of areas mentioned above which are most important to Network Rail's customers and stakeholders.

The current dashboard measures are detailed in the annual remuneration report.

The targets for each measure are agreed by the committee at the start of each year. For each measure, a target range applies, under which between zero per cent and 100 per cent of the maximum pay out based on actual performance against the target range. The target ranges are designed to be stretching and to only deliver a pay out where performance is above expectations, with maximum pay out requiring exceptional performance.

Overall business performance

In addition, the committee has an overriding discretion to make adjustments to reflect its assessment of overall business performance in the year, including safety,

Remuneration report continued

passenger satisfaction and financial performance. Their review takes into account a range of factors including report from the safety, health and environment ("SHE") committee.

For the avoidance of doubt, in the event of a serious safety incident during the year which impacts passengers, workforce, or the public, for which Network Rail was responsible, no performance related pay would normally be payable to any executive director in respect of that year.

Overall business performance

Executive directors have service agreements which can be terminated by the company or the director by giving six months' notice. This applies to all current executive directors and would normally be applied as the policy for future appointments.

For the full-service agreement please contact the company secretariat via **cosec@networkrail.co.uk**

Name	Effective date of agreement	Notice period (from Executive Director and from company)
Andrew Haines	3 September 2018	6 months
Jeremy Westlake	24 February 2016	6 months

Each service agreement contains an express provision requiring the departing executive director to mitigate their loss. Network Rail would have regard to that duty and contractual requirement on a case by case basis when assessing the appropriate level of compensation which may be payable, including using phased payments.

Policy on loss of office

Where an executive director leaves employment, the committees' approach is to minimise the cost to Network Rail and to ensure that any performance related payments offered appropriately reflect performance.

There will be no contractual entitlement to any payment in lieu of notice (PILON).

Executive directors leaving through means of redundancy would be subject to the £95k cap at the point of implementation of this legislation.

An executive director is only entitled to any performance related payment for the current scheme year if they are in Network Rail's employment on 30 June of that scheme year. The exception to this is if the executive director leaves employment under one of the following reasons and will be classed as a 'good' leaver:

- Ill health severance
- Death in service
- Redundancy
- Any other reason at the discretion of the committee (including a participant leaving by mutual agreement)

In all these circumstances, the executive director would be entitled to a pro rata payment based on the number of calendar days employed in that scheme year. If there is no performance rating, a 'good' rating will be applied for payment calculations. This also applies should an executive director have died in service.

Whilst under the performance related payment there are no deferred payments made, should there be a deferred payment outstanding from previous years schemes, these will be paid at the same point as that current year's payment.

Illustration of remuneration policy

The reporting regulations require the inclusion of charts which illustrate the application of the remuneration policy set out in the policy table for executive directors, by showing the potential value of the annual remuneration package under three scenarios.

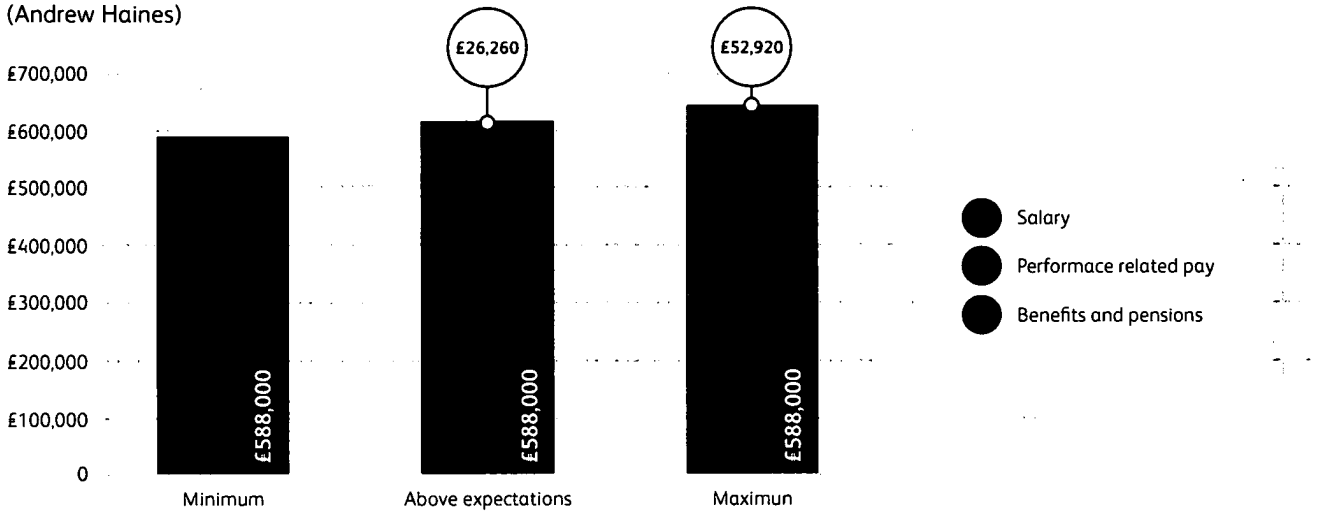
Remuneration report continued

The assumption used in the charts below are:

Chief Executive

- The current chief executive is on a maximum performance related payment of nine per cent of base pay
- 'Minimum' shows fixed pay only (base salary effective as at 1 July 2019 and the annualised disclosed pension/ benefits for 2019)
- 'Above expectations' includes fixed pay and 50 per cent of the maximum pay out under the performance related pay scheme (i.e. 4.5 per cent of salary)
- 'Maximum' includes fixed pay and maximum pay out under the performance related pay scheme (i.e. nine per cent of salary)

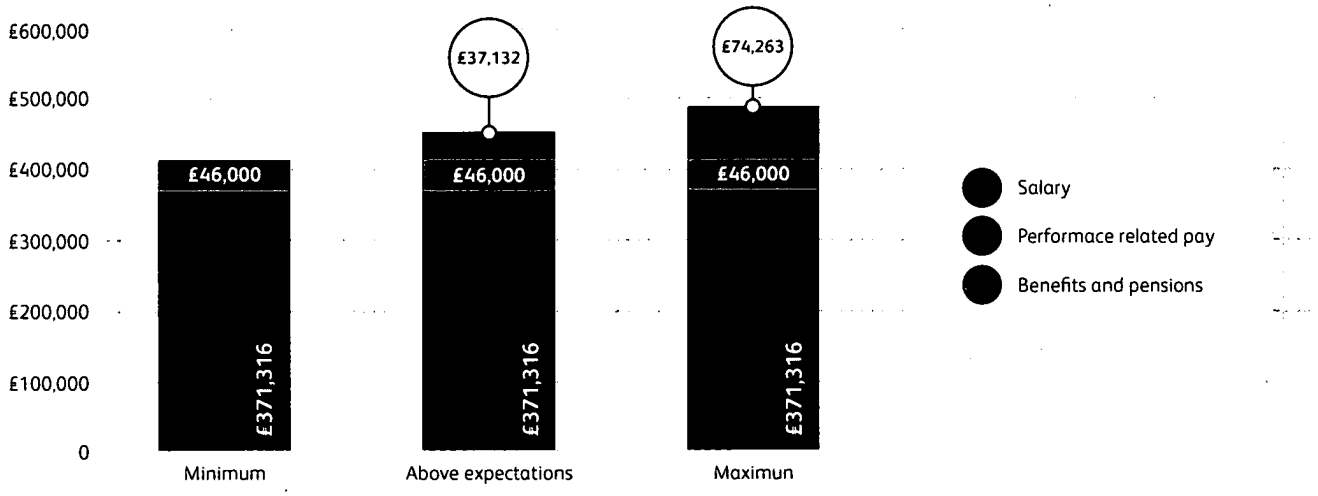
Chief executive estimate
(Andrew Haines)



Chief finance officer

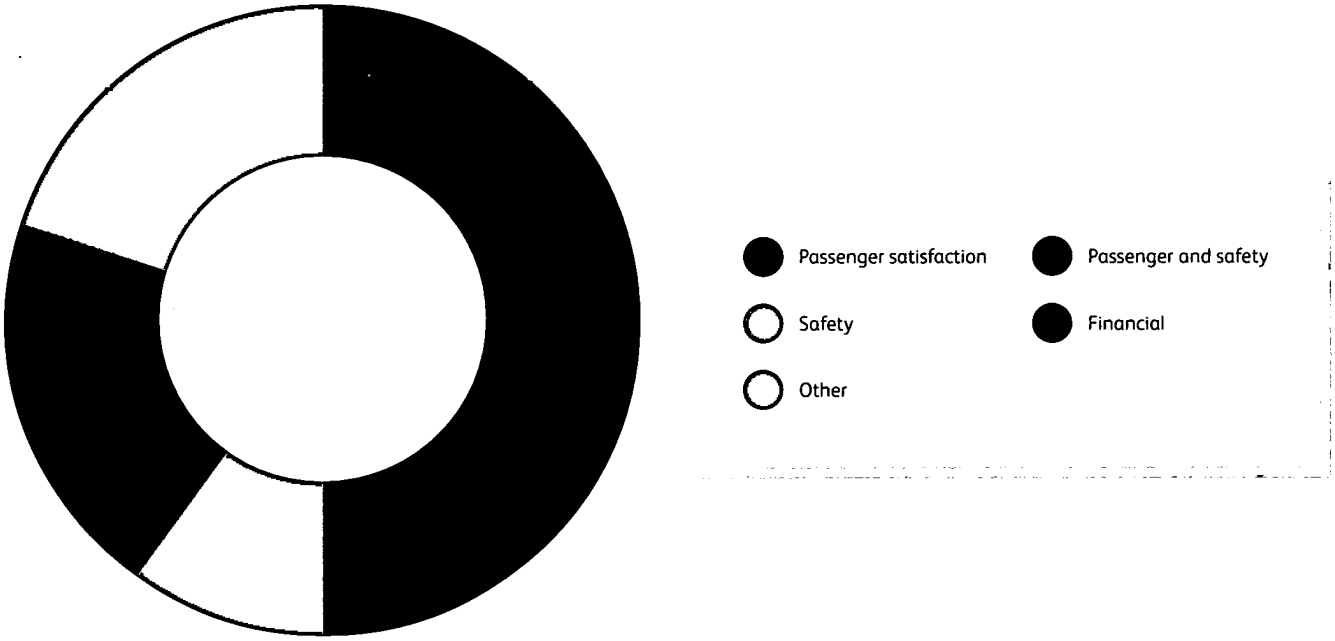
- 'Minimum' shows fixed pay only (base salary effective as at 1 July 2019 and the annualised disclosed pension/benefits for 2019)
- 'Above expectations' includes fixed pay and 50 per cent of the maximum pay out under the performance related pay scheme (i.e. 10 per cent of salary)
- 'Maximum' includes fixed pay and maximum pay out under the performance related pay scheme (i.e. 20 per cent of salary)

Chief finance officer estimate
(Jeremy Westlake)



Remuneration report continued

Pay for performance measures are aligned to what is important to our customers.



The new overall national dashboard is used to measure performance every period and is used for performance related pay measures and targets.

Poor financial performance will result in reduced performance related pay and potentially no payment i.e. if financial performance is below 'worse' than target the outturn will be reduced on a sliding scale. If financial performance goes beyond twice the 'worse than' target set, then no performance related payment will be made.

Network Rail also reserve the right to reduce or withhold payment in the event of a significant safety incident.

Directors' report

The directors present their annual report and the audited accounts for the year ending 31 March 2020.

Disclosures regarding business performance and activities, future business developments and risk management are contained in the strategic report (pages 1 to 71) and corporate governance report (pages 72 to 120).

The company is limited by guarantee, having no share capital, so there are no share disclosures in this report.

Directors
The directors who served during the year and held office at the date of signing the annual report and accounts are detailed on pages 73 to 76.

Directors' conflicts of interest
In accordance with company law and the company's articles of association, the directors have the power to authorise any matter which would or might otherwise constitute or give rise to a direct or indirect conflict of interest. However, such authority can only be exercised if the director has declared their actual or potential conflict of interest to the Board. The directors have a continuing obligation to update any changes to their conflicts of interest. Further details about directors' conflicts of interest can be found on page 84.

Branches
The company's subsidiary, Network Rail Consulting Limited, has established branches in Dubai and Saudi Arabia; and subsidiaries in Australia, Canada, New Zealand and the United States of America (USA).

Contracts of significance
There were no contracts of significance existing during 2019/20 to which any Network Rail undertaking was a party and in which a director of the company is or was materially interested (as defined by Listing Rule LR 9.8.4R).

Political donations
It is Network Rail's policy not to make political donations or to incur political expenditure in the UK and the EU. No political donations were made, and no political expenditure was incurred during the year (2018/19: £nil).

Investment in research and development
Technology and innovation is fundamental to Network Rail's success in Control Period 6 and beyond.

During the year the group charged nothing to the income statement (2018/19: nil) on research and development.

Further information on the cost of research and development can be found in Note 2 on page 140.

Engagement with our people, passengers and stakeholders
Further information can be found in the Engaging with Stakeholders section on page 77 relating to the actions the company has taken during the financial year to develop arrangements aimed at:

- Providing its people with information on matters of concern to them;
- Consulting its people's representatives on a regular basis to ensure that their views are taken into account when making decisions that are likely to affect their interests;
- Encouraging its people's involvement in the company's performance; and
- Achieving a common awareness on the part of all its people of the financial and economic factors affecting the company's performance, as well as how the directors have had regard to the need to foster effective business relationships with its suppliers and stakeholders.

Financial disclosures
Disclosures relating to the group's use of financial instruments, financial risk management objectives and policies of the company, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; its exposure to price risk, credit risk, liquidity risk and cash flow risk can be found under Note 25 on page 166.

Particulars of important events affecting the group since the financial year end and an indication of likely future developments can be found in the Chief Financial Officer's (CFO) statement on pages 17 to 21.

Directors' statement of responsibilities
The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose, with reasonable accuracy, at any time the financial position of the company and the group. This enables them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group, and

Directors' report continued

hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the company's website.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for its member to assess the company's performance, business model and strategy.

Each of the directors in office at the date of this report, whose names and functions are listed on pages 73 to 76 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the group and the undertakings included in the consolidation taken as a whole.
- The management report is incorporated into the strategic report and directors' report for the purposes of the Disclosure and Transparency Rules (DTR 4.1.8R). It includes a fair review of the development and performance of the business and the position of the group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the group faces.

Independent auditor
Resolutions for the re-appointment of the current independent auditor, the National Audit Office, who also acts for the Comptroller and Auditor General, and to authorise the audit and risk committee (ARC) to determine the independent auditor's remuneration, will be proposed at the forthcoming annual general meeting. The notice of meeting is enclosed, together with explanatory notes, in a pack with this report.

Disclosure of information to the independent auditor
Each of the directors at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's independent auditor is unaware;
- The director has taken all the steps that they ought to have taken as a director in order to make them aware of any relevant audit information and to establish that the company's independent auditor is aware of that information.

Going concern statement
The group's business activities, together with the factors likely to affect its future development, performance and position and the group's principal risks and uncertainties are set out in the 'strategic report' section on pages 1 to 71. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the CFO's review on pages 17 to 21. Note 25 to the accounts on page 166 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk. The viability statement on page 70 sets out a longer-term assessment than this going concern statement.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those risks. This analysis takes account of the mitigating actions realistically to be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the board's regular monitoring and review of risk management and internal control systems, as described on pages 60 to 69, are disclosed in detail.

Consequently, the directors believe that the group is well placed to manage its business risks.

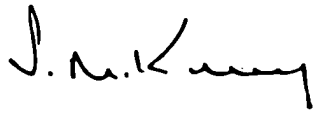
After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

For this reason and on the basis of the above, the directors consider it appropriate for the group to adopt the going concern basis in preparing its annual report and accounts.

Post Balance sheet events
Network Rail's response to the Coronavirus pandemic has been discussed throughout the report, including the chief executive's report on page 3 and the risk management report on page 60. Regional responses to the crisis have also been highlighted in their reports on pages 23 to 42.

Except as disclosed above, there have been no additional significant post balance sheet events, whether adjusting or non-adjusting.

Stuart Kelly,
group general counsel and company secretary



16 July 2020

Financial statements

Financial statements

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Independent auditor's report to the members of Network Rail Limited

Opinion on financial statements

I have audited the financial statements of Network Rail Limited ('the company') for the year ended 31 March 2020 which comprise:
- the group income statement and statement of comprehensive income;
- the group statement of changes in equity;
- the group and parent company balance sheets;
- the group and parent company statement of cash flows;
- and the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:
- give a true and fair view of the state of Group's and the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require me to report to you whether I have anything material to add or draw attention to:
- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group and the parent company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with my knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group and the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards

require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Network Rail Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorities for a company	Companies Act 2006 / Articles of Assocation
Operating requirements	Network Licence
HM Treasury and related authorities	Managing Public Money

Overview of my audit approach

Key audit matters
Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed on the significant risk of management override of controls.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 88 to 95.

In this year's report the following changes to the risks identified have been made compared to my prior year report.

Matters connected with heightened estimation uncertainty
- In assessing the valuation of the railway network, my overall procedures have been similar but as described in the key audit matter below, I have been mindful of the economic uncertainties produced by the COVID-19 pandemic, and the judgements made by management in forecasting the future financial performance within Control Period 6 (2019-2024) which a theoretical buyer might take into account.
- The valuation of Network Rail's pension deficit appears again as a key audit matter. We have focussed greater attention this year on the valuation of pension assets given the economic uncertainties that existed at the balance sheet date as a result of the COVID-19 pandemic.

Matters driven by material accounting policy changes
- Network Rail has adopted IFRS 16 – Leases for the first time in 2019-20. I have identified the completeness of the leases recorded under the new standard as right of use assets and corresponding liabilities as a key audit matter.

Matters where risk has reduced
- I have rebutted the risk of fraud through revenue recognition as a significant risk for 2019-20. I previously recognised this risk with respect to property and commercial income. However since the sale of much of the property portfolio (the 'Arches') in 2018-19 the revenue, and associated risk, has decreased significantly.
- The first time adoption of IFRS 9 was included as a key audit matter for 2018-19 but has been removed for 2019-20 as the risk was specific to the first time adoption of the standard.

Independent auditor's report continued

Property, plant and equipment – valuation of the rail network

Description of risk

The group accounts for the rail network as a single asset carried in the Balance Sheet at its fair value. In the absence of an active market, fair value is estimated using the discounted cash flows associated with the asset.

As explained in Note 12 to the financial statements, the group continues to use the Regulated Asset Base ('RAB') as the starting point for its discounted cash flow valuation of the railway network. This is on the basis that a private owner of the railway network asset would have its revenue requirement determined using the building block model of regulation.

The value of the RAB at 31 March 2020 (after the effects of inflation, qualifying capital expenditure, and amortisation) is £72.5 billion. Management continues to acknowledge that, in pricing the asset, an investor would make an assessment of the deliverability of the current regulatory determination, and a discount of £475 million has been applied to the RAB value in determining the fair value of the rail network asset at the reporting date (31 March 2019: discount of £281 million). This is termed the Performance Adjustment and, as in previous years, has been calculated based on management's own performance forecasts for the remainder of the current Control Period. As per management's disclosures in Note 2 under 'Critical accounting judgements and sources of uncertainty' and in Note 12, inherent estimation uncertainty in this area is considerable in light of the forecasting element. This year, management have specifically considered the impact of COVID-19 and notes a specific assumption about the return of property income (principally from managed stations) to baseline levels by 2021-22.

A further discount of £251 million (31 March 2019: discount of £232 million) has been applied to reduce the reported fair value of the rail network asset to £71.8 billion (31 March 2019: £71.5 billion). This adjustment is equal to the value of assets separately recognised as Investment Property and Assets Held for Sale, and is applied on the basis that the under the traditional regulatory model, the revenue requirement of the regulated entity is calculated net of the income the entity expects to generate from the property assets. Further information is included in note 12.

In evaluating the value of the RAB, I focussed my audit effort on the continuing validity of the underlying valuation assumptions, and on the estimation of the Performance Adjustment.

How the scope of my audit responded to the risk

Evaluating underlying valuation assumptions
Having read the regulator's determination for CP6, I considered whether a market participant could reasonably expect their revenue requirement to be determined using the traditional regulatory funding model. I assessed as reasonable management's judgement that a market participant would value the railway network asset by reference to the RAB.

I confirmed with the regulator that, in their view, the sale of all (or part) of the railway network could take place without a regulatory re-opener (i.e. a new regulatory determination with revised outputs and a revised assessment of efficient costs). Accordingly, I assessed as reasonable management's judgement that in valuing the railway network asset a market participant would make an adjustment to deliverability of the current regulatory determination. I also reviewed the reasonableness of the other underpinning assumptions noted in Note 12.

Addressing measurement uncertainty – the performance adjustment
The company has measured the performance adjustment as the difference between its revised CP6 Delivery Plan, updated at 31 March 2020 to reflect its latest forecast, and the CP6 regulatory baseline.

I evaluated the appropriateness of the method of measurement, and the inherent assumptions, by assessing the ongoing validity of the theoretical assumptions underpinning this RAB-based valuation, and assessing management's performance forecast against relevant metrics.

I am satisfied with the ongoing validity of the theoretical assumptions following a detailed review on the impact of CP6.

I have also assessed management's measurement of the performance adjustment relevant to a third party as reasonable. I obtained this assurance by evaluating, at a high-level, the company's performance forecasts for CP6 against its historic and

emerging performance trends, as well as publicly available performance metrics and my wider understanding of the business. I also considered management's assumptions in respect of the impact of COVID-19, for example in respect of the future prospects of commercial income, in determining whether inputs to the estimate were within a reasonable range.

In the course of completing this work, I did not identify any material misstatements in the valuation of the railway network recognised, and disclosed, in the financial statements.

Defined Benefit Pensions Scheme – valuation of deficit

The group is party to several pension schemes. Based on risk and value, I focussed my work most heavily on the Network Rail section of the Railway Pensions Scheme ('RPS'). I have focussed greater attention on the valuation of the scheme assets this year as a result of the COVID-19 pandemic and resultant market volatility. The balances related to this section reflect, respectively, 96 % and 94 % of the group's total assets and liabilities in respect of defined benefit pension schemes, with the Career Average Retained Earnings ('CARE') scheme making up the remainder. Both schemes are on a 60:40 shared cost basis between the group and scheme members.

There is significant complexity, and inherent estimation uncertainty, in the valuation of the net position of the RPS scheme in respect of both the assets and liabilities contributing to the net position which is detailed in Note 26 to the financial statements. Scheme movements are presented on an aggregated basis in this note for the RPS and CARE schemes, inclusive of members' share, as are the values below.

Scheme liabilities
As with all defined benefit pension schemes, an actuarial estimate of the liability reflecting amounts to be paid out to scheme members in the future (£10,401 million as at 31 March 2020 including members' share) involves significant estimation, for example in respect of key financial assumptions.

Scheme assets
In respect of assets, an accurate and timely valuation is needed of the various asset classes held in the pension fund administered by RPMI on Network Rail's behalf (£6,951 million as at 31 March 2020 including members' share).

This has been further impacted as a result of COVID-19, particularly for assets classified at Level 3 in the fair value hierarchy (i.e. those whose prices are not readily determinable based on observations of an active market).

The standard practice of the scheme assets manager is to value investments using the most recent valuation, and if this is for a date earlier than the Balance Sheet date, to adjust for subsequent cash flows where necessary. In a stable market we have been content with this methodology, but in the context of the COVID-19 driven volatility I worked with Network Rail and the asset manager to determine enhancements which would take better account of market conditions at the year end.

The valuation of the property held by the scheme is also affected by potentially material uncertainty following the market reaction to COVID-19 which was highlighted to Network Rail by its professional valuers.

I assessed this key audit matter to be a significant risk for my audit.

How the scope of my audit responded to the risk

Scheme liabilities
I contacted Network Rail's actuaries to obtain an up to date understanding of the methodology used to calculate the main financial assumptions, and to understand the methodology and level of uncertainty involved in the roll-forward calculation.

I performed my initial assessment of the independence and expertise of these actuaries, and engaged an actuarially qualified auditor's expert to examine the assumptions, methodology and source data used to value the obligations, including both financial assumptions and the roll-forward procedures used to update membership data.

I note that financial assumptions were overall within reasonable ranges, and that changes in financial assumptions – particularly on price inflation – have been the primary cause of downward revaluation this year for pension obligations.

In the course of completing this work, I did not identify any material misstatements in the valuation of defined benefit obligations in the financial statements.

Independent auditor's report continued

Scheme assets
My work on scheme assets is informed by the results of the statutory audit of the RPS financial statements, which is independently performed by another firm, but also includes a set of direct substantive procedures to validate the asset valuations at the year end. These included sample testing over the asset valuations as at 31 March 2020 on distinctive asset classes within the Funds in which Network Rail is invested, as follows:

- for quoted and actively traded assets, I independently agreed valuations to observable market prices;
- for pooled investment assets, I agreed valuations to the investment manager valuation report and reviewed relevant observable active market data to evaluate its reliability. I have also considered potential indicators of impairment in the asset valuation; and
- for directly held property investments, I have reviewed the independent third party property valuation performed for the scheme asset manager, and made direct inquiries with their valuation experts to enable me to understand the nature of the material uncertainty and the basis on which valuations were derived on a best estimate basis.

Additionally, for private equity and non-exchange-traded pooled investment vehicles, I challenged management's expert on the extent to which standard valuation practice would take account of COVID-19 since there was the potential for variance arising from non-coterminous fund manager or professional valuations. This resulted in additional work undertaken by the asset manager to model an impact for assets which they had not yet received a valuation. I performed sample testing to validate the valuation methodology undertaken and understand the nature of the investment as well as consideration for indicators of impairment.

In the course of completing this work, I did not identify any material misstatements in the valuation of the pension scheme assets recognised, and disclosed, in the financial statements.

Accruals for capital work – valuation

Description of risk

The group's accounting for its capital investment in the railway network, for example in terms of renewals, involves a level of estimation at the year end about the amount of work delivered. This may differ from plan, for example as a result of unexpected under- or over-delivery by Network Rail's contractors. Both controllable factors (e.g. contractor project management) and uncontrollable factors (e.g. ground conditions and weather) provide a level of estimation uncertainty which the group addresses through a post-Balance Sheet review exercise which includes the Regions and other delivery areas. These factors are part of the estimation uncertainty outlined by the group under the comments concerning cost of work done in the 'Critical accounting judgements and key sources of uncertainty' section of Note 2.

Network Rail's capital accruals comprise the vast majority of the £910 million 'other accruals' in Note 18 of the financial statements as at 31 March 2020 (31 March 2019: £1,434 million). The estimate is built from the aggregation of estimates made by individual project teams, overseen by financial controllers and directors within the routes and delivery areas. The valuation carries inherent estimation uncertainty, for example as a result of the potential for optimism bias in the assessment of the quantity of work done (which would tend to overstate both accruals and PPE).

In the prior year, based on my audit findings, I had discussed with both management and the Audit and Risk Committee the need, pro-actively acknowledged by management, for an additional focus in future years on both drivers of uncertainty; most particularly, in addressing the root causes of the tendency for delivery optimism. A key root cause is that for some projects – including many which are financially well-managed during their overall lifecycle – insufficient focus is placed on revising accruals estimates based on information emerging after the Balance Sheet date.

While in many respects capital accruals valuation follows straightforwardly from management information, my experience of these specific factors caused me to retain an additional focus to my work for 2019-20, as described below.

I assessed this key audit matter to be a significant risk for my audit.

How the scope of my audit responded to the risk

I substantively tested capital accruals after the completion of this process, allowing management sufficient time after the year end to revise accruals estimates based on actual delivery. In order to address any latent risk of delivery optimism, I

ensured my sample selection included sufficient testing to provide a firmly grounded statistical extrapolation of the potential effect on the accounts. I also furthered my coverage and statistical confidence by testing the majority of accruals at project, rather than task line, level, and by taking a stratified approach based on value-based risk characteristics.

Furthermore, management performed additional work to evaluate the estimation uncertainty factors around contractor disputes. While neither I nor Network Rail expected material estimation uncertainty from this factor, I furthered my coverage by reviewing the methodology and source data connected with Network Rail's adjustment addressing disputes optimism.

Key observations
Having assessed the above exercise, I did not identify any material misstatements in the valuation of the capital accruals recognised, and disclosed, in the financial statements. Most projects were able to clearly and accurately substantiate their assumptions with regards to stages of progress, taking into account information available after the year-end to revise their accrual estimate where necessary. Any issues found were mostly clerical in nature.

First time adoption of IFRS 16 Leases

Description of risk

Network Rail implemented the new IFRS 16 'Leases' accounting standard this year. The new standard requires lessees to recognise nearly all leases on the Balance Sheet which will reflect their right of use of an asset for a period of time and the associated liability for the payments. Network Rail recognised a material balance of £410 million right of use assets and lease liabilities on transition.

The implementation was data-intensive, with Network Rail having to identify all applicable arrangements, collate data and make judgements, for example, on the appropriate incremental borrowing rate; and whether they are reasonably certain that break/extension clauses will be enacted to determine the lease term. Network Rail's interactions with suppliers take place both within central delivery units and the decentralised Regions, and due to the size and current number of related contracts within the organisation, I focussed my work most heavily on the risk that the analysis of IFRS 16 leases might be incomplete.

I assessed this key audit matter to be a significant risk for my audit.

How the scope of my audit responded to the risk

Completeness
I reviewed the process and controls that Network Rail implemented to capture and assess arrangements that could contain a lease. I then investigated high-risk areas of business using assets that could be leased, to better understand the contractual arrangements with third-parties. This was combined with a data-analytics led approach to sample contracts displaying high-risk lease-like attributes. These samples did not identify any issues, but supplementary work identified two omitted leases – immaterial in total – across the organisation.

Application and Judgements
Outside my heaviest focus on completeness, I performed a sample test of historical leases and in-year leases and reviewed management's judgements around lease term, including the relative certainty surrounding the use of break clauses. I also reviewed the appropriateness of the incremental borrowing rate.

Key observations
In the course of completing this work, I did not identify any material misstatements in the completeness of the lease assets and liabilities recognised, and disclosed, in the financial statements.

Application of materiality
I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial

Independent auditor's report continued

statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Audited Area	Basis	Materiality
Overall Financial Statement Materiality (applying to all audited areas with the exception of those listed below)	Approximately 1 % of the rail network asset valuation	£500m
Account balances and transaction streams not connected with the valuation of the rail network asset and to support my opinion on regularity	Approximately 1 % of the group's total gross annual expenditure (operating and capital)	£100m

I consider the above benchmarks to reflect the principal considerations for the users of the accounts in assessing the financial performance and position of the group.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected, influence the decisions of users, for example, any errors reported in the Directors' Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £1 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences, including the effect of extrapolating sample-based errors to a most likely position, reported to the Audit and Risk Committee would decrease net assets by £1 million.

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' statement of responsibilities within the Directors' report, the directors are responsible for:
- the preparation of the group financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the group's and the parent's company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion – the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and the parent company's internal control;

Independent auditor's report continued

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and,
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit scope
The scope of my group audit was determined by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Network Rail group has total assets of £75.6 billion. The majority of operations are within Network Rail Infrastructure Limited, whilst the obligations attaching to the legacy Debt Issuance Programme (used to finance the group until October 2014) reside in a separate legal entity, Network Rail Infrastructure Finance plc ('NRIF'). There are further small legal entities including a consultancy business and a company that manages the maintenance of non-owned stations. The Network Rail group is a consolidation of these legal entities.

I have audited the full financial information of Network Rail Infrastructure Limited and NRIF, as well as the consolidation. In respect of the debt and derivatives held by NRIF, my group audit takes account of both market-observable valuations for derivatives and a minority of fair-valued bonds, as well as assessing the application of the amortised cost basis to the remainder. This work covered substantially all of the group's assets and pre-tax results, and together with the procedures performed at group level in respect of non-significant components, gave me the evidence I needed for my opinion on the group financial statements as a whole.

During the course of my audit, in addition to the key audit matters highlighted above, I:
- reviewed the accounting for the disposal of the Core Valley Lines;
- considered the impact of the evolving changes Network Rail is making under the banner of 'putting passengers first'; and
- evaluated the group's judgements about the implementation of IFRS 16 Leases – in addition to my focussed work on completeness described in the key audit matter above – and worked with management to further develop disclosures.

Other Information
Directors are responsible for the other information. The other information comprises information included in the annual report, with the exception of the parts of the Directors' remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Independent auditor's report continued

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions.

- *Fair, balanced and understandable:* the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit.
- *Audit and Risk Committee reporting*: the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by me to that committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

Directors' remuneration
In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports
In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the strategic report or the directors' report.

The corporate governance statement
In my opinion, based on the work undertaken in the course of the audit:
- the information given in the Corporate governance report, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.
- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the group and the parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with.

Based on my knowledge and understanding of the group and the parent company and their environments obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received
I report to you if, in my opinion:
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Matthew Kay, Senior Statutory Auditor		For and on behalf of the Comptroller and Auditor General (Statutory Auditor) National Audit Office 157-197 Buckingham Palace Road London, SW1W 9SP	20 July 2020

Income statement

for the year ended 31 March 2020

	Note	2020 Group £m	2019 Group £m
Revenue	3	8,099	6,676
Net operating costs	4	(5,777)	(5,243)
Operating profit	5	2,322	1,433
Property revaluation movements and profits on disposal		3	363
Profit from operations		2,325	1,796
Finance income	7	7	11
Other gains and losses	8	213	220
Finance costs	9	(2,170)	(2,200)
Profit / (Loss) before tax		375	(173)
Tax	10	(395)	(52)
Loss for the year attributable to the owner of the company		(20)	(225)

Under section 408 of the Companies Act 2006 the group has elected to take the exemption with regard to disclosing the company income statement. The company's result for the year was £nil (2019: £nil).

Statement of comprehensive income

for the year ended 31 March 2020

	Note	2020 Group £m	2019 Group £m
Loss for the year		**(20)**	**(225)**
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
(Loss) / gain on revaluation of the railway network	12	**(272)**	**2,632**
Actuarial (loss)/gain on defined benefit pension schemes	26	**742**	**(31)**
Deferred tax relating to components of other comprehensive income	22	**(180)**	**(443)**
Total items that will not be reclassified to profit or loss		**290**	**2,158**
Items that may be reclassified to profit or loss			
Gain/(Loss) on movement in fair value of cash flow hedge derivatives		**3**	**(5)**
Reclassification of balances in the hedging reserve to the income statement		**208**	**206**
Total items that may be reclassified to profit or loss		**211**	**201**
Other comprehensive income for the year		**501**	**2,359**
Total comprehensive income for the year		**481**	**2,134**

Statement of changes in equity

for the year ended 31 March 2020

Group	Revaluation reserve £m	Other reserve* £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 31 March 2019	**2,912**	**249**	**(643)**	**6,390**	**8,908**
Loss for the year	-	-	-	(20)	(20)
Other comprehensive income					
Impact of change in tax rate	(70)	-	-	(19)	(89)
Revaluation of the railway network	(272)	-	-	-	(272)
Transfer of deemed cost depreciation from revaluation reserve	(62)	-	-	62	-
Decrease in deferred tax liability on the railway network	50	-	-	-	50
Actuarial gain on defined benefit pension schemes	-	-	-	742	742
Deferred tax on actuarial gain	-	-	-	(141)	(141)
Transfer of deferred tax	12	-	-	(12)	-
Increase in fair value of hedging derivatives	-	-	3	-	3
Reclassification of balances in hedging reserve to the income statement	-	-	208	-	208
Total comprehensive income	**(342)**	**-**	**211**	**612**	**481**
Balance at 31 March 2020	**2,570**	**249**	**(432)**	**7,002**	**9,389**

Balance at 31 March 2018	**751**	**249**	**(844)**	**6,618**	**6,774**
Loss for the year	-	-	-	(225)	(225)
Other comprehensive income					
Revaluation of the railway network	2,632	-	-	-	2,632
Transfer of deemed cost depreciation from revaluation reserve	(37)	-	-	37	-
Increase in deferred tax liability on the rail network	(447)	-	-	-	(447)
Actuarial loss on defined benefit pension schemes	-	-	-	(31)	(31)
Deferred tax on actuarial loss	-	-	-	4	4
Transfer of deferred tax	13	-	-	(13)	-
Decrease in fair value of hedging derivatives	-	-	(5)	-	(5)
Reclassification of balances in hedging reserve to the income statement	-	-	206	-	206
Total comprehensive income	**2,161**	**-**	**201**	**(228)**	**2,134**
Balance at 31 March 2019	**2,912**	**249**	**(643)**	**6,390**	**8,908**

* Other reserves of £249m (2019 £249m) include the vesting reserve on privatisation.

There has been no movement in the current or prior year affecting the statement of changes in equity for the company.

Balance sheets
at 31 March 2020

	Note	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Assets					
Non-current assets					
Intangible assets	11	62	63	-	-
Right of use assets	24	428	-	-	-
Property, plant and equipment - the rail network	12	71,809	71,467	-	-
Investment property	13	227	232	-	-
Derivative financial instruments	20	474	340	-	-
Interest in joint venture	14	41	44	-	-
		73,041	**72,146**	-	-
Current assets					
Assets held for sale	15	24	10	-	-
Inventories	16	262	226	-	-
Trade and other receivables	17	1,877	1,739	-	-
Current tax assets		-	2	-	-
Derivative financial instruments	20	10	10	-	-
Cash and cash equivalents		430	450	-	-
		2,603	**2,437**	-	-
Total assets		**75,644**	**74,583**	-	-
Liabilities					
Current liabilities					
Trade and other payables	18	(3,637)	(3,406)	-	-
Borrowings	19	(10,781)	(11,557)	-	-
Derivative financial instruments	20	(48)	(52)	-	-
Short-term provisions	21	(80)	(64)	-	-
		(14,546)	**(15,079)**	-	-
Net current liabilities		**(11,943)**	**(12,642)**	-	-
Non-current liabilities					
Borrowings	19	(44,664)	(43,719)	-	-
Derivative financial instruments	20	(847)	(981)	-	-
Other payables	18	(548)	(326)	-	-
Retirement benefit obligation	26	(2,070)	(2,566)	-	-
Deferred tax liabilities	22	(3,580)	(3,004)	-	-
		(51,709)	**(50,596)**	-	-
Total liabilities		**(66,255)**	**(65,675)**	-	-
Net assets		**9,389**	**8,908**	-	-
Equity					
Revaluation reserve		2,570	2,912	-	-
Other reserve		249	249	-	-
Hedging reserve		(432)	(643)	-	-
Retained earnings		7,002	6,390	-	-
Total shareholder's funds and equity attributable to equity holders of the parent company		**9,389**	**8,908**	-	-

The financial statements and accompanying disclosure notes on pages 132 to 176 were approved by the board of directors on 16 July 2020 and authorised for issue on 21 July 2020.

They were signed on its behalf by:

Andrew Haines
Chief executive

Jeremy Westlake
Chief financial officer

Company registration number: 4402220

Statement of cash flows

for the year ended 31 March 2020

	Note	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Cash flows from operating activities					
Cash generated from operations	23	4,923	3,622	-	-
Interest paid*		(1,448)	(1,634)	-	-
Income tax received		3	–	-	-
Net cash generated from operating activities		**3,478**	**1,988**	**-**	**-**
Investing activities					
Interest received		7	11	-	-
Purchases of property, plant and equipment		(5,781)	(6,726)	-	-
Proceeds on disposal of property		534	1,469	-	-
Capital grants received		2,326	679	-	-
Net cash inflows / (outflows) from joint ventures		3	(9)	-	-
Net cash used in investing activities		**(2,911)**	**(4,576)**	**-**	**-**
Financing activities					
Repayments of borrowings		(12,304)	(4,597)	-	-
New loans raised		11,559	6,688	-	-
Decrease in collateral posted	19	193	23	-	-
Increase / (Decrease) in collateral held	19	82	(49)	-	-
Repayment of lease liabilities	24	(117)	–	-	-
Net cash (used in) / generated from financing activities		**(587)**	**2,065**	**-**	**-**
Net decrease in cash and cash equivalents		**(20)**	**(523)**	**-**	**-**
Cash and cash equivalents at beginning of the year		450	973	-	-
Cash and cash equivalents at end of the year		**430**	**450**	**-**	**-**

* Balance includes the net interest on derivative financial instruments

Notes to the financial statements
for the year ended 31 March 2020

1. General information

Network Rail Limited ('the company') is a company limited by guarantee which is incorporated and domiciled in Great Britain and registered in England and Wales under the Companies Act 2006. Network Rail Limited is an arm's length body of the Department for Transport.

The company registration number is 4402220.

The company's registered office is situated at 1 Eversholt Street, London NW1 2DN, United Kingdom.

The company's and its subsidiaries' (together 'the group' or 'Network Rail') principal activities are detailed in the 'About us' section on pages 5 to 11.

Network Rail is organised as a single operating segment for financial reporting purposes.

The Secretary of State is the sole member of the Company.

2. Significant accounting policies

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union, and therefore comply with Article 4 of the European Union International Accounting Standard regulation, and in accordance with interpretations of the IFRS Interpretation Committee.

The financial statements have been prepared on the historical cost basis, except for the revaluation of the rail network to a value determined using an income approach, the revaluation of investment properties, the measurement of certain financial assets and liabilities at fair value through profit and loss (FVTPL) and the measurement of derivative financial instruments at fair value.

The principal accounting policies adopted by the directors are set out below.

Adoption of new and revised standards

The accounting policies adopted in this set of financial statements are consistent with those set out in the annual financial statements for the year to 31 March 2019; except for the changes in accounting standards noted below.

The following accounting standards have become effective in the current year and were adopted and applied by the group

IFRS 16 'Leases'
In the current year, the group has applied IFRS 16 'Leases', effective for periods commencing 1 January 2019 and was therefore effective from 1 April 2019 in Network Rail's accounts. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

Network Rail have applied the modified retrospective transition approach and have therefore not restated comparative amounts for the prior year. This transition method allows for the lease liability to be based on the remaining payments, and then sets the right-of-use asset as an amount equal to lease liability (adjusted for any accrued or prepaid amounts recognised under IAS 17). Therefore, there was no impact on equity at the date of initial application.

The following exemptions have been elected with the adoption of IFRS16:
- Elect not to measure leases that terminate within 12 months of the date of transition to IFRS16.
- Elect not to measure leases where the underlying asset is of low-value (<£5,000).
- Exclude initial direct costs from the measurement of right-of-use assets.
- Elect to use hindsight to determine lease term (e.g. in determining the lease term if options exist).
- Elect to take forward the previous identification of a lease applying IAS 17 and IFRIC 4 at the start of the relevant accounting period, also known as 'grandfathering'

The impact of the standard is to bring on balance sheet all the leases that had previously been accounted for as operating leases.

The following key judgements have been made by management regarding both the recognition as well as calculation of leases under IFRS 16:
- The incremental borrowing rate (2.245 %) has been used to calculate the right of use asset and lease liability unless the implicit rate can reliably be determined in the contract.
- Where practically possible lease components have been separated from the larger contracts to calculate the right of use asset. This is especially notable in contracts which contain embedded leases.
- The lease term has been set as the non-cancellable period of the lease together with options to extend or terminate a lease, if Network Rail are reasonably certain to exercise that option. Network Rail have made judgements as to whether they are reasonably certain to exercise the options, drawing on future business plans extant at period end. This judgement is reassessed at each reporting date.

IFRS 16 - Impact on adoption
On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases'

2. Significant accounting policies continued

under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 April 2019.

The application of IFRS 16 at 1 April 2019 resulted in the recognition of Right of use (ROU) assets of £410m and Lease liabilities of £410m.

The following is a reconciliation of total operating lease arrangements disclosed in Note 24 of the March 2019 annual report and accounts amounting to £319m and the £410m lease liability recognised on adoption of IFRS 16 on 1 April 2019:

	Property leases £m	Non property leases £m	Total £m
Total operating lease commitments disclosed at 31 March 2019	238	81	319
Additional IAS 17 leases identified in transition to IFRS 16	63	77	140
Discounted using incremental borrowing rate	(74)	(12)	(86)
Change in assumptions	21	16	37
Total lease liabilities recognised under IFRS 16 at 1 April 2019	**248**	**162**	**410**

Where the group is a lessor, IFRS 16 has had no impact on the group. The group's leases where it acts as lessor meet the criteria to be accounted for as operating leases and hence the treatment is the same as was being applied under IAS 17. Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

The following accounting standards have not been early adopted by the company but will become effective in future years:

IFRS 17 Insurance Contracts
IFRS 17 has been adopted by the IASB for periods beginning on or after 1 January 2023 and has not currently been endorsed by the EU. Management have not yet considered the impact of the standard on Network Rail.

Going concern
The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the 'About us' section on pages 5 to 11, and 'Business unit summaries' on pages 23 to 50. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 17 to 21.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers. Network Rail does not expect to undertake any new borrowing in the next 12 months. Instead it's activities will be largely funded by grants from the Department for Transport and revenue from customers. Network Rail has secured a £31.9bn loan facility with the Department for Transport (DfT), which it intends to draw upon to specifically refinance its' existing debt with DfT legacy commercial borrowing. This facility remains within its parameters.

Network Rail has eight separate grant agreements in place with DfT and Transport Scotland (TS) to fund activities in the next 12 months. These grants are: - with DfT - Network Grant; Enhancements Grant; British Transport Police Grant; Financing Costs Grant for DfT interest; Financing Costs Grant for external interest (bonds and swaps); and Corporation Tax Grant - with TS - Network Grant and Enhancements Grant.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast future funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those risks. This analysis takes account of the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. The board considers the likely effectiveness of such actions through regular monitoring and review of risk management and internal control systems. Further details are set out in the Viability Statement on pages 70 and 71. In addition, Note 25 to the accounts includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk.

After making enquiries, including those detailed above, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions. In terms of subsidiaries the group:

- Consolidates subsidiaries from the date on which control passes to the group and deconsolidates from the date control ceases;
- Changes the accounting policies of subsidiaries, where necessary, to ensure consistency with the policies adopted by the group;
- Eliminates intercompany transactions and balances in the group results.

Notes to the financial statements continued

2. Significant accounting policies continued

Revenue recognition

The group recognises revenue from the following major sources:

- Grant income – recognised in accordance with IAS 20;
- Franchised network access – recognised in accordance with IFRS 15;
- Freight revenue - recognised in accordance with IFRS 15;
- Property rental income – recognised in accordance with IFRS 16 (See "Leases" accounting policy); and
- Other income – recognised in accordance with IFRS 15.

Network Rail's grant income is recognised in line with IAS 20 'Accounting for Government Grants' – refer to 'Grants' accounting policy.

Network Rail's recognition approach is to recognise franchised network access and freight revenue each period in the financial year.

Performance obligations are based upon fixed and variable volume access to the railway during the relevant year. Performance obligations are satisfied by providing track access over time as per agreement with the train operating companies. There are no significant judgments applied to determine whether performance obligations have been satisfied. The input method is applied based on time lapsed.

Other income consists of Non Franchised fixed and variable network access which will be recognised using the same policy as for Franchised Network access.

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue represents amounts derived from the management and provision of assets for use in the operation of the railway and property rental income net of value added tax. Amounts recognised take account of any performance penalties or bonuses in respect of the year. The performance penalties and bonuses are estimated in each 4 week period based on that period's performance and reflect management's best estimate of the amounts due.

Revenue measurement includes supplements to the access charges and bonuses receivable from, less penalties and rebates payable to, customers and stakeholders. Operating expenditure includes additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of Rail and Road.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Separate accounting policies have not been adopted for revenue related contract assets / liabilities (deferred income), as the impact of IFRS 15 classification, recognition and measurement is insignificant.

Grants

Network Rail receives grant funding as a contribution towards both its revenue and capital expenditure.

Revenue Grants are received as a contribution towards Network Rail's running costs. These grants are drawn down by Network Rail against grant agreements based on forecast cash flows of relevant expenditure and are deferred until that expenditure is incurred. Deferred grant income is then credited to revenue on a systematic basis during the period in which Network Rail recognises the related costs as expenses for which the grants are intended to compensate.

Capital Grants are received as contributions towards the cost of property, plant and equipment from DfT, Transport Scotland (TS) and Third Parties. Network Rail draws down Capital Grants from DfT and TS based on historical costs incurred in order to meet future forecasts cash flows. Third Parties are invoiced for Capital Grants either in advance or arrears based on individual grant agreements. Capital Grants are recognised in the same period as the additions they are intended to fund and are deducted from the fair value of those assets. Capital grants are then credited to the income statement over the economic useful life of the rail network as the related costs are recognised.

Leases

The group as lessor

The group assesses leases where it is lessor in order to determine whether the lease is an operating lease or a finance lease. This assessment is made where the group owns the asset being leased or the group itself is also leasing the asset and hence the lease being assessed is a sub-lease. The assessment considers whether the lease transfers substantially all of the risks and rewards incidental to ownership of the asset being leased. Where the lease is a sub-lease, this assessment is made by reference to the Right of Use asset the group has for the head-lease. If the lease transfers substantially all of the risks and rewards incidental to ownership, then the lease is classified as a finance lease. If it does not, then the lease is classified as an operating lease.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

2. Significant accounting policies continued

The group as lessee
For those leases of not less than 12 months or low value, the ROU asset and Lease liability are initially measured on a present value basis.

The present value of the following lease payments is used to determine the value of the lease liability:
- fixed payments less any lease incentive receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. Remeasurement of the lease liability occurs if there is a change in the lease payments (when a corresponding adjustment is made to the ROU asset), the lease term or in the assessment of an option to purchase the underlying asset.

The discount rate used to discount the lease payments is the Group's incremental borrowing rate. This is the rate that the group would have to pay to borrow similar funds to fund a similar asset. ROU assets are initially measured at the same amount as the lease liability plus any initial direct costs.

Each ROU asset is depreciated over the shorter of its useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and low value leases are recognised on a straight-line basis as an expense in profit or loss.

Foreign currencies
Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the exchange rates prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the exchange rates prevailing on the dates of the transactions. Gains and losses arising on retranslation are included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

Borrowing costs
In the prior year, borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, were added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs were recognised in the income statement in the period in which they are incurred. In the current year, all borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit
Operating profit is stated before finance income, finance costs, other gains and losses, and revaluation movements and profits on disposal of properties.

Retirement benefit costs
Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

For the defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out at least every three years and updates to these valuations carried out in intervening years. The current service cost and plan administration expenses are recognised as an operating expense in the consolidated income statement.

The group's share of the actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

The net interest cost is the charge in the year on the net defined benefit liability. The charge reflects the passage of time and is recognised as a finance cost in the income statement.

Past service cost and credits are recognised immediately in the consolidated income statement.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The group reflects its share of the deficit in the financial statements. The IAS 19 deficit, service cost and interest cost therefore represent 60 per cent of the total for each of the schemes. Further details on the retirement benefit schemes are provided in note 26.

Research and development
Research and general development expenditure is charged to the income statement as incurred. Expenditure on the development of specific projects is capitalised only if all of the following conditions are met:
- An asset is created that can be identified
- It is probable that the asset created will generate future economic benefits
- The development cost of the asset can be measured reliably.

Notes to the financial statements continued

2. Significant accounting policies continued

Tax
The tax expense represents the sum of the current tax and deferred tax. The group's current tax liability is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax is based on the taxable results of the group and calculated in accordance with tax rules in the United Kingdom.

Deferred tax is the tax expected to be payable or recoverable on the temporary differences that arise when tax authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred tax is calculated under the balance sheet liability method at the rate of tax expected to prevail, subject to the rate being enacted or substantively enacted by that date, when the temporary differences reverse. Deferred tax is not discounted.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised.

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity. In this case the deferred tax is also accounted for within equity.

Property, plant and equipment – the rail network
The group has one class of property, plant and equipment, being the rail network. This is the integrated network that the group uses to deliver the operation, maintenance and renewal of Great Britain's national rail infrastructure.

Valuation methodology
The rail network is carried in the balance sheet at its fair value. As there is no active market in railway infrastructure assets, the company has derived the fair value of the rail network using an income approach. The income approach assesses the discounted future cash flows that are expected to be generated by the rail network, including an assessment of under and outperformance against the current 5-year regulatory determination.

This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

Depreciation
The rail network is depreciated on a straight-line basis over its estimated weighted average remaining useful economic life. The estimated weighted average remaining useful economic life of the network is currently 40 years (2019: 40 years). The remaining useful economic lives of network assets are estimated annually, with external verification of the valuation and asset lives carried out where required.

Capitalisation of operating costs
In line with IAS 16 Property, plant and equipment all directly attributable costs necessary to deliver the investment programme are capitalised. Employee and other associated costs are capitalised if they arise directly as a result of delivering the investment programme.

Presentation of capital grants
Grants and other contributions received towards the cost of property, plant and equipment are deducted from the fair value of assets which the grant funding relates to. See Note 12. Property, plant and equipment – the rail network for detail of the gross and net values of capital grants included in the property, plant and equipment balance.

Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains and losses from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Intangible assets
An intangible asset is only recognised if it is probable that future economic benefits will flow to the group and its costs can be measured reliably. Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Licences and concessions are amortised over the length of their contractual agreement. Intangible assets are tested for impairment at each balance sheet date by comparing their carrying value and the expected discounted cash flows expected to arise from them over their contractual agreements. If the carrying value exceeds the discounted cash flows expected to arise from the assets, the carrying value would be impaired accordingly.

Assets held for sale
Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held for sale, the assets are re-measured in accordance with the accounting policies for the asset category. Subsequently, the assets are held at the lower of carrying value and fair value less costs to sell. Any impairment loss on a disposal group is recognised immediately in the income statement.

2. Significant accounting policies continued

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Financial instruments
Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets
Financial assets at amortised cost
Financial assets are classified as at amortised cost where the business model is to hold assets in order to collect contractual cash flows, and the cash flows consist solely of payments of principal and interest (SPPI) on the principal amount outstanding.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, recognised in the income statement.

Financial assets at FVTPL
Financial assets are classified as at FVTPL where the asset does not meet the amortised cost criteria or if doing so, eliminates or significantly reduces or eliminates a measurement or recognition inconsistency. Gains and losses arising from changes in fair value of these assets are recognised in the income statement.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets at FVTPL are stated at fair value with any resultant gain or loss recognised in the income statement.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced.

The carrying amount of the financial asset is reduced by the impairment loss for all financial assets with the exception of trade receivables, which are reduced by allowances for irrecoverable amounts. As financial assets, trade receivables are subject to the "Expected Credit Loss model" under IFRS 9. The group's exposure to credit risk is limited largely to property rental income, and no significant increase in credit risk has materialised. Therefore, the group has continued to recognise 12 month expected losses that are updated at each reporting date, in the form of allowances for irrecoverable amounts, which approximate the expected losses for the next 12 month period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement. The reversal is only made to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents
Cash and cash equivalents comprise bank balances held by the group and commercial paper at varying rates. The carrying amount of these assets approximates their fair value.

Joint ventures
The results and net assets of joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost and adjusted by post-acquisition changes in the group's share of net assets of joint ventures, less any impairment in the value of individual investments. Losses of a joint venture in excess of the group's interest in a joint venture are not recognised.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is a derivative financial liability or designated at FVTPL at initial recognition.

A financial liability is designated as FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise exist.

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or expire.

Debt
Debt instruments not designated at FVTPL are initially measured at fair value, net of discount and direct issue costs, and subsequently recognised at amortised cost using straight line amortisation as a proxy for the IFRS 9 effective interest rate method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Notes to the financial statements continued

2. Significant accounting policies continued

Certain bonds, as set out in Note 19, are designated at FVTPL. These bonds are hedged by derivative financial instruments as part of a documented risk management strategy. By recognising these bonds and derivatives at FVTPL the recognition inconsistencies that would otherwise exist with regard to these risk management strategies are significantly reduced.

Trade payables
Trade payables are ordinarily not interest bearing and are stated at amortised cost.

Derivative financial instruments and hedge accounting
The group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The group uses interest rate swaps, cross-currency swaps and foreign exchange forward contracts to hedge these exposures. The use of financial derivatives is governed by the group's policies approved by the treasury committee of the board, which provide written principles on the use of financial derivatives.

Almost all the hedged events have now occurred and there will be no new hedging programme. Under IFRS 9, the group have opted to continue to apply the hedge accounting requirements of IAS 39 until the hedging programme is finalised.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Derivatives are presented on the balance sheet in line with their maturity date.

The group designates certain hedging instruments as either cash flow hedges or fair value hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair value or cash flows of the hedged item.

Some derivatives, while complying with the group's financial risk management policies, do not qualify for hedge accounting and are therefore classified as financial instruments at FVTPL. Changes in the fair value of derivative financial instruments that do not qualify for cash flow hedge accounting are recognised in the income statement as they arise.

Cashflow hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. Where the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective remains in equity until the forecast transaction occurs.

In the instance where cashflow hedge accounting is discontinued since the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period where the hedge was effective is recognised in the income statement.

Embedded derivatives within a financial asset host contract are not separated from the host contract, instead, the whole contract in its entirety is accounted for as a single financial instrument.

Embedded derivatives within a host contract that is a financial liability are separated from the host contract and accounted for as a derivative financial instrument when economic characteristics of the embedded derivative and host are not closely related, an identical instrument (with the same terms) would meet the definition of a derivative, and the entire contract is not measured at fair value through profit or loss. Gains or losses from the movement in fair value of the financial instrument are reported in the income statement. There are no separated embedded derivatives included in the financial statements.

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the statement of changes in equity and in the statement of comprehensive income.

Cash flow hedges
Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income, and the ineffective portion is recognised immediately within 'other gains and losses' in the income statement.

Provisions
Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Critical accounting judgements and key sources of uncertainty
(i) Property, plant and equipment – the rail network: the estimate of the fair value of the rail network is based on an income approach using the regulatory asset base, which equates to the discounted future cash flows associated with the network, adjusted for the net present value of any variances from the Office of Rail and Road's determination using the building block model of regulation.

The most significant judgement underpinning the valuation is that the regulatory framework and associated cash flows remain sufficiently stable and robust to form the basis of a third party valuation. Management assess that based on the current regulatory environment, an

2. Significant accounting policies continued

investor could reasonably expect to recover the RAB value through the revenue deriving from future amortisation allowances and the regulatory return thereon. In its assessment management has considered the amendments to the regulatory framework that are set out in the regulator's determination for Control Period 6 (2019-2024), and noted that although the regulated asset base has ceased to be a building block in the determination of the company's revenue requirement, the link between income and the regulated asset base would be reinstated in the event that the rail network asset were transferred to a private owner.

Management have also considered whether the portfolio of assets held for sale should continue to be deducted against the RAB in arriving at the fair value of the rail network, and based on an assessment of likely regulatory action in the event of a sale, have concluded that this remains appropriate. Further detail on this and other key judgements applied in the valuation are set out in Note 12.

The key source of estimation uncertainty within the valuation is the assessment of future performance against the regulatory determination which is discussed in more detail in Note 12.

Whilst not affecting the fair value of the asset recognised at the balance sheet date, management's assessment of the remaining life of the asset affects the depreciation that is charged on the asset, is also an area of estimation uncertainty. IAS 16 requires that management regularly review asset lives on at least an annual basis and that that depreciation is charged on a systematic basis that reflects the way the asset is consumed. In March 2019 Network Rail produced a detailed and rigorous depreciated replacement cost (DRC) valuation of the rail network for inclusion in DfT's group accounts. In preparing these financial statements management reviewed the weighted average remaining asset lives as produced in the DRC valuation and concluded that it is still appropriate to use 40 years as the weighted average remaining life.

Cost of Work Done (COWD): The additions to Property, plant and equipment are valued using an estimate of the cost of work done in the year to 31 March. To the extent that the COWD is greater than the invoiced amount, a PPE addition and 'other payable' (Note 18) are recognised on the basis of expected amounts required to settle contractual obligations. COWD assessments are predominantly based on information readily available to project managers on the status of works, but some estimation uncertainty is involved in the year-end measurement, in respect of the evaluation of how contractual dispute positions are likely to resolve, and in measuring the value of works performed at the precise year end date.

(ii) Investment property – an element of the investment property portfolio valuation is determined using the Beacon method. Jones Lang LaSalle provided their assessment of yields for 18 classes of property and areas in the portfolio. These are then used to produce income multipliers and applied to the rental streams from each of the individual properties in the portfolio to form an overall valuation. For investment property transferred to assets held for sale this is also the inherited method of valuation. Further details are set out in Note 13.

(iii) Retirement benefit obligations – the group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 (Revised) 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 26. The total contribution rate payable under the Railway Pension Scheme (RPS) and the Career Average Revalued Earnings (CARE) scheme is normally split in the proportion 60:40 between the group and the members, respectively. The group reflects its share of the contribution in the financial statements.

(iv) Taxation – the group recognises and discloses its deferred tax assets in accordance with IAS 12. Where it is considered to be probable that deferred tax assets can be matched to future taxable profits then deferred tax assets are recognised, or offset against the overall deferred tax provision as appropriate. This evaluation requires significant judgements to be made, including the uncertainty of the availability of future taxable profits. Further details are set out in Note 10.

Notes to the financial statements continued

3. Revenue

	2020 Group £m	2019 Group £m
Grant income	5,259	4,125
Franchised network access	2,507	2,143
Freight revenue	43	58
Property rental income	254	317
Other income	36	33
Revenue	**8,099**	**6,676**

The effect of the performance regimes was a net loss of £30m (2019: net loss of £439m) which led to a reduction in revenue of the respective amount.

4. Net operating costs

	2020 Group £m	2019 Group £m
Employee costs (see Note 6)	2,715	2,561
Own costs capitalised	(1,091)	(1,055)
Other external charges (including infrastructure maintenance costs)	2,613	2,435
Other operating income and recoveries	(313)	(364)
Net operating costs before depreciation and amortisation	**3,924**	**3,577**
Depreciation (see Notes 12 and 24)	2,022	1,810
Amortisation of grants	(169)	(144)
Net operating costs	**5,777**	**5,243**

5. Profit from operations

Total profit from operations is stated after charging/(crediting):

	2020 Group £m	2019 Group £m
Research and development costs expensed	4	-
Amortisation of intangible assets	1	1
Profit on sale of properties	-	(328)
Increase in the fair value of investment properties	(3)	(35)
Cost of inventories recognised as an expense	243	220
Write down of inventories recognised as an expense	6	3

Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.46	0.43
Fees payable to the company's auditors for audit related services:		
– The audit of the company's subsidiaries	0.05	0.09
– Regulatory accounts audit and interim review	0.06	0.07
Total amounts payable to group auditors	**0.57**	**0.59**

For financial years ended 31 March 2020 and 2019 no fees were payable to the company's auditors in respect of non-audit related services. In addition to the audit fee information given in the table the group pays £0.2m for the audit of subsidiaries that are not performed by the group auditor.

6. Employee costs

The monthly average number of employees (including executive directors) was:

	2020 Group Number	2019 Group Number
Management and operation of the railway	**42,099**	**40,268**

	2020 Group £m	2019 Group £m
Their aggregate remuneration comprised:		
Wages and salaries	2,168	2,050
Social security costs	241	227
Defined contribution pension costs (see Note 26)	23	20
Defined benefit pension costs – current service costs (see Note 26)	283	257
Defined benefit pension costs – past service costs (see Note 26)	-	7
Total employee costs	**2,715**	**2,561**

In the years ended 31 March 2020 and 31 March 2019 key management personnel were all the executive directors and the chair of the board of directors. Full details of their remuneration are included within the annual remuneration report on pages 103 to 112.

7. Finance income

	2020 Group £m	2019 Group £m
Interest receivable on investments and deposits	7	11
	7	11

Finance income earned on financial assets analysed by category of asset, is as follows:

	2020 Group £m	2019 Group £m
Financial assets at amortised cost (including cash and bank balances)	7	11
	7	11

Notes to the financial statements continued

8. Other gains and losses

	2020 Group £m	2019 Group £m
Net ineffectiveness arising from cash flow hedge accounting	(19)	(7)
Fair value loss on fair value hedges	-	(220)
Fair value gain on carrying value of fair value hedged debt	-	226
Gain arising from fair value hedge accounting	**-**	**6**
Net increase in fair value of non-hedge accounted debt	(4)	(3)
Gain on derivatives not hedge accounted	236	224
Gain arising from non-hedge accounting	**232**	**221**
Total other gains	213	220

No other gains and losses have been recognised in respect of financial assets or liabilities other than those disclosed in this note. No gains or losses have been recognised on financial liabilities measured at amortised cost other than those disclosed in Note 9.

The movement in fair value of debt designated as fair value through profit and loss and exchange differences on retranslation of foreign currency debt that form part of the above total other gains and losses are in relation to debt issuances disclosed in Note 19.

9. Finance costs

	2020 Group £m	2019 Group £m
Interest on bank loans and overdrafts	16	8
Interest on loan issued by Department of Transport	688	674
Interest on bonds issued under the Debt Issuance Programme	1,163	1,148
Interest on derivative instruments	230	232
Defined benefit pension interest cost (see note 26)	58	55
Debt Issuance Programme financial indemnity fee	-	266
Lease interest payable (Note 24)	15	-
Total borrowing costs	**2,170**	**2,383**
Less: capitalised interest	-	(183)
Total finance costs	**2,170**	**2,200**

10. Tax

The tax credit is made up as follows:

	2020 Group £m	2019 Group £m
Current tax:		
Corporation tax charge	-	-
Adjustment in respect of prior years	-	1
Total current tax credit	**-**	**1**
Deferred tax:		
Current year charge	(107)	(53)
Effect of rate change	(265)	-
Adjustment in respect of prior years	(23)	-
Total deferred tax charge	**(395)**	**(53)**
Total tax charge	**(395)**	**(52)**

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2020 Group £m	2019 Group £m
Profit/(Loss) before tax	375	(173)
Tax at the UK corporation tax rate of 19 per cent (2019: 19 per cent)	(71)	33
Adjustments in respect of prior years	(23)	(1)
Rate changes	(265)	-
Income not subject to tax	(39)	(43)
Derecognition of tax assets – brought forward	2	-
De-recognition of deferred tax assets recognised in the year	-	(40)
Utilisation of tax losses previously derecognised	1	(1)
Total tax charge/(credit) for the year	**(395)**	**(52)**

Under IAS12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. As in 2019, it remains improbable that Network Rail will produce a level of taxable profits that will allow for recognition of a deferred tax asset relating to the trading losses carried forward. Additionally, whilst taxable income does not exceed allowable deductions in the year, Network Rail claims only the capital allowances sufficient to claim for group relief and available tax credits. The deferred tax asset on tax losses of £3,142m (2019: £3,144m) and surplus advanced corporation tax of £36.9m (2019: £36.9m) have not been recognised as it has not been possible to forecast future profits with sufficient certainty.

Deferred tax at 31 March 2020 is calculated at a rate of 19 per cent (2019: 17 per cent) based on tax rate expected to prevail based on legislative enactments at the point temporary differences resolve. The amount at which temporary differences crystallise is sensitive to the decisions on future tax laws to be taken by Parliament.

UK corporation tax is calculated at 19 per cent (2019: 19 per cent).

Notes to the financial statements continued

11. Intangible assets

Group	Concession £m
Cost	
At 1 April 2018, 31 March 2019 and 31 March 2020	**78**
Accumulated amortisation	
At 31 March 2018	**(14)**
Charge for the year	(1)
At 31 March 2019	**(15)**
Charge for the year	(1)
At 31 March 2020	**(16)**
Carrying amount	
At 31 March 2020	**62**
At 31 March 2019	**63**

The intangible assets above relate to separable economic rights associated with the concession to run the operations, maintenance and renewal business of the Channel Tunnel Rail Link, and are held by the wholly owned company Network Rail (High Speed) Limited.

Intangible assets are being amortised over the life of the licence of 83 years to 2086. Amortisation is charged to net operating costs in the income statement.

12. Property, plant and equipment – the rail network

	Group assets £m	Group capital grants deferred £m	Group carrying value £m
Valuation			
At 31 March 2018	**68,398**	**(4,256)**	**64,142**
Additions	7,043	-	7,043
Capital grant additions	-	(637)	(637)
(Depreciation charge)/grant amortisation for the year	(1,810)	97	(1,713)
Revaluation in the year	2,632	-	2,632
At 31 March 2019	**76,263**	**(4,796)**	**71,467**
Additions	5,176	(2,247)	2,929
Disposals	(517)	-	(517)
Transfers to held for sale	(23)	-	(23)
(Depreciation charge)/ grant amortisation for the year	(1,937)	162	(1,775)
Revaluation in the year	(272)	-	(272)
At 31 March 2020	**78,690**	**(6,881)**	**71,809**

Given the economic and physical interdependency of the assets comprising the rail network, the company has concluded that the rail network is considered as a single class of asset. The rail network is carried at its fair value.

As there is no active market in railway infrastructure assets, the company has derived the fair value of the rail network using an income approach. Under this approach the cash flows that a network licence holder expects to generate from the rail network are assessed using a market rate of return. This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

The independent rail regulator, the Office of Rail and Road (ORR), stated (in the 2018 periodic review final determination: Supplementary document – financial framework) that a private network licence holder of the railway network would have its revenue requirement determined using the building block model of regulation. Under this model the network licence holder's annual income (received in the form of the network grant and track access charges) would comprise:

a) The regulator's assessment of the efficient costs of operating and maintaining the network
b) An allowance for Regulatory Asset Base (RAB) amortisation – qualifying capital expenditure is added to the RAB as incurred and recovered by the company through future amortisation allowances (in order to spread the cost to customers and stakeholders of investment in the rail network over many years).
c) An allowed return on the RAB – calculated by applying the rate of return permitted by the ORR (based on its assessment of the market's cost of capital) to the RAB balance.

In the determination for Control Period 6 (2019-2024), published on 31 October 2018, ORR explained that from 1 April 2019 the RAB ceased to be a building block in the determination of the company's revenue requirement, but that the previous method of revenue determination would be restored if the rail network asset were to be transferred to a private owner. IFRS 13 Fair Value Measurement requires management to assess fair value from the perspective of a theoretical market participant, rather than on the basis of the value-in use. Accordingly, the amendments made to the regulatory framework for Control Period 6, which reflect the proximity of Network Rail to the public sector and which would not apply to a market participant, are not relevant to the valuation.

Future cash flows under (a) are assumed to be equivalent over time to the network licence holder's actual costs of operation and maintenance, on the basis that the Regulator aims to set targets which are ambitious but achievable. These therefore have no net impact on forecast future cash flows, or the valuations. The allowed return (c) is based on a cost of capital which would be offset in a discounted future cash flows model (see Discount rate below). The economic rights inherent in ownership of the regulated rail network asset are therefore vested primarily in the value of the RAB, which will be recovered through future regulated income as the RAB is amortised (b).

This means that it is possible for the RAB itself to be used as the starting point for a discounted cash flow valuation. The RAB fluctuates in valuation; increasing in value principally as a result of allowances for capital expenditure and inflation indexation, whilst reducing for amortisation. The adjustments may give rise to upwards or downwards revaluations. Further changes are subject to:

a) Adjustment for any difference between regulatory rate of return and the market cost of capital that a third party investor would use to assess the value of the network (the rate of return and market cost of capital are currently assessed as fully aligned); and
b) Adjustment for forecast future under or out performance against the regulatory determination over the remainder of the current control period. No adjustment is made in respect of future control periods on the expectation of the Regulator setting, over the long term, ambitious but achievable determination. See forecast performance variation below.

When valuing the network, management is required to consider the value a knowledgeable willing party would place on the network in an arm's length transaction. On the grounds that third party investors are known to value the assets of regulated companies by reference to the RAB, and that the cash flows associated with the regulatory framework are considered sufficiently stable and robust to form the basis of a third party valuation, management has used the RAB as the starting point for its valuation.

Notes to the financial statements continued

12. Property, plant and equipment – the rail network continued

Third party funding
Additions to the railway network funded by capital grant, rather than via the RAB funding mechanism, are included in the valuation at cost. The carrying value of property, plant and equipment is calculated after netting off associated grant funding received or receivable.

Disposals
The group recorded £517m of disposals in the year. On 28 March 2020 the transfer of the Core Valley Lines assets to Transport for Wales completed for £470m consideration. The funds received were repaid against the Department for Transport borrowings (Note 19). The remaining disposals of £47m were as the result of property sales in the usual course of business. In line with Regulatory Accounting Guidelines the net proceeds of sales are deducted from the RAB, reducing the valuation of the Railway Network Valuation. The valuation of the disposals is assessed as being equal to the reduction in the valuation of the Railway Network relating to property sales and the transfer of the Core valley Lines to Transport for Wales.

Depreciation
The depreciation charge for any year is calculated using the average carrying value for the year and the estimated remaining weighted average useful economic life of the rail network. The remaining weighted average useful economic life of the rail network was calculated using the engineering assessment of serviceable economic lives of the major categories that comprise the rail network. The estimated remaining weighted average useful economic life of the network is currently 40 years (2019: 40 years).

Discount rate
The discount rate used in the income approach is the pre-tax rate of return set by the ORR. The ORR performs a periodic review every five years, which leads to the setting of the appropriate rate for the five-year period. The ORR's method encompasses advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail. Management believes this cost of capital reflects the assumptions that a market participant would make in arriving at a discount rate.

Should the ORR amend the permitted rate of return in future quinquennial reviews, the regulator would raise or lower the permitted charges to customers so as to achieve the new rate of return. In other words, the cash flows would change but the RAB would not.

The ORR confirmed that a conventionally funded market participant would receive an allowed return equal to the full market cost of capital. This has been reiterated in their final determination for CP6. Management expects that if the rail network asset were to be transferred to a private owner during CP6, ORR would determine the private owner's revenue requirement for CP6 using the pre-tax (CPI) WACC of 4.15% set out in their final determination for this Control Period. Management expects that the rate of return set by the regulator in subsequent quinquennial reviews will be consistent with the market discount rates for infrastructure assets at the quinquennial review date.

Accordingly, the valuation includes a reassessment of this rate to determine whether it continues to reflect market conditions. This assessment is by reference to movements in observable market data, including the risk-free cost of borrowing, and changes in the weighted average cost of capital of listed utilities with similar gearing ratios. The following table shows the effect of changes in the market discount rate on the carrying value of the rail network and on the depreciation charge. The analysis only considers the effects of movements in the market discount rate until the end of Control Period 6 (2024), and not in perpetuity. The effect of changes in the market discount rate apply equally to increases and to decreases in discount rates.

	Change in cost of capital (basis points)	31 March 2020	31 March 2019
Change in fair value	25	**£843m**	£835m
	50	**£1,682m**	£1,675m
Percentage change in fair value	25	**1.2%**	1.2%
	50	**2.3%**	2.3%
Change in annual depreciation charge	25	**£21m**	£21m
	50	**£42m**	£42m

Forecast performance variations
In assessing the value of the rail network, management considers that a knowledgeable willing third party would take into account the perceived fairness and deliverability of the current regulatory determination. Accordingly, management makes an addition (or deduction) to the valuation for its assessment of the likely ORR determination in respect of the financial consequences of anticipated future out (or under) performance against the regulatory determination.

Cost outturns on capital work (renewals and enhancements) have an impact on future cash flows under the regulatory framework, since only efficient overspending in excess of regulated cost targets can be added to the RAB.

At 31 March 2020 the valuation included £475m (2019: £281m) of projected financial underperformance, which is expected to crystallise in the income statement over the next four years. The majority of the brought-forward variance relates to an in-built difference relating to the assumed position regarding train performance in the regulatory determination as at 1 April 2019, and the actual position at that date. The further reduction in discounted future cashflows of £194m in the year has largely been as a result of the impact on property income, particularly retail income in our stations, of the measures taken to safeguard against the public health impact of the global pandemic.

12. Property, plant and equipment – the rail network continued

The reduction relates principally to the impact expected during 2020-21, with property income close to baseline expected from 21-22 onwards; in making this assumption, Network Rail notes the long-term value of managed station presence to our tenants during and after economic recovery, and as a driver for sales as station footfall increases. Measures taken to change franchise contracts by both DfT and Transport Scotland has allowed train operating companies to continue to settle amounts owed to Network Rail as they fall due.

Forecasting the future cash flows produces a broader range of scenarios as a result of uncertainty in economic projections following the global pandemic. Before the pandemic the valuation was centred on a potential range of outcomes at around 3 % of the valuation, increasing to around 6 % by the balance sheet date, as a result of economic uncertainty.

Critical judgements

The valuation includes the following critical judgements:

a) The regulatory framework, and associated cash flows remain sufficiently stable and robust to form the basis of a third party valuation. As noted above, the ORR has made it clear in its final determination for Control Period 6 that the amendments made to the regulatory framework for CP6 reflect the proximity of Network Rail to the public sector and the amendments would not apply to a market participant.

b) The ORR has committed to providing a market cost of capital return to a conventionally funded owner and operator of the network and the fair value calculation has been prepared on that basis. Accordingly, no adjustment has been made to the valuation in respect of the difference between the regulatory rate of return and a market participant cost of capital.

c) Management's assessment of the deliverability of the current regulatory determination is a good indication of how other management groups would perform against the determination.

d) The deliverability of the current 5-year regulatory determination does not have any implication for the deliverability of future determinations (i.e. the ambition of the regulator at the start of each Control Period is to set the regulatory determination at a level which is challenging but achievable).

e) The RAB includes historic expenditure on the company's investment properties. In accordance with IAS 40 Investment Property and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations the fair value of investment property and assets held for sale is separately recognised in Notes 13 and 15 to the accounts. The fair value of the railway network excludes the fair value of RAB-funded investment properties (and assets held for sale) on the grounds that a private owner of the railway network would not expect to derive any future economic benefit from the sale of investment property (i.e. the regulator would make a downwards adjustment to the RAB for the value of any investment properties sold). The valuation performed at 31 March 2020 includes a downwards adjustment of £251m to exclude the fair value of investment property and assets held for sale (31 March 2019: £232m).

At 31 March 2020 the group had entered into contractual commitments in respect of capital expenditure amounting to £1,739m (2019: £2,113m).

We have classified the valuation of the rail network as Level 3 under IFRS 13. The network's fair value is the estimated future cash flows that will be generated in perpetuity, discounted at the regulatory cost of capital, as set by the ORR in its Periodic Review. The cost of capital at which cash flows are discounted is the key unobservable input in the valuation. The full market cost of capital determined by the ORR, on an annual basis, is 3.8 % (2019:3.8 %) for the current control period. This is arrived at through advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail.

An increase in the market cost of capital would lead to a decrease in the valuation of the rail network and vice versa. However, the impact would be limited to the current control period as the regulator would re-evaluate the allowed return and reset it to the market rate at the next quinquennial review.

Notes to the financial statements continued

13. Investment property

	Group £m
Fair value	
At 31 March 2018	**206**
Additions	-
Disposals	(14)
Transfer (to)/from property, plant and equipment	-
Transfer (to)/from assets held for sale	5
Increase in fair value in the year	35
At 31 March 2019	**232**
Additions	-
Disposals	(8)
Transfer (to)/from property, plant and equipment	-
Transfer (to)/from assets held for sale (Note 15)	-
Increase in fair value in the year	3
At 31 March 2020	**227**

The market values of the group's investment properties at 31 March 2020 have been arrived at on the basis of a valuation carried out at that date in conjunction with Jones Lang LaSalle, external valuers not connected with the group. Network Rail Property undertake a detailed review of the investment property portfolio to allocate the portfolio to beacons which represent particular groups of property sharing the same characteristics. Network Rail Property apply yields provided by Jones Lang LaSalle to these beacon categories. Jones Lang LaSalle will also value specific properties, as instructed by Network Rail Property.

Management are satisfied that Jones Lang LaSalle hold a recognised and relevant professional qualification, and have had recent experience in the location and category of the investment property being valued. The fair value of the group's investment property portfolio is deemed to be the market value.

The valuation, which conforms to International Valuation Standards, was arrived at by splitting the portfolio between one-off individual properties to be valued separately and the remainder of the portfolio to be valued under the Beacon method.

Jones Lang LaSalle provided independent valuations of 11 one-off individual properties (2019: 8), amounting to 46 per cent (2019: 36 per cent) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 18 homogeneous classes (2019: 18) of property and areas, assuming that the current passing rent received from these properties are in line with market rent. Jones Lang LaSalle independently assessed the appropriate yield to be adopted within each of these classes and areas. This enabled the directors to estimate market values by applying the provided yields to the net rental income from these properties, in accordance with a standard UK investment property valuation.

The property rental income earned by the group from assets categorised at the year end as investment property, all of which is leased out under operating leases, amounted to £15.6m (2019: £18m). Direct operating expenses arising on the investment properties in the year amounted to £2.9m (2019: £4.4m).

The group's investment properties are let on a tenant repairing basis. The group's maintenance obligations are limited to common areas and vacant property units.

Property valuations are by their nature subjective, as they are made on the basis of assumptions made by the valuer. They have been classified as Level 3 and the key inputs to the valuations, defined as 'unobservable' by IFRS 13, are analysed in the table below.

		Estimated rental value per sq. ft			Equivalent yield		
	Fair value at 31 March 2020 £m	Minimum £	Maximum £	Weighted average £	Minimum %	Maximum %	Weighted average %
Valuation Technique:							
One-off valuation	**106**	**0.39**	**200**	5.43	4.0	11.3	6.5
Beacon method*	**121**	**n/a**	**n/a**	n/a	5.0	15.0	8.2

* The Beacon methodology splits all the properties within the portfolio into 18 homogenous groups. The properties in each group are valued by applying a yield to the annual rent (passing or void) for the property. Yields applied are on the basis that the property is rack rented i.e. the current passing rent received from these properties are in line with market rent. As such, an estimated rental value per square feet for these properties is not available.

All other factors being equal, a higher yield would lead to a decrease in the valuation of a property and an increase in the current or estimated future rental stream would have the effect of increasing the capital value, and vice versa. However, there are interrelationships between the unobservable inputs which are influenced by market conditions, which would impact the changes in fair value.

14. Investments in subsidiaries and joint ventures

Subsidiaries in the financial statements are included in the table below.

Principal subsidiaries	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Network Rail Infrastructure Limited	Great Britain	100%	Operation, maintenance and renewal of the national railway infrastructure
Network Rail Insurance Limited	Guernsey	100%	Insurance
Network Rail Holdco Limited*	Great Britain	100%	Holding company of Network Rail Infrastructure Limited
Network Rail (High Speed) Limited	Great Britain	100%	Holds St Pancras concession and High Speed Railway Services Agreement
Network Rail Development Limited	Great Britain	100%	Holds 49.95% of each of the property joint ventures Solum Regeneration Limited Partnership and Solum Regeneration Epsom Limited Partnership
Network Rail Pension Trustee Limited	Great Britain	Company limited by guarantee	Administration of defined contribution and CARE defined benefit pension schemes
Network Rail Consulting Limited	Great Britain	100%	International rail consultancy
Network Rail Certification Body Limited	Great Britain	100%	Conformity assessment services to the rail industry
Network Rail (VY1) Limited	Great Britain	100%	Holds land required for works access
Network Rail (VY2) Limited	Great Britain	100%	Holds land required for works access
Network Rail (Stations) Limited	Great Britain	100%	Holds a head lease for a retail development
Network Rail (Projects) Limited	Great Britain	100%	Non trading
Network Rail (Assets) Limited	Great Britain	Company limited by guarantee	Other business support activities
Network Rail Corporate Secretary Limited	Great Britain	100%	The company provides secretarial services to other companies within the Network Rail group
Network Rail Property Limited	Great Britain	100%	To assess the integrated performance of NR's property business
Victoria Place Shopping Centre Ltd	Great Britain	100%	Real estate
Spacia (2002) Ltd	Great Britain	100%	Non trading company
Railway Property Ltd	Great Britain	100%	Non trading company
Kew Bridge Manco Limited	Great Britain	Company limited by guarantee	Non trading company
Railway Safety & Standards	Great Britain	Company limited by guarantee	Non trading company
Railway Safety	Great Britain	Company limited by guarantee	Other passenger land transport
Newcastle NE1 Limited	Great Britain	Company limited by guarantee	NE1 is a not for profit Business Improvement District (BID)
Shares held by a trustee			
Network Rail Infrastructure Finance PLC	Great Britain	Intertrust Corporate Services Limited	Issuer of the Debt Issuance Programme
Network Rail MTN Finance Limited	Great Britain	Intertrust Corporate Services Limited 99.998%, Intertrust Nominees limited 0.002%	Issuer of NR's Mediun Term Note ('MTN') Programme.

* Directly owned by Network Rail Limited company.

The shares in Network Rail Infrastructure Finance PLC are held by HSBC Trustee (C.I.) Limited, for charitable purposes. The sole purpose of this company is to act as a special purpose funding vehicle. The company is treated as a subsidiary for accounting purposes as proceeds from debt issuances are lent on to Network Rail Infrastructure Limited and are used to finance the activities and to refinance the existing debt of the group.

Notes to the financial statements continued

14. Investments in subsidiaries and joint ventures continued

Joint ventures accounted for by the equity accounting method in the financial statements are included in the table below.

Joint ventures	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Innova Investment Partnership GP Limited	Great Britain	50%	Hold 0.1% in Innova Investment Limited Partnership
Innova Investment Limited Partnership	Great Britain	49.95%	Property development
West Hampstead Square LLP	Great Britain	50%	Property development
Blockwork LLP	Great Britain	50%	Property development
The Station Office Network LLP	Great Britain	50%	Provides flexible office space, meeting rooms and virtual offices
Solum Regeneration Epsom (GP) Limited	Great Britain	50%	Hold 0.1% in Solum Regeneration (Epsom) Limited Partnership
Solum Regeneration (Epsom) Limited Partnership	Great Britain	49.95%	Property development
Solum Regeneration (Haywards) LLP	Great Britain	50%	Property development
Solum Regeneration (Guildford) LLP	Great Britain	50%	Property development
Solum Regeneration (Twickenham) LLP	Great Britain	50%	Property development
Solum Regeneration (Bishops) LLP	Great Britain	50%	Property development
Solum Regeneration (Surbiton) LLP	Great Britain	50%	Property development
Solum Regeneration Holding 2 LLP	Great Britain	50%	Property development
Solum Regeneration (Maidstone) LLP	Great Britain	50%	Property development
Solum Regeneration (Walthamstow) LLP	Great Britain	50%	Property development
Solum Regeneration (Redhill) LLP	Great Britain	50%	Property development
Solum Regeneration (Kingswood) LLP	Great Britain	50%	Property development
Solum Regeneration Holding 1 LLP	Great Britain	50%	Property development

The movement in the investment in joint ventures is as follows:

	2020 Group £m	2019 Group £m
At 1 April	44	35
Investment in joint ventures	(1)	9
Share of profit/(loss)	(2)	-
At 31 March	**41**	**44**

15. Assets held for sale

	2020 Group £m	2019 Group £m
At 1 April	10	1,134
Transfer from investment property	-	(5)
Transfer from trade and other payables	-	(7)
Transfers from property, plant and equipment	23	-
Additions	-	22
Disposals	(9)	(1,134)
At 31 March	**24**	**10**

Under IFRS 13, the assets are classified as Level 3.

Notes to the financial statements continued

16. Inventories

	2020 Group £m	2019 Group £m
Raw materials and consumables	**262**	**226**

As at 31 March 2020 a provision of £27m (2019: £26m) was held in respect of inventories.

17. Trade and other receivables

Current assets: trade and other receivables	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Trade receivables				
- receivable from contracts with other customers	262	201	-	-
- receivable from agreements with government	-	34	-	-
- receivable from property portfolio customers	164	112	-	-
Capital grants receivable	503	270	-	-
Other taxation and social security	135	134	-	-
Collateral receivable	534	727	-	-
Other receivables	32	-	-	-
Prepayments	70	55	-	-
Accrued income				
- receivable from contracts with other customers	124	130	-	-
- receivable from property portfolio customers	53	76	-	-
Total	**1,877**	**1,739**	**-**	**-**

Trade receivables from contracts with customers, agreements with government and from the property portfolio are all based on unconditional rights to consideration, and are not contingent on conditional or dependent on satisfying other performance obligations.

Trade receivables include an allowance for estimated irrecoverable amounts from the supply of services of £31m (2019: £22.5m). This allowance has been made by reference to past default experience. Past default experience is adjusted for forward looking information where relevant. The group provides fully for receivables overdue by over six months. Average debtor days were 50 days (2019: 47 days).

The directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in sterling.

The group's credit risk is primarily attributable to its trade receivables. Around 96 per cent of the company's income is received from train operating companies and in the form of revenue grants from Government. Franchises are issued to train operating companies by the Department for Transport in England and Wales and Transport Scotland in Scotland. The group believes that amounts receivable from Government and the train operating companies represent a high level of credit quality. This is because in the extraordinary circumstance that a train operating company were to be unable to meet its obligations then provisions in the franchise agreements allow the Department for Transport to take over services at any time. Measures taken to change franchise contracts by both DfT and Transport Scotland during the global pandemic have allowed train operating companies to continue to settle amounts owed to Network Rail as they fall due. Before accepting any other new customer, the group uses an external credit scoring system to assess the potential customer's credit quality.

Included in the group's trade receivable balance are amounts totalling £90m (2019: £40m) which are past due at the reporting date for which the group has not provided as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The group does not hold collateral over these balances. The average age of these receivables is 32 days (2019: 21 days).

The following table shows the age of financial assets for the group which are past due and for which no specific provision has been raised:

Current assets: trade and other receivables	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Past due by 1 – 28 days	39	32	-	-
Past due by 29 – 56 days	18	2	-	-
Past due by 57 – 84 days	12	3	-	-
Past due by 85 – 180 days	27	12	-	-
	96	**49**	**-**	**-**

Trade receivables of £21m (2019: £15m) are overdue by six months or more, and have been fully provided for.

Notes to the financial statements continued

18. Trade and other payables

Current liabilities: trade and other payables	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Trade payables	534	782	-	-
Collateral held from banking counterparties	120	38	-	-
Payments received on account	25	15	-	-
Other payables	495	359	-	-
Other interest accruals	282	287	-	-
Other accruals	910	1,434		
Deferred income				
- from contracts with other customers	1,252	414	-	-
- from property portfolio customers	19	77	-	-
Total	**3,637**	**3,406**	**-**	**-**

IFRS 15 uses the term 'contract liability' to describe what might more commonly be known as 'deferred income', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has not adopted the terminology used in IFRS 15 to describe such balances.

£55m of the property deferred income balance at the beginning of the year was recognised as revenue in the current year.

The average credit period taken for trade purchases is 36 days (2019: 29 days).

Before accepting new suppliers, and upon letting significant contracts, the group evaluates suppliers' creditworthiness using external credit scoring systems and other relevant data.

The directors consider that the carrying value of trade and other payables approximates to their fair value. All balances are ordinarily non-interest bearing and denominated in sterling.

Non-current liabilities: other payables	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Capital grants deferred income	471	150	-	-
Other payables	77	176	-	-
Total	**548**	**326**	**-**	**-**

As part of the acquisition of Railtrack PLC, Network Rail received a grant of £300m from the Strategic Rail Authority to fund the purchase. In line with Network Rail's accounting policy this revenue is deferred and amortised over the average remaining life of the railway network (as this represents the substantial part of the assets purchased), currently 40 years, on a straight-line basis.

19. Borrowings

The borrowings balance is split as follows:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Net borrowings by instrument:				
Cash and cash equivalents	430	450	-	-
Collateral placed with counterparties	534	727	-	-
Collateral received from counterparties	(120)	(38)	-	-
Bank loans	(514)	(500)	-	-
Lease liabilities	(411)	–	-	-
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	(24,686)	(24,196)	-	-
Borrowings issued by the Department for Transport*	(29,834)	(30,580)	-	-
	(54,601)	**(54,137)**	**-**	**-**
Movement in net borrowings:				
At the beginning of the year	(54,137)	(51,297)	-	-
Decrease in cash and cash equivalents	(20)	(523)	-	-
Proceeds from borrowings	(11,559)	(6,003)	-	-
Repayments of borrowings**	12,029	4,597	-	-
Capital accretion	(513)	(496)	-	-
Exchange differences	(19)	(8)	-	-
Movement in collateral placed with counterparties	(193)	(23)	-	-
Movement in collateral received from counterparties	(82)	49	-	-
Movement in lease liabilities (see Note 24)	(411)	-	-	-
Decrease/(increase) in DFT collateral facility**	275	(685)	-	-
Fair value and other movements	29	252	-	-
At the end of the year	**(54,601)**	**(54,137)**	**-**	**-**
Net borrowings are reconciled to the balance sheet as set out below:				
Cash and cash equivalents	430	450	-	-
Collateral placed with counterparties (included in trade and other receivables)	534	727	-	-
Collateral received from counterparties (included in trade and other payables)	(120)	(38)	-	-
Borrowings included in current liabilities	(10,781)	(11,557)	-	-
Borrowings included in non-current liabilities	(44,664)	(43,719)	-	-
	(54,601)	**(54,137)**	**-**	**-**

* As at 31 March 2020, a collateral facility of £410m (2019: £685m) was included within this balance.

** Included in repayment of borrowings in cash flow statement.

Notes to the financial statements continued

19. Borrowings continued

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
1.085 % sterling index linked bond due 2052	141	137	-	-
0 % sterling index linked bond due 2052	154	149	-	-
1.003 % sterling index linked bond due 2051	27	26	-	-
0.53 % sterling index linked bond due 2051	136	133	-	-
0.517 % sterling index linked bond due 2051	136	133	-	-
0 % sterling index linked bond due 2051	154	149	-	-
0.678 % sterling index linked bond due 2048	134	131	-	-
1.125 % sterling index linked bond due 2047	5,819	5,685	-	-
0 % sterling index linked bond due 2047	99	95	-	-
1.1335 % sterling index linked bond due 2045	55	53	-	-
1.5646 % sterling index linked bond due 2044	308	299	-	-
1.1565 % sterling index linked bond due 2043	61	60	-	-
1.1795 % sterling index linked bond due 2041	75	73	-	-
1.2219 % sterling index linked bond due 2040	302	294	-	-
1.2025 % sterling index linked bond due 2039	82	80	-	-
4.6535 % sterling bond due 2038	100	100	-	-
1.375 % sterling index linked bond due 2037	5,717	5,578	-	-
4.75 % sterling bond due 2035	1,234	1,232	-	-
1.6492 % sterling index linked bond due 2035	459	447	-	-
4.375 % sterling bond due 2030	872	872	-	-
1.75 % sterling index linked bond due 2027	5,548	5,435	-	-
4.615 % Norwegian krone bond due 2026*	47	53	-	-
4.57 % Norwegian krone bond due 2026*	13	15	-	-
1.9618 % sterling index linked bond due 2025	389	378	-	-
4.75 % sterling bond due 2024	743	742	-	-
3 % sterling bond due 2023	399	398	-	-
2.76 % Swiss franc bond due 2021	251	231	-	-
2.315 % Japanese yen bond due 2021*	77	73	-	-
2.28 % Japanese yen bond due 2021*	77	73	-	-
2.15 % Japanese yen bond due 2021*	77	73	-	-
4.625 % sterling bond due 2020	1,000	1,000	-	-
	24,686	**24,197**	**-**	**-**

* Bonds treated as fair value through profit and loss.
All other bonds are shown net of unamortised discount and fees.

19. Borrowings continued

Bank loans are analysed as follows:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Index-linked European Investment Bank due 2036 (£251m) and 2037 (£249m)	514	500	-	-
	514	**500**	**-**	**-**

At 31 March 2020 and 2019 the group had the following undrawn committed borrowing facilities at nominal value:

	2020 Drawn £m	2020 Undrawn £m	2020 Total £m	2019 Drawn £m	2019 Undrawn £m	2019 Total £m
Department for Transport loan facility	29,439	2,420	31,859	29,909	-	29,909
Department for Transport collateral facility	410	390	800	685	315	1,000
	29,849	**2,810**	**32,659**	**30,594**	**315**	**30,909**

Undrawn committed facilities expire as follows:

	2020 Group £m	2019 Group £m
Within one year	-	-
Within two to five years	2,420	-
After five years	-	-
	2,420	**-**

On 4 July 2014, the Secretary of State for Transport provided the group with a loan facility of £30,875m expiring on 31 March 2019. Following the asset divestment programme, the loan facility was reduced to £29,909m which had been fully drawn as at 31 March 2019. On 28 March 2019, a new facility was signed which became available for drawing on 1 April 2019 (the '2019 facility'). The 2019 facility has a drawdown limit of £32,329m. Following the CVL disposal, this facility was reduced to £31,859m. In addition, the Secretary of State for Transport has provided unlimited financial indemnity in respect of borrowings under the Debt Issuance Programme which expires in 2052.

Notes to the financial statements continued

20. Derivative financial instruments

	2020 Group		2019 Group	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Derivative financial instrument assets				
Cash flow hedges				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	138	128	126	128
Fair value hedges				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	-	-	-	-
Non-hedge accounted derivatives				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	98	198	95	199
Interest rate swaps	245	10,670	129	10,711
Forward foreign exchange contracts	3	1	-	3
	484	**10,997**	**350**	**11,041**
Included in non-current assets	474	9,396	340	9,552
Included in current assets	10	1,601	10	1,489
	484	**10,997**	**350**	**11,041**
Derivative financial instrument liabilities				
Cash flow hedges				
Interest rate swaps	(11)	130	(15)	130
Forward starting interest rate swaps			-	-
Non-hedge accounted derivatives				
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(883)	12,380	(1,016)	19,852
Forward foreign exchange contracts	(1)	22	(2)	48
	(895)	**12,532**	**(1,033)**	**20,030**
Included in current liabilities	(48)	3,189	(52)	4,975
Included in non-current liabilities	(847)	9,344	(981)	15,055
	(895)	**12,533**	**(1,033)**	**20,030**

See Note 25: Funding and financial risk management for further details on the risk management strategy. Notional amounts above reflect the contractual value relating to the principal instrument (e.g. bond) to which the derivative relates.

21. Provisions

	Restructuring £m	Legal £m	Commercial and other claims £m	Total £m
At 1 April 2019	**1**	**22**	**41**	**64**
Charge for the year	5	2	28	35
Utilised in the year	-	(1)	(7)	(8)
Release for the year	(1)	(2)	(8)	(11)
At 31 March 2020	**5**	**21**	**54**	**80**

The group has also provided against a number of claims arising from interpretations of legal contracts or past events for which settlement is expected to be achieved in the next year, but could be deferred to future years depending on the legal interpretation of rights and responsibilities under the contracts as well as commercial negotiation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. The nature of these claims means that there is some uncertainty with regard to the value that they will be settled at. If the outcomes of the claims are different to the assumptions underpinning the directors' best estimates then a further liability may arise.

Contingent liability

The group's lawyers have advised that detailed disclosure regarding the nature and amount of contingent liabilities, beyond that disclosed here, could be expected to prejudice the position of the group. The general nature of contingent liabilities are development indemnities and warranties.

Notes to the financial statements continued

22. Deferred tax

The following are the deferred tax liabilities and assets recognised by the group and movement thereon during the current and prior year.

Group	Accelerated tax depreciation £m	Unrealised Gain on Investment Property £m	Revaluation of railway network £m	Short-term timing differences including retirement benefit obligations £m	Derivatives £m	Tax losses £m	Total £m
At 31 March 2018	**2,421**	**-**	**162**	**(53)**	**(22)**	**-**	**2,508**
Charge/(credit) to income	165	(98)	-	(48)	(6)	(1)	12
Charge/(credit) to other comprehensive income	-	-	447	(4)	29	-	472
Transfer between reserves	-	-	(13)	13	-	-	-
Reclassification	(58)	58	-	-	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	1	1
Derecognition of deferred tax asset (income)	-	40	-	-	-	-	40
Derecognition of deferred tax asset (equity)	-	-	-	-	(29)	-	(29)
At 31 March 2019	**2,528**	**-**	**596**	**(92)**	**(28)**	**-**	**3,004**
Charge/(credit) to income	157	3	-	(33)	6	1	134
Charge/(credit) to other comprehensive income	-	-	(50)	141	46	-	137
Impact of rate change on deferred tax asset (income)	299	-	-	(31)	(3)	-	265
Impact of rate change on deferred tax asset (equity)	-	-	70	20	(1)	-	89
Transfer between reserves	-	-	(12)	12	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	(1)	(1)
Derecognition of deferred tax asset (income)	-	(3)	-	-	-	-	(3)
Derecognition of deferred tax asset (equity)	-	-	-	-	(45)	-	(45)
At 31 March 2020	**2,984**	**-**	**604**	**17**	**(25)**	**-**	**3,580**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances:

	2020 £m	2019 £m
Deferred tax liabilities	3,605	3,124
Deferred tax assets	(25)	(120)
	3,580	**3,004**

Under IAS 12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Additionally, whilst taxable income does not exceed allowable deductions in the year, Network Rail claims only the capital allowances sufficient to make the necessary claims for group relief and available tax credits.

23. Notes to the statement of cash flows

	2020 Group £m	2019 Group £m	2020 Group £m	2019 Company £m
Profit/(Loss) before tax	375	(173)	-	-
Adjustments for:				
Property revaluation movements and profits on disposal	(3)	(363)	-	-
Fair value gain on derivatives and debt	(213)	(220)	-	-
Net interest expense	2,163	2,189	-	-
Depreciation of the rail network and leases under IFRS 16	2,022	1,810	-	-
Amortisation of grants	(169)	(144)	-	-
Amortisation of intangible assets	1	1	-	-
Movement in retirement benefit obligations	188	169	-	-
Increase/(Decrease) in provisions	16	(17)	-	-
Operating cash flows before movements in working capital	**4,380**	**3,252**	**-**	**-**
Increase in inventories	(36)	(11)	-	-
Increase in receivables	(98)	(167)	-	-
Increase in payables	677	548	-	-
Cash generated from operations	**4,923**	**3,622**	**-**	**-**

Cash and cash equivalents

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank, collateral and commercial paper, all of which are on call with the exception of short-term deposits. There were £524m (excluding offsetting clearing accounts) of short term deposits with the government banking scheme ("GBS") held as at 31 March 2020 (2019: £502m).

Notes to the financial statements continued

24. Leases

Group as a lessee

Property lease payments largely represent rentals payable by the group for certain of its office properties. In addition rentals are paid for land adjacent to the railway required for maintenance and renewal activities. Non-property leases include the group's vehicles, on track machines and wagons that are leased.

The movement in the period for the lease liability is reconciled as follows:

	Property leases £m	Non property leases £m	Total £m
Balance recognised on transition at 1 April 2019	248	162	410
New leases entered into in the period	39	64	103
Leases renewed in the period	-	-	-
Interest charged in the period	9	6	15
Payments in the period	(66)	(51)	(117)
Lease liability at 31 March 2020	**230**	**181**	**411**

The lease liabilities are split between the current and non-current liabilities as shown below:	2020 £m	2019 £m
Current lease liabilities	92	-
Non-current lease liabilities	319	-
Total lease liabilities	**411**	-

The movement in the period for the ROU assets is reconciled as follows:

	Property leases £m	Non property leases £m	Total £m
Balance recognised on transition at 1 April 2019	248	162	410
New leases entered into in the period	39	64	103
Leases renewed in the period	-	-	-
Depreciation charged in the period	(41)	(44)	(85)
Right of use asset at 31 March 2020	**246**	**182**	**428**

Expenses relating to short-term lease (included in net operating costs) were £2m. The total cash outflow for leases during the year was £119m.

The following table details the group's remaining contractual maturity for its financial liabilities. See note 25 for details of how liquidity risk is managed across the group.

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Lease liabilities	97	87	182	117	**483**

Group as a lessor

Minimum lease payments receivable on leases where the group is lessor are as follows:

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Minimum lease payments receivable	433	385	761	2,184	**3,763**

25. Funding and financial risk management

Introduction

The group is almost entirely debt financed. Debt has been issued through the special purpose financing company Network Rail Infrastructure Finance PLC, which is not a member of the Network Rail Limited group, but is treated as a subsidiary for accounting purposes. The majority of the group's existing debt has been issued by Network Rail Infrastructure Finance PLC under the Debt Issuance Programme which is rated AA by Standard and Poor's, Aa2 (outlook stable) by Moody's and AA (outlook negative) by Fitch. The Debt Issuance Programme is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052.

Debt has been issued in a number of currencies and a range of maturities which gives rise to interest rate, foreign currency and inflation risk. Financial risk management aims to mitigate these risks.

Reclassification of Network Rail

In December 2013, the Office for National Statistics announced the reclassification of Network Rail as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by guidance in the European System of National Accounts 2010 (ESA10).

As part of Network Rail's formal reclassification to the public sector, an arrangement was agreed whereby funding would be provided by the DfT in the form of a loan made directly to Network Rail Infrastructure Limited, to fund the continuing programme of long-term investment in the national rail network. Network Rail Infrastructure Finance PLC does not anticipate issuing further bonds in the foreseeable future and its debt service obligations would be met through repayments of the intercompany loan by Network Rail Infrastructure Limited.

All of the outstanding bonds under the Debt Issuance Programme, including nominal and index-linked benchmarks and private placements in all currencies, will continue to benefit from the direct and explicit guarantee from the UK Government under the Financial Indemnity Mechanism. In the unlikely event that the DfT withdraws or breaches its obligations on the loan facility to Network Rail the group may issue further bonds or commercial paper to meet funding requirements.

Notes to the financial statements continued

25. Funding and financial risk management continued

Summary table of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the group's financial assets and liabilities at 31 March 2020 and 31 March 2019.

The fair values of the financial assets and liabilities are recorded at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values where balances were not already held at fair value (see Accounting policies in Note 2):

- Bank loans – based on market data at the balance sheet date and the net present value of discounted cash flows
- Bonds issued under the Debt Issuance Programme – based on market data at the balance sheet date. Where market data is not available valuations have been obtained from dealing banks.

For cash and cash equivalents, finance lease receivables, trade and other payables and trade and other receivables, fair value equates to carrying value.

	2020		2019	
Group	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and cash equivalents	430	430	450	450
Other non-derivative financial assets				
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	961	961	617	617
Collateral receivable	534	534	727	727
Derivatives				
Derivatives designated as cash flow hedging instruments	138	138	126	126
Other derivatives as fair value through profit and loss	346	346	224	224
Total financial assets	**2,409**	**2,409**	**2,144**	**2,144**
Financial liabilities				
Financial liabilities held at amortised cost				
Bank loans	(514)	(900)	(500)	(853)
Bonds issued under the Debt Issuance Programme	(24,395)	(30,328)	(23,909)	(29,518)
Borrowings issued by Department for Transport	(29,834)	(30,374)	(30,580)	(30,523)
Collateral payable	(120)	(120)	(38)	(38)
Trade and other payables at amortised cost (less deferred income)	(2,443)	(2,443)	(3,091)	(3,091)
Financial liabilities designated as fair value through profit and loss				
Bonds issued under the Debt Issuance Programme	(291)	(291)	(287)	(287)
Derivatives				
Derivatives designated as cash flow hedging instruments	(11)	(11)	(15)	(15)
Other derivatives as fair value through profit and loss	(884)	(884)	(1,018)	(1,018)
Total financial liabilities	**(58,492)**	**(65,351)**	**(59,438)**	**(65,343)**

As shown in the above table, the bonds issued under the Debt Issuance Programme have fair values significantly in excess of their carrying values. These differences are not reflected in the Balance Sheet since the majority of these instruments (See Note 19) were not designated at FVPL on initial recognition and hence are accounted for at amortised cost under IFRS 9. The size of the difference is driven by the overall decrease in market debt yield rates since the inception of these instruments; debt terms in a higher yield environment resulting in a settlement at par would now attract a premium, assuming no other changes to the instrument or wider environment.

25. Funding and financial risk management continued

Derivatives

The group (including the group's special purpose financing company, Network Rail Infrastructure Finance PLC) uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The group does not use derivative financial instruments for speculative purposes. Certain derivatives are designated as hedges, and those derivatives that are not hedge accounted are fair valued immediately through the income statement. The group has a comprehensive risk management process.

The board, through a treasury sub-committee (the treasury committee), has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

The use of derivative instruments can give rise to credit and market risk. Market risk is the possibility that future changes in foreign exchange rates and interest rates may make a derivative more or less valuable. Since the group uses derivatives for risk management, market risk relating to derivative instruments will principally be offset by changes in the valuation of the underlying assets, liabilities or transactions being hedged.

Credit risk

Network Rail manages its funds with banks that have high credit ratings; assigned by international credit-rating agencies. The treasury committee authorises the policy for setting counterparty limits based on credit ratings. The group spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each of the counterparties. Surplus liquidity is invested in the Government Banking Scheme which has low credit risk.

For debt designated as fair value through profit and loss (FVTPL) there has been no change in carrying value as a result of changes in the group's credit risk. The loss in the income statement arising from the remeasurement of FVTPL debt items of £4m (2019: £3m) are all attributable to changes in market risk.

The credit risk with regard to all classes of derivative financial instruments entered into before 1 January 2013 is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which if breached requires the bank to post collateral in cash or eligible securities. The members of the banking group are required to post collateral on positive mark to market swaps above the threshold. In December 2012 the group entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013. Under the terms of the new agreements Network Rail posts collateral on adverse net derivative positions with its counterparties. The new agreements do not contain a provision for thresholds; as such Network Rail or its counterparties are required to post collateral for the full fair value of net out of the money positions. At 31 March 2020 the fair value of collateral held was £120m (2019: £38m). The group is the beneficial owner of this collateral. The group is free to invest or otherwise utilise the collateral at its discretion, subject to acting within the authority sanctioned by the treasury committee. The balance of collateral posted by the group at 31 March 2020 was £534m (2019: £727m).

The group does not have any significant credit risk exposure to any single counterparty and has considered the creditworthiness of debtors. For further detail on the credit-worthiness of customers and suppliers, see Notes 17 (Trade and other receivables) and 18 (Trade and other payables).

The group considers its maximum exposure to credit risk to be the sum of its financial assets, as set out in Note 17.

Foreign exchange risk

Network Rail is exposed to currency risks from its investing, financing and operating activities. Foreign exchange risk for all currencies is managed by the use of forward exchange contracts and currency swaps to limit the effects of movements in exchange rates on foreign currency denominated liabilities.

The group considers a ten percentage point increase in the value of any currency against sterling to be a reasonably possible change and this would not have a material impact on the group's net profit before tax or equity.

Interest rate and inflation risk

The group is exposed to changes in interest rates as funds are borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio.

Debt with a carrying value of £23,320m (2019: £30,592m) is arranged at or swapped into fixed interest rates and exposes the group to fair value interest rate risk. Other borrowings were arranged at or swapped into floating rates, thus exposing the group to cash flow interest rate risk. They have arranged or swapped other borrowings into floating rates (£198m), thus exposing the group to cash flow interest rate risk.

The group has certain debt issuances which are index-linked and so are exposed to movements in inflation rates. The group does not enter into any derivative arrangements to hedge its exposure to inflation in relation to its index-linked debt, but rather to mitigate the effects of inflation on the group's retail price index-linked revenue streams.

Notes to the financial statements continued

25. Funding and financial risk management continued

Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to interest rates and inflation for both derivative and non-derivative financial instruments at the balance sheet date. A one per cent increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

	Group 31 March 2020		Group 31 March 2019	
	Impact on the income statement £m	Impact on equity £m	Impact on the income statement £m	Impact on equity £m
1 % increase in the interest rate	344	3	504	-
1 % increase in the GBP RPI on index linked bonds	(185)	-	(182)	-

A one per cent decrease in the above rates would have an equal and opposite effect.

Interest rate sensitivities have been calculated by comparing the average rates of the derivative financial instruments to the market rate for similar instruments.

The impact of a change in GBP RPI has been calculated by applying a change of one per cent to the RPI at the balance sheet date to the carrying value of the index linked bonds.

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the board of directors. The policy manual ratified by the treasury committee includes an appropriate liquidity risk management framework covering the group's short, medium and long-term funding and liquidity management requirements. The Treasury funding is subject to regular internal audits. Treasury provides sufficient liquidity to meet the group's needs, while reducing financial risks and prudently maximising interest receivable and minimising credit risk on surplus cash.

The group manages liquidity risk by maintaining sufficient cash and facilities to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows. Included in Note 19 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

The following table details the group's remaining contractual maturity for its financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay and, therefore, differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
31 March 2020					
Non-derivative financial liabilities					
Bank loans and overdrafts	-	-	(1)	(522)	(523)
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	(1,196)	(150)	(1,552)	(3,171)	(6,069)
– Sterling denominated index-linked bonds	(276)	(284)	(900)	(34,900)	(36,360)
– Foreign currency denominated bonds	(14)	(453)	(8)	(62)	(537)
Loan from the Department for Transport	(10,410)	(7,988)	(11,383)	(1,239)	(31,020)
Trade and other payables	(1,431)	(77)	-	-	(1,508)
Lease liabilities	-	-	-	-	-
Derivative financial liabilities					
Net settled derivative contracts	(189)	(113)	(149)	(34)	(485)
Gross settled derivative contracts – receipts	14	453	8	62	537
Gross settled derivative contracts – payments	(3)	(276)	(3)	(58)	(340)
	(13,505)	**(8,888)**	**(13,988)**	**(39,924)**	**(76,305)**

25. Funding and financial risk management continued

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
31 March 2019					
Non-derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(18)	(582)	(612)
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	(196)	(1,196)	(1,600)	(3,273)	(6,265)
– Sterling denominated index-linked bonds	(268)	(276)	(876)	(34,371)	(35,791)
– Foreign currency denominated bonds	(14)	(14)	(459)	(65)	(552)
Loan from the Department for Transport	(9,592)	(8,163)	(10,741)	(3,218)	(31,714)
Trade and other payables	(1,466)	(175)	-	-	(1,641)
Derivative financial liabilities					
Net settled derivative contracts	(231)	(137)	(247)	(44)	(659)
Gross settled derivative contracts – receipts	14	14	459	65	552
Gross settled derivative contracts – payments	(3)	(6)	(278)	(60)	(347)
	(11,762)	**(9,959)**	**(13,760)**	**(41,548)**	**(77,029)**

Offsetting financial assets and liabilities

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

Group	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amount of financial assets presented in the balance sheet £m	Related amounts not set off in the balance sheet: Financial instruments £m	Related amounts not set off in the balance sheet: Cash collateral received £m	Net amount £m
31 March 2020						
Derivative financial assets	484	-	484	(369)	439	**554**
31 March 2019						
Derivative financial assets	350	-	350	(307)	413	**456**

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

Group	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the balance sheet £m	Net amount of financial liabilities presented in the balance sheet £m	Related amounts not set off in the balance sheet: Financial instruments £m	Related amounts not set off in the balance sheet: Cash collateral paid £m	Net amount £m
31 March 2020						
Derivative financial liabilities	(895)	-	(895)	369	(24)	**(550)**
31 March 2019						
Derivative financial liabilities	(1,033)	-	(1,033)	307	276	**(450)**

Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement and will all have matured by 2027.

Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 19.

Notes to the financial statements continued

25. Funding and financial risk management continued

Fair value measurements recognised in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	-	484	-	484
Assets	**-**	**484**	**-**	**484**
Derivative financial liabilities	-	(895)	-	(895)
Financial liabilities designated at fair value through profit and loss	-	(291)	-	(291)
Liabilities	**-**	**(1,186)**	**-**	**(1,186)**
Total	**-**	**(702)**	**-**	**(702)**

	2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	-	350	-	350
Assets	**-**	**350**	**-**	**350**
Derivative financial liabilities	-	(1,033)	-	(1,033)
Financial liabilities designated at fair value through profit and loss	-	(287)	-	(287)
Liabilities	**-**	**(1,320)**	**-**	**(1,320)**
Total	**-**	**(970)**	**-**	**(970)**

The fair value of level 2 derivatives is estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates as at the current financial year end.

A review of the categorisation of the assets and liabilities into the three levels is made at each reporting date. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements in the current or prior years.

26. Retirement benefit schemes

Defined contribution schemes

On 1 April 2004 the company introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). These schemes are offered to all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS). Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so.

At 31 March 2020, the NRDCPS had 14,185 members (2019: 13,135) and the average employer contribution rate in the year was 4.1 per cent (2019: 4.2 per cent).

Defined benefit schemes

The principal pension scheme in which the company participates is the Railway Pension Scheme (RPS), which was established by statutory instrument, commenced on 1 October 1994 and is a funded defined benefit arrangement. The assets and liabilities under the predecessor scheme, the British Rail Pension Scheme (BRPS), were transferred to the RPS on that date. The RPS is an industry-wide scheme for all eligible employees within the railway industry. There are different sections within it for different employers. The assets and liabilities of each section are identified separately from those of the other sections. The company has its own section, the Network Rail Shared Cost Section (the Network Rail Section). This scheme, the assets of which are held separately from the company, is contributory and provides pensions related to pay at retirement.

The assets transferred to the RPS from the BRPS on 1 October 1994 were apportioned among the various sections of the RPS in accordance with the methods and assumptions specified in The Railways Pensions (Transfer and Miscellaneous Provisions) Order 1994 (the 'Transfer Order') which effected the transfer. The amount credited to the Network Rail Section included a share of the surplus at that time.

Since 1 April 2004, new members can only join the Network Rail Section of the RPS after completing five years of service. Benefits for existing members and employees joining up to and including 31 March 2004 were not affected by the revised eligibility rules of the Network Rail Section. In addition, the company announced its decision to cap its contribution to British Railways Additional Superannuation Scheme (BRASS) matching at current levels for existing employees and to dispense with matching for new employees. The company will continue to match regular contributions but will not increase them in cash terms in the future.

On 1 November 2008 Network Rail launched a third pension scheme – the Career Average Revalued Earnings (CARE) scheme, which is available to all employees.

Qualified actuaries Willis Towers Watson have valued the schemes on an IAS 19 (revised) basis at 31 March 2020 and 31 March 2019.

The contributions required to fund the RPS and the CARE scheme are reassessed every three years, following completion of actuarial valuations (by the Scheme Actuaries). The last full actuarial valuation of both schemes was undertaken by the scheme actuary, Willis Towers Watson, as at 31st December 2016. The triennial valuation is currently ongoing. Under the terms of the Pensions Act 2004, the Trustee and each employer must agree the methods and assumptions used to calculate the 'Technical Provisions', i.e. assets required to meet the Section's liabilities. The assumptions agreed are typically weaker than those used for IAS 19 purposes in current market conditions, so the minimum funding requirement in itself requires no further adjustment to the IAS 19 obligations below. However, the regulatory regime may, depending on legal advice received at the appropriate time, mean that a future employer's accounting surplus would need to be restricted.

The RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between the company and the members. In practice the contributions are adjusted at each triennial valuation to reflect the funding position of the schemes at that time.

The estimated amounts of contributions expected to be paid by the company and members to the schemes during the year ended 31 March 2021 are £122m and £77m respectively. If a surplus or deficit arises, the provisions in the rules mean that the company and members benefit from or pay for this respectively in the proportion 60:40.

Notes to the financial statements continued

26. Retirement benefit schemes continued

	2020 %	2019 %
Key assumptions used:		
Discount rate	2.2	2.3
Expected rate of price inflation and CARE benefit increases (RPI measure)	2.5	3.2
Future earnings increases*		
- after changes to benefits from 1 April 2016	2.5	3.2
Pension increases (CPI measure)	1.8	2.2

* Excluding promotional salary scale. Promotional salary scale increases apply only in respect of service after the date of promotion.

	2020		2019	
	Males	Females	Males	Females
Average life expectancy for mortality tables used to determine defined benefit obligations:				
– Member aged 65	21.1	22.7	22.2	23.8
– Member aged 45	22.8	24.6	23.9	25.7

For Network Rail Section of the RPS the discounted mean term of the defined benefit obligation is 22 years, for the CARE scheme it is 33 years.

Amounts recognised in income in respect of the company's pension arrangement are as follows:

	2020 £m	2019 £m
Current service cost – defined contribution (see note 6)	23	20
Current service cost – defined benefit (see note 6)	283	257
Past service credit - defined benefit (see Note 6)	-	7
Interest cost	58	55
	364	**339**

The current service cost has been included in employee costs, the net interest scheme deficit has been included in finance costs.

Amounts recognised in the statement of comprehensive income in respect of the company's pension arrangement are as follows:

	2020 £m	2019 £m
Gain on defined benefit obligation due to experience	(33)	(46)
(Gain)/Loss on defined benefit obligation due to assumption changes	(752)	285
Return on plan assets less/(greater) than discount rate	43	(208)
Actuarial (gain)/ loss recognised in the statement of comprehensive income	**(742)**	**31**

The cumulative amount of actuarial losses recognised in other comprehensive income was £777m (2019: £1,519m). In the year the discount rate went down by 0.1 % and the RPI assumption by 0.7 %. Several factors contributed to this, including COVID 19, Brexit uncertainty, global trade wars, and recession fears. Mortality assumptions were adjusted in line with those in the triennial funding valuation reducing the defined benefit obligation. These factors combined have had a significant impact on the defined benefit obligation leading to the £752m gain noted above arising from assumption changes. The other movements reduce that gain to £742m which is recorded in the statement of comprehensive income.

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit schemes is as follows:

	2020 £m	2019 £m
The defined benefit obligation is made up as follows:		
Active members	(5,915)	(6,253)
Deferred pensioner member	(1,358)	(1,455)
Retired members	(3,128)	(3,480)
Present value of defined benefit obligation	(10,401)	(11,188)
Fair value of scheme assets	6,951	6,912
Deficit in the scheme	**(3,450)**	**(4,276)**
Group's share (60%) of the scheme deficit recognised in the balance sheet	**(2,070)**	**(2,566)**

This amount is presented as a non-current liability in the balance sheet. Cumulative gains or losses are recognised in equity.

26. Retirement benefit schemes continued

Movements in defined benefit plan assets and liabilities (including members' share):

	Asset* £m	Liabilities** £m	Deficit £m
At 31 March 2018	**6,457**	**(10,308)**	**(3,851)**
Current service cost including members' share	-	(445)	(445)
Interest on pension deficit	154	(245)	(91)
Section amendment (Past Service Costs)	-	(11)	(11)
Administration expenses	(13)	-	(13)
Return on plan assets greater than the discount rate	346	-	346
Actuarial gain arising from experience adjustments	-	81	81
Actuarial loss arising from demographic assumptions	-	-	-
Loss on DBO - financial assumption		(476)	(476)
Regular contributions by employer	112	-	112
Contributions by employees	72	-	72
Benefits paid	(216)	216	-
At 31 March 2019	**6,912**	**(11,188)**	**(4,276)**
Current service cost including members' share	-	(494)	(494)
Interest on pension deficit	158	(255)	(97)
Section amendment (Past Service Costs)	-	-	-
Administration expenses	(13)	-	(13)
Return on plan assets greater than the discount rate	(73)	-	(73)
Actuarial gain arising from experience adjustments	-	57	57
Actuarial loss arising from demographic assumptions	-	351	351
Gain on DBO - financial assumption	-	902	902
Regular contributions by employer	118	-	118
Contributions by employees	75	-	75
Benefits paid	(226)	226	-
At 31 March 2020	**6,951**	**(10,401)**	**(3,450)**

*Including CARE scheme assets at 31 March 2020 of £257m (2019: £250m)
**Including CARE scheme liabilities at 31 March 2020 of £587m (2019: £595m)
The actual return on scheme assets was £85m (2019: £500m).

Scheme assets

The asset values disclosed below reflect Network Rail's exposure to underlying asset classes through holdings of units of the pooled funds in which the underlying assets are held. Underlying assets are managed by the pension administrator, RPMI and the control over economic benefits for Network Rail established through the unitisation of those funds. The table below has been used to illustrate the underlying assets proportional to Network Rail unit holdings in various pooled funds, and their position in the fair value hierarchy of the underlying assets.

Level 1 and 2 assets include diversified Exchange Traded Funds valued at open trading prices; the Level 3 include property, private equity and non-exchange-traded Pooled Investment Vehicles equity. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) and therefore are inherently more subjective than Level 1 and Level 2 assets.

Notes to the financial statements continued

26. Retirement benefit schemes continued

	2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
RPS Scheme				
Pooled investment vehicles	-	297	-	297
Private equity and non-exchange-traded pooled investment vehicles	-	-	1,757	1,757
Cash and current assets	1,021	-	-	1,021
Equities	2,681	-	42	2,723
Fixed interest securities	192	43	22	257
Derivatives - Futures	27	-	-	27
Derivatives - FX contracts	-	(106)	-	(106)
Index linked securities	224	-	-	224
UK Property	-	-	494	494
Total Assets RPS Scheme	**4,145**	**234**	**2,315**	**6,694**
CARE Scheme				
Growth assets				152
Government bonds				60
Non-Government bonds				26
Property				8
Other assets				11
Total assets CARE Scheme				**257**
Total scheme assets				**6,951**

As a result of the economic uncertainty following measures undertaken as a result of the global pandemic, the Private equity and non-exchange traded pooled investment vehicles have required additional activity to assess their value at 31 March 2020. If the valuation was 5% higher or lower this would decrease/ increase the retirement benefit obligations by £88m.

The group is exposed to a number of risks relating to the scheme including assumptions not being borne out in practice. The most significant risks are as follows:

Asset volatility
There is a risk that a fall in asset values is not matched by corresponding reduction in the value places on the defined benefit obligation scheme (DBO). The scheme holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long term but gives exposure to volatility and risk in the short-term.

Change in bond yields
A decrease in corporate bond yields will increase the value placed on the scheme DBO, although this will be partially offset by an increase in the value of the scheme's corporate bond holdings.

Inflation risk
The majority of the scheme's DBO is linked to inflation where higher inflation will lead to higher value being placed on the DBO. Some of the scheme assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.

Life expectancy
An increase in life expectancy will lead to an increased value being placed on the scheme's DBO. Future mortality rates cannot be predicted with certainty.

Actuarial assumption sensitivity
The discount rate is set by reference to market conditions at the reporting date, and can vary significantly between periods.

The earnings increases are linked to inflation and so set by reference to market conditions at the reporting date.

The mortality assumptions used are set by considering the experience of the scheme's members, and by making an allowance for possible future improvements in longevity. Mortality assumptions are difficult to set accurately and forecasting rates of future mortality improvement is inevitably speculative.

26. Retirement benefit schemes continued

Expected future benefit payments from the Network Rail Section, based on data from the 2013 formal valuation and the 31 March 2020 IAS19 assumptions are as follows:

	£m
Benefits expected to be paid within 12 months	176
Benefits expected to be paid between 2 to 3 years	363
Benefits expected to be paid between 4 to 6 years	637
Benefits expected to be paid between 7 to 10 years	1,024
Benefits expected to be paid between 11 to 15 years	1,551
Benefits expected to be paid in over 15 years	10,776

The following table shows the effect of changes in these assumptions upon the defined benefit obligation:

	2020 £m	2019 £m
Discount rate		
Change in defined benefit obligation at year end from a 25 basis points increase	(547)	(603)
Change in defined benefit obligation at year end from a 25 basis points decrease	590	651
Mortality		
Change in defined benefit obligation from a one year increase in longevity	322	332
Change in defined benefit obligation from a one year decrease in longevity	(322)	(329)
Earnings increase		
Change in defined benefit obligation at year end from a 25 basis points increase	152	172
Change in defined benefit obligation at year end from a 25 basis points decrease	(147)	(166)
Price inflation (CPI measure)*		
Change in defined benefit obligation at year end from a 25 basis points increase	555	619
Change in defined benefit obligation at year end from a 25 basis points decrease	(517)	(576)

* Including consistent increases to Retail Price Index, salary growth and Retail Price Index/ Consumer Price Index related pensions assumptions.

27. Related parties

The Department for Transport (DfT) and Transport Scotland (TS) are considered related parties of Network Rail. Network Rail received grant income of £4,936m from the DfT in the year ended 31 March 2020 (2019: £3,786m). Network Rail received grant income of £323m from TS for the year ended 31 March 2020 (2019: £339m). The total of this income is "Grant income" in Note 3. In the current year, the group did not pay any Financial Indemnity Mechanism fee to DfT (2019: £266m) (see note 25 for more details). At 31 March 2020 the company held £29,834m of loans issued by DfT (2019: £30,580m).

The British Transport Police (BTP), with whom Network Rail has a Police Service Agreement is also a related party. Network Rail incurred £92m (2019: £91m) of costs relating to services provided by the BTP in the year ending 31 March 2020 and received £1m (2019: £1m) in property income from the BTP in the same period.

Network Rail is also a related party of High Speed 2 (HS2). At the end of the financial year Network Rail held £201m (2019: £38m) of capital work in progress relating to works on HS2 and had also received £219m (2019: £63m) of capital grants that was recorded against property, plant and equipment.

East West Rail (EWR) is also a related party of Network Rail. During the year ended 31 March 2020, Network Rail received income of £0.3m from EWR for the provision of feasibility studies and development activities services.

28. Post balance sheet events

As at the date of signing these financial statements there have not been any significant post balance sheet events, whether adjusting or non-adjusting.

NetworkRail

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