

Network Rail Infrastructure Limited

Network Rail Infrastructure Limited

Financial statements

Year ended 31 March 2020

Company registration number 2904587

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Network Rail Infrastructure Limited

Officers and professional advisers

Directors

Andrew Haines
Mark Bayley (appointed 11 May 2020)
Rob Brighthouse
Richard Brown (resigned 31 March 2020)
Sharon Flood (resigned 23 August 2020)
Chris Gibb (resigned 30 November 2019)
Michael Harrison (appointed 11 May 2020)
Sir Peter Hendy
Silla Maizey
David Noyes
Mike Putnam
Bridget Rosewell (resigned 31 March 2020)
Fiona Ross (appointed 11 May 2020)
Jeremy Westlake

Company secretary

Stuart Kelly

Registered office

1 Eversholt Street
London
NW1 2DN

Independent auditors

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W9SP

Strategic report

The directors present their strategic report of Network Rail Infrastructure Limited (NRIL or the company) for the year ended 31 March 2020.

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.

How are we 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.

Strategic report (continued)

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.

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.

Strategic report (continued)

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.

Strategic report (continued)

Our strategy (continued)

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.

Strategic report (continued)

Our strategy (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.

Strategic report (continued)

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

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.

- **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.
 - **Category A Criteria**
 - Direct impact on the passengers and freight users.
 - A risk to the successful delivery of a U.K. rail strategic objective.
 - A risk that is likely to require more than one U.K. rail stakeholder or 3rd party input.
 - **Category B Criteria**
 - Direct impact on a Network Rail strategic objective.
 - A risk which would impact on Network Rail's mitigation activity identified in a Category A industry risk.
 - **Category C Criteria**
 - Enterprise wide impact on normal business operations.
 - A risk to Network Rail which would not result in a direct impact to passengers and freight users
- **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.

Strategic report (continued)

Our approach to risk management (continued)

- **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 (LO 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.

Risks 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.

Strategic report (continued)

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. 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 included in the Network Rail Limited Group Annual Report 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.

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.

Strategic report (continued)

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

Likely consequences of decisions in the long term (continued)

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.

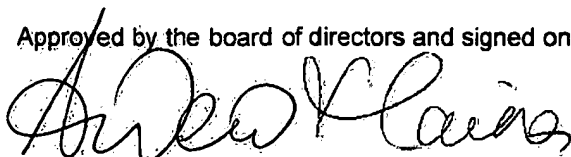
Impact of operations on the community and the environment

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. 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.

Approved by the board of directors and signed on behalf of the board:



Andrew Haines (director)
22 October 2020

Directors' report

The directors present their audited financial statements of the company for the year ended 31 March 2020.

Business review

For the year ended 31 March 2020 the group made a pre-tax profit of £368m (2019: £181m pre-tax loss) and the company made a pre-tax profit of £536m (2019: £26m pre-tax profit). The tax charge for the group for the year was £420m (2019: £52m).

Details on the overall group's performance and indicators are detailed in the annual report of Network Rail Infrastructure Limited's ultimate parent company; Network Rail Limited.

Future activities

The directors do not envisage any changes in the company's principal activities in the foreseeable future.

Dividends

No dividends were paid in the current year (2019: £nil).

Disabled employees

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment for disabled persons, having regard to their aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Political donations

There were no political donations made in the current or prior years.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

Directors' statement of responsibilities

The directors are responsible for preparing the strategic report, directors' 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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the company 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

Network Rail Infrastructure Limited

Directors' report (continued)

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each director of the company, in office at the time of approval of this report, acknowledges that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/ she has taken all the steps that he/ she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the board of directors and signed by order of the board

Jeremy Westlake
Chief Finance Officer
22 October 2020



Network Rail Infrastructure Limited

Independent auditor's report

to the Members of Network Rail Infrastructure Limited

Opinion on financial statements

I have audited the financial statements of Network Rail Infrastructure Limited for the year ended 31 March 2020 which comprise the group income statement, the group statement of comprehensive income, the group and parent company statement of changes in equity, the group and parent company balance sheet, 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 the International Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2020 and of the group's loss and the parent company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

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 Infrastructure 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Network Rail Infrastructure Limited's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Network Rail Infrastructure Limited have not disclosed in the financial statements any identified material uncertainties that may cast doubt about the Network Rail Infrastructure Limited's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' statement of responsibilities, the directors are responsible for:

- the preparation of the 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.
- assessing the group's and the parent 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's and Network Rail Infrastructure Limited's internal control.
- 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.

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

Auditor's responsibilities for the audit of the financial statements (continued)

- 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.
- Conclude on the appropriateness of Network Rail Infrastructure Limited's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the group to cease to continue as a going concern.

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.

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.

Other Information

Directors' are responsible for the other information. The other information comprises information included in the annual report, but does not include 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.

Network Rail Infrastructure Limited

Independent auditor's report (continued)

to the Members of Network Rail Infrastructure Limited

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- in light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic Report and Directors' Report 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.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by Network Rail Infrastructure Limited, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- 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.



Matthew Kay (Senior Statutory Auditor)

22 October 2020

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W9SP

Network Rail Infrastructure Limited

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	(5,784)	(5,251)
Operating profit		2,315	1,425
Property revaluation movements and profits on disposal		3	363
Profit from operations	5	2,318	1,788
Finance income	8	7	11
Other gains and losses	9	213	220
Finance costs	10	(2,170)	(2,200)
Profit/(Loss) before tax		368	(181)
Tax	11	(420)	(52)
Loss for the year attributable to the owner of the company		(52)	(233)

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 a profit of £115m (2019: loss for the year of £22m).

Network Rail Infrastructure Limited

Statement of comprehensive income

for the year ended 31 March 2020

	Notes	2020 Group £m	2019 Group £m
Loss for the year		(52)	(233)
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
(Loss)/Gain on revaluation of the railway network	13	(272)	2,632
Actuarial gain/(loss) on defined benefit pension schemes	28	742	(31)
Tax relating to components of other comprehensive income	23	(179)	(443)
Total items that will not be reclassified to profit or loss		291	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		502	2,359
Total comprehensive income for the year		450	2,126

Network Rail Infrastructure Limited

Statement of changes in equity

for the year ended 31 March 2020

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2019	160	85	3,555	1,458	(643)	4,452	9,067
Loss for the year	-	-	-	-	-	(52)	(52)
Other comprehensive income:							
Impact of tax rate change	-	-	(70)	-	-	(20)	(90)
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	-	-	52	-	-	-	52
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	742	742
Deferred tax on actuarial gain	-	-	-	-	-	(141)	(141)
Increase in fair value of hedging derivatives	-	-	-	-	3	-	3
Transfer between reserves - deferred tax	-	-	(122)	-	-	122	-
Transfer between reserves – deferred tax	-	-	12	-	-	(12)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	208	-	208
Total comprehensive income for the year:	-	-	(462)	-	211	701	450
Balance at 31 March 2020	160	85	3,093	1,458	(432)	5,153	9,517

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2018	160	85	1,393	1,458	(844)	4,689	6,941
Loss for the year	-	-	-	-	-	(233)	(233)
Other comprehensive income:							
Revaluation of the railway network	-	-	2,632	-	-	-	2,632
Transfer of deemed cost depreciation from revaluation reserve	-	-	(36)	-	-	36	-
Decrease in deferred tax liability on the railway 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 for the year:	-	-	2,162	-	201	(237)	2,126
Balance at 31 March 2019	160	85	3,555	1,458	(643)	4,452	9,067

* Other reserves of £1,458m (2019: £1,458m) include the vesting reserve on privatisation.

Network Rail Infrastructure Limited

Statement of changes in equity (continued)

for the year ended 31 March 2020

Company	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 31 March 2019	160	85	3,555	1,458	(32)	3,481	8,707
Profit for the year	-	-	-	-	-	115	115
Other comprehensive income:							
Impact of tax rate change	-	-	(70)	-	-	(19)	(89)
Revaluation of the railway network	-	-	(272)	-	-	-	(272)
Transfer of deemed cost depreciation from revaluation reserve	-	-	(62)	-	-	62	-
Increase in deferred tax liability on the railway network	-	-	52	-	-	-	52
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	742	742
Deferred tax on actuarial gain	-	-	-	-	-	(141)	(141)
Increase in fair value of hedging derivatives	-	-	-	-	4	-	4
Transfer between reserves	-	-	12	-	-	(12)	-
Transfer deferred tax between reserves	-	-	(122)	-	-	122	-
Total comprehensive income for the year:	-	-	(462)	-	4	869	411
Balance at 31 March 2020	160	85	3,093	1,458	(28)	4,350	9,118

Company	Share capital £m	Share premium £m	Revaluation reserve £m	Other reserves* £m	Hedging reserve £m	Retained earnings (restated)** £m	Total £m
Balance at 31 March 2018	160	85	1,393	1,458	(37)	3,507	6,566
Loss for the year	-	-	-	-	-	(22)	(22)
Other comprehensive income							
Revaluation of the railway network	-	-	2,632	-	-	-	2,632
Transfer of deemed cost depreciation from revaluation reserve	-	-	(36)	-	-	36	-
Increase in deferred tax liability on the railway network	-	-	(447)	-	-	-	(447)
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	(31)	(31)
Deferred tax on actuarial loss	-	-	-	-	-	4	4
Transfer between reserves	-	-	13	-	-	(13)	-
Reclassification of balances in hedging reserve to the income statement	-	-	-	-	5	-	5
Total comprehensive income for the year:	-	-	2,162	-	5	(26)	2,141
Balance at 31 March 2019	160	85	3,555	1,458	(32)	3,481	8,707

* Other reserves of £1,458m (2019: £1,458m) include the vesting reserve on privatisation.

Network Rail Infrastructure Limited

Balance sheets

at 31 March 2020

	Notes	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Assets					
Non-current assets					
Intangible assets	12	62	63	-	-
Right of use assets	26	428	-	426	-
Property, plant and equipment – the railway network	13	71,809	71,467	71,809	71,442
Investment property	14	227	232	227	232
Investment in subsidiaries	16	-	-	320	320
Interest in joint ventures	16	41	44	3	3
Derivative financial instruments	21	474	340	-	-
Loans to subsidiaries	29	-	-	66	65
		73,041	72,146	72,851	72,062
Current assets					
Assets held for sale	15	24	10	1	10
Inventories	17	262	226	256	221
Trade and other receivables	18	1,912	1,767	1,340	1,004
Current tax assets		-	2	18	4
Derivative financial instruments	21	10	10	-	-
Cash and cash equivalents		430	450	493	488
		2,638	2,465	2,108	1,727
Total assets		75,679	74,611	74,959	73,789
Liabilities					
Current liabilities					
Trade and other payables	19	(3,641)	(3,232)	(3,439)	(3,108)
Borrowings	20	(10,781)	(11,557)	(10,938)	(11,626)
Derivative financial instruments	21	(48)	(52)	(415)	(682)
Short-term provisions	22	(80)	(64)	(80)	(65)
		(14,550)	(14,905)	(14,872)	(15,481)
Net current liabilities		(11,912)	(12,440)	(12,764)	(13,754)
Non-current liabilities					
Borrowings	20	(44,664)	(43,719)	(44,861)	(43,654)
Derivative financial instruments	21	(847)	(981)	-	(1)
Other payables	19	(428)	(369)	(412)	(367)
Retirement benefit obligation	28	(2,070)	(2,586)	(2,070)	(2,566)
Deferred tax liabilities	23	(3,603)	(3,004)	(3,626)	(3,013)
		(51,612)	(50,639)	(50,969)	(49,601)
Total liabilities		(66,162)	(65,544)	(65,841)	(65,082)
Net assets		9,517	9,067	9,118	8,707
Equity					
Share capital	24	160	160	160	160
Share premium account		85	85	85	85
Revaluation reserve		3,093	3,555	3,093	3,555
Other reserve		1,458	1,458	1,458	1,458
Hedging reserve		(432)	(643)	(28)	(32)
Retained profit		5,153	4,452	4,350	3,481
Total equity		9,517	9,067	9,118	8,707

The financial statements on pages 17 to 82 were approved by the board of directors and authorised for issue on 22 October 2020. They were signed on its behalf by:

Andrew Haines, Director



Jeremy Westlake, Director



Company number:
2904587

Network Rail Infrastructure Limited

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 flow from operating activities					
Cash generated from operations	25	4,924	3,622	4,847	3,557
Interest paid*		(1,448)	(1,634)	(1,410)	(1,644)
Income tax received		2	-	-	3
Net cash flows generated from operating activities		3,478	1,988	3,437	1,916
Investing activities					
Interest received		7	11	7	11
Purchases of property, plant and equipment		(5,781)	(6,726)	(5,776)	(6,721)
Proceeds on disposal of property		534	1,469	536	1,458
Capital grants received		2,326	679	2,311	684
Net cash outflows from joint ventures		3	(9)	-	-
Loan to subsidiaries		-	-	(1)	(9)
Net cash used in investing activities		(2,911)	(4,576)	(2,923)	(4,577)
Financing activities					
Repayments of borrowings		(12,304)	(4,597)	-	-
New loans raised		11,559	6,688	-	-
Decrease/(increase) in collateral posted		193	23	-	-
Decrease in collateral held		82	(49)	-	-
Repayments of lease liabilities		(117)	-	(115)	-
Movement in intercompany borrowings		-	-	264	(1,432)
Movement in DfT borrowings		-	-	(746)	3,830
Increase in bank overdraft		-	-	88	12
Net cash generated from financing activities		(587)	2,065	(509)	2,410
Net movement in cash and cash equivalents		(20)	(523)	5	(251)
Cash and cash equivalents at beginning of the year		450	973	488	739
Cash and cash equivalents at end of the year		430	450	493	488

* 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 Infrastructure Limited (NRIL) is a private company incorporated and domiciled in Great Britain and registered in England and Wales under the Companies Act 2006.

The company registration number is 2904587. 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 strategic report on pages 2 to 10.

The company's immediate parent is Network Rail Holdco Limited, a private company incorporated in Great Britain and registered in England and Wales. The company's ultimate parent company is Network Rail Limited, a company limited by guarantee incorporated in Great Britain and registered in England and Wales.

Network Rail is organised as a single operating segment for financial reporting purposes.

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 under the historical cost basis, except for the revaluation of the railway 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 change in accounting policies noted below.

The following accounting standards have become effective in the current year and were adopted and applied by the group and company:

IFRS 16 'Leases'

In the current year, the group and company have applied IFRS 16 'Leases', effective for periods commencing 1 January 2019 and was therefore effective from 1 April 2019 in these 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.

Both the group and company 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'

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

IFRS 16 'Leases' (continued)

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' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's 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. For the company, the ROU asset recognised was £407m and lease liabilities of £407m as this did not include the leases for Network Rail Consulting Limited.

The following is a reconciliation of total operating lease arrangements disclosed in Note 24 of the March 2019 NRL 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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

The following accounting standards have not been early adopted by the group 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.

Business segments

No segmental analysis is provided because the group operates one class of business; that of managing the national rail infrastructure and undertakes that class of business in one geographical segment, Great Britain.

Going concern

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers. NRIL does not expect to undertake any new borrowing in the next 12 months. Instead its activities will be largely funded by grants from the Department for Transport and revenue from customers. NRIL 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.

NRIL 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.

In addition, Note 27 to the financial statements 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

for the year ended 31 March 2020

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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

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.

The group as lessee

For those leases of not less than 12 months or low value, the Right of Use (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 rates of exchange prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the rates of exchange 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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

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 28.

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.

Tax

The tax expense represents the sum of the current tax payable 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 taxes are 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 financial statements. 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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

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 railway network

The group has one class of property, plant and equipment, being the railway 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 railway network is carried in the balance sheet at its fair value. As there is no active market in railway infrastructure assets, the group has derived the fair value of the railway network using an income approach. The income approach assesses the discounted future cash flows that are expected to be generated by the railway 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 railway network is depreciated on a straight-line basis over its estimated remaining weighted average useful economic life. The estimated remaining weighted average 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 13. 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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

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.

Investment in subsidiaries

Investments in subsidiary undertakings are stated at cost plus incidental expenses less any provisions for impairment. Where an event has occurred that gives rise to doubt about the recovery of the carrying value an impairment assessment review is performed by management.

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.

Intra-group borrowings – Network Rail Infrastructure Finance (NRIF) provides the Network Rail group with funding and passes all transactions and balances through the intra-group borrowings to NRIL. Existing debt, derivatives and related interest payments within NRIF are passed onto NRIL in the form of an intercompany loan. The intercompany loan is classified as financial assets at amortised cost.

Financial assets at Fair Value Through Profit and Loss (FVTPL)

Financial assets are classified as at FVTPL where the asset does not meet the amortised cost criteria, and, 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 profit or loss for the period.

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.

Notes to the financial statements

for the year ended 31 March 2020

2. Accounting policies (continued)

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, commercial paper and money market deposit investments 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 the group 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 presented according to the substance of the contractual arrangements entered into.

Financial liabilities at Fair Value Through Profit and Loss 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.

Certain bonds, as set out in Note 20, 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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

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 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 dates.

The group designates certain hedging instruments as cash flow 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 values 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.

Note 21 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 statements of changes in equity and in the statements 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.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

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 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 will cease to be a building block in the determination of the group'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 13.

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 13.

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 19) 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 14.

Notes to the financial statements

for the year ended 31 March 2020

2. Significant accounting policies (continued)

(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 28. 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 11.

Notes to the financial statements

for the year ended 31 March 2020

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 for the year	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 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 note 13 and 26)	2,022	1,810
Capital grants amortised	(162)	(136)
Net operating costs	5,784	5,251

Notes to the financial statements

for the year ended 31 March 2020

5. Profit from operations

Total profit from operations is stated after charging/(crediting):

	2020 Group £m	2019 Group £m
Amortisation of intangible assets	1	1
Research and development costs	4	-
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 other 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 auditors	0.57	0.59

In the financial years ended 31 March 2020 and 2019 there were no fees 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 company pays £0.2m for the audit of subsidiaries that are not performed by the group auditor. The company bears the cost of the statutory audit fees for the entire Network Rail group of companies.

Notes to the financial statements

for the year ended 31 March 2020

6. Employee costs

The monthly average number of employees (including executive directors) was:

	2020 Group	2019 Group
Management and operation of the railway	42,099	40,268

Group and company	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 28)	23	20
Defined benefit pension costs – current service costs (see note 28)	283	257
Defined benefit pension costs – past service costs (see note 28)	-	7
	2,715	2,561

7. Directors' remuneration

	2020 Group £m	2019 Group £m
Total directors' emoluments (including non-executive directors)	2	2
Post-employment benefits - contributions to money purchase pension schemes	-	-
	2	2

In the year ended 31 March 2020 and 31 March 2019 the key management personnel were comprised of the chair of the board of directors and two executive directors.

The aggregate short-term employee benefits payable to these directors totalled £1.3m (2019: £1.4m) and aggregate post-employment benefits payable of £0.03m (2019: £0.06m). No other benefits were paid to these individuals. For further details see the directors' remuneration report in the Network Rail Limited group accounts.

Notes to the financial statements

for the year ended 31 March 2020

8. Finance income

	2020 Group £m	2019 Group £m
Interest receivable on Finances and deposits (included in borrowings)	7	11
	7	11
Finance income earned on financial assets analysed by category of asset is as follows:		
Loans and receivables (including cash and bank balances)	7	11
	7	11

9. 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 10.

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 20.

Notes to the financial statements

for the year ended 31 March 2020

10. 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 28)	58	55
Debt Issuance Programme financial indemnity fee	-	266
Interest on leases	15	-
Total borrowing costs	2,170	2,383
Less: capitalised interest	-	(183)
Total finance costs	2,170	2,200

Notes to the financial statements

for the year ended 31 March 2020

11. Tax

The tax charge/(credit) is made up as follows:

	2020 Group	2019 Group
Current tax:		
Corporation tax charge/ (credit)	-	-
Less advance corporation tax set-off	-	-
Corporation tax liability	-	-
Adjustment in respect of prior years	-	(1)
Total current tax charge/(credit)	-	(1)
Deferred tax:		
Current year charge	131	53
Effect of rate change	265	-
Adjustment in respect of prior years	24	-
Total deferred tax charge	420	53
Total tax charge	420	52

The tax charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2020 Group £m	2019 Group £m
Profit/(loss) before tax	368	(181)
Tax charge on profit 19 per cent (2019: 19 per cent)	70	(33)
Adjustment in respect of prior years	24	1
Effect of rate change	265	-
Expenditure not subject to tax	64	43
De-recognition of tax assets – brought forward	(2)	40
Utilisation of tax losses previously written off	(1)	1
Total tax charge for the year	420	52

Notes to the financial statements

for the year ended 31 March 2020

11. Tax (continued)

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 return to a level of taxable profits that will allow for recognition of deferred tax asset relating to the trading losses carried forward. Additionally, whilst taxable income does not exceed allowable deductions in the year, NRIL claims only the capital allowances sufficient to make the necessary claims 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).

12. 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.

Notes to the financial statements

for the year ended 31 March 2020

13. Property, plant and equipment – the railway network

Group	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 grants 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

Company	Assets £m	Capital grants £m	Carrying Value £m
Valuation			
At 31 March 2018	68,373	(4,256)	64,117
Additions	7,043	-	7,043
Capital grants 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	76,238	(4,796)	71,442
Additions	5,178	(2,247)	2,931
Disposal	(517)	-	(517)
(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 group 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 group 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.

Notes to the financial statements

for the year ended 31 March 2020

13. Property, plant and equipment – the railway network (continued)

The independent rail regulator, the Office of Rail and Road (ORR), has 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 group 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 explains that from 1 April 2019 the RAB will no longer be a building block in the determination of the group'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.

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.

Notes to the financial statements

for the year ended 31 March 2020

13. Property, plant and equipment – the railway network (continued)

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.

Group and company	Change in cost of capital (basis points)	31 March 2020	31 March 2019
Change in fair value	25 basis points	£843m	£835m
	50 basis points	£1,682m	£1,675m
% change in fair value	25 basis points	1.2%	1.2%
	50 basis points	2.3%	2.3%
Change in annual depreciation charge	25 basis points	£21m	£21m
	50 basis points	£42m	£42m

Notes to the financial statements

for the year ended 31 March 2020

13. Property, plant and equipment – the railway network (continued)

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 or result in the ineligibility of additions to the RAB over the next 5 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.

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 group'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 14 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).

Notes to the financial statements

for the year ended 31 March 2020

13. Property, plant and equipment – the railway network (continued)

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 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.

14. Investment property

Group and company	£m
Valuation	
At 31 March 2018	206
Additions	-
Disposals	(14)
Transfers (to)/from assets held for sale	5
Increase in fair value in the year	35
At 31 March 2019	232
Additions	-
Disposals	(8)
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.

Notes to the financial statements

for the year ended 31 March 2020

14. Investment property (continued)

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.

Group and company	Estimated rental value per sq. ft				Equivalent yield		
	Fair value at	Minimum	Maximum	Weighted	Minimum	Maximum	Weighted
	31 March 2020 £m	£m	£m	Average £m	%	%	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.

15. Assets held for sale

Group and company	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
At 1 April	10	1,134	10	1,134
Transfer from investment property	-	(5)	-	(5)
Transfer from trade and other payables	-	(7)	-	(7)
Additions	23	22	-	22
Disposals	(9)	(1,134)	(9)	(1,134)
At 31 March	24	10	1	10

Under IFRS 13, the assets are classified as Level 3.

Notes to the financial statements

for the year ended 31 March 2020

16. Investment in subsidiaries and joint ventures

Company	2020 £m	2019 £m
Beginning of year	320	320
Additions in year	-	-
Disposals in the year	-	-
End of year	320	320

The company is a wholly-owned subsidiary of Network Rail Limited, its ultimate parent, company, and is included in the consolidated financial statements of Network Rail Limited which are publicly available.

The subsidiaries in the consolidated financial statements are included in the list below.

Subsidiaries	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Network Rail Insurance Limited	Guernsey	100%	Insurance
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%	Non trading company
Network Rail (Projects) Limited	Great Britain	100%	Non trading company
NR 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 (Dormant)
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
Network Railway (Spacia) Limited	Great Britain	100%	Non trading company
Kew Bridge Manco Limited	Great Britain	Company limited by guarantee	Non trading company

Notes to the financial statements

for the year ended 31 March 2020

16. Investment in subsidiaries and joint ventures

Subsidiaries	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Railway Safety & Standards	Great Britain	Company limited by guarantee	Non trading company
Network Rail (Assets) Limited	Great Britain	Company limited by guarantee	Other business support activities
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% (1 share)	PLC acting as issuer of NR's Medium Term Note ('MTN') Programme. (Dormant)

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.

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

Notes to the financial statements

for the year ended 31 March 2020

16. Investment in subsidiaries and joint ventures

Joint ventures	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
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 venture 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

17. Inventories

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Raw materials and consumables	262	226	256	221

As at 31 March 2020 a provision of £27m (2019: £26m) was held in respect of inventories for the group and the company provision was £23m (2019: £22m).

Notes to the financial statements

for the year ended 31 March 2020

18. Trade and other receivables

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Current assets: trade and other receivables				
Trade receivables:				
- receivable from contracts with other customers	262	201	260	193
- receivable from agreements with government	-	34	-	34
- receivable from property portfolio customers	164	112	164	112
Capital grants receivable	503	270	503	270
Other taxation and social security	135	134	137	136
Collateral receivable	534	727	-	-
Other receivables	67	28	38	25
Prepayments and accrued income	70	55	67	36
Accrued income:				
- receivable from contracts with other customers	124	130	124	130
- receivables from property portfolio customers	53	76	47	68
Total	1,912	1,767	1,340	1,004

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 and company provides fully for receivables overdue by over six months. The group average debtor days were 50 days (2019: 47 days) and for the company, the average debtor days were 49 days (2019: 49 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 and company's credit risk is primarily attributable to its trade receivables. Around 96 per cent of the group and 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 company uses an external credit scoring system to assess the potential customer's credit quality.

Included in the group and company's trade receivable balance are amounts totalling £90m (2019: £40m) which are past due at the reporting date for which the company has not provided as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The group and company does not hold collateral over these balances. The average age of these receivables is 32 days (2019: 21 days).

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for the year ended 31 March 2020

18. Trade and other receivables (continued)

The following table shows the age of financial assets for the group and company which are past due and for which no specific provision has been raised:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Past due by 1-28 days	39	32	39	32
Past due by 29-56 days	18	2	18	2
Past due by 57-84 days	12	3	12	3
Past due by 85-180 days	27	12	27	12
	96	49	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

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19. Trade and other payables

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Current liabilities: trade and other payables				
Trade payables	534	782	526	729
Collateral held from banking counterparties	120	38	-	-
Payments received on account	25	15	25	14
Other payables	499	355	425	333
Other interest accruals	282	287	148	154
Other accruals	910	1,434	1,028	1,493
Deferred income				
- from contracts with other customers	-	-	-	-
- from agreements with government	1,252	244	1,268	308
- from property portfolio customers	19	77	19	77
	3,641	3,232	3,439	3,108

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 and company have 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 group average credit period taken for trade purchases is 36 days (2019: 29 days). For the company, the average credit period taken for trade purchases is 34 days (2019: 27 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.

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Non-current liabilities: other payables				
Capital grants deferred income	351	193	334	192
Other payables	77	176	78	175
	428	369	412	367

Network Rail Infrastructure Limited

Notes to the financial statements

for the year ended 31 March 2020

20. 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	493	488
Collateral placed with counterparties	534	727	-	-
Collateral received from counterparties	(120)	(38)	-	-
Bank loans and overdraft	(514)	(500)	(157)	(69)
Lease liabilities	(411)	-	(410)	-
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	(24,686)	(24,196)	-	-
Department for Transport facility borrowings*	(29,834)	(30,580)	(29,834)	(30,580)
Intercompany borrowings	-	-	(25,398)	(24,631)
	(54,601)	(54,137)	(55,306)	(54,792)
Movements in net borrowings				
At the beginning of the year	(54,137)	(51,297)	(54,792)	(51,656)
(Decrease)/Increase in cash and cash equivalents	(20)	(523)	5	(251)
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 26)	(411)	-	(410)	-
Decrease/(increase) in DfT collateral facility**	275	(685)	-	-
Fair value and other movements	29	252	-	-
Net movement in intercompany borrowings	-	-	(767)	957
Increase in borrowings from Department for Transport	-	-	746	(3,830)
Movement in bank loans and overdrafts	-	-	(88)	(12)
At the end of the year	(54,601)	(54,137)	(55,306)	(54,792)
Net borrowings are reconciled to the balance sheet as set out below:				
Cash and cash equivalents	430	450	493	488
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)	(10,938)	(11,626)
Borrowings included in non-current liabilities	(44,664)	(43,719)	(44,861)	(43,654)
	(54,601)	(54,137)	(55,306)	(54,792)

* 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.

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for the year ended 31 March 2020

20. 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.

Notes to the financial statements

for the year ended 31 March 2020

20. 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 and company 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:

Group and company	2020 £m	2019 £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

for the year ended 31 March 2020

21. Derivative financial instruments

Group	Group			
	2020		2019	
	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
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)	3,188	(52)	4,975
Included in non-current liabilities	(847)	9,344	(981)	15,055
	(895)	12,532	(1,033)	20,030

See Note 27: 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.

Notes to the financial statements

for the year ended 31 March 2020

21. Derivative financial instruments (continued)

Company	Fair value 2020 £m	Fair value 2019 £m
Non-hedge accounted derivatives liabilities		
Forward foreign exchange contracts	(1)	(2)
Embedded derivative in inter-company borrowings	(414)	(681)
	(415)	(683)
Included in current liabilities	(415)	(682)
Included in non-current liabilities	-	(1)
Derivative financial instrument liabilities	(415)	(683)

See Note 27: Funding and financial risk management for further details on the risk management strategy.

Notes to the financial statements

for the year ended 31 March 2020

22. Provisions

Group and company	Restructuring £m	Legal £m	Other £m	Total £m
At 1 April 2019	1	22	41	64
Additional provision in 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 and company have 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 liabilities

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.

Network Rail Infrastructure Limited

Notes to the financial statements

for the year ended 31 March 2020

23. Deferred tax

Group	Accelerated Tax depreciation	Unrealised gain on investment property	Revaluation of railway network	Short term timing differences including retirement benefit obligations	Derivatives	Tax losses	Total
	£m	£m	£m	£m	£m	£m	£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
De-recognition of deferred tax asset (income)	-	40	-	-	-	-	40
De-recognition of deferred tax asset (equity)	-	-	-	-	(29)	-	(29)
At 31 March 2019	2,528	-	596	(92)	(28)	-	3,004
Charge/(credit) to income	182	3	-	(33)	6	1	159
Charge/(credit) to other comprehensive income	-	-	(52)	141	46	-	135
Impact of rate change on deferred tax asset (income)	299	-	-	(31)	(3)	-	265
Impact of rate change on deferred tax asset (equity)	-	-	70	20	(13)	-	77
Transfer between reserves	-	-	(12)	12	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	(1)	(1)
Transfer between reserves	(122)	-	122	-	-	-	-
Derecognition of deferred tax asset (income)	-	(3)	-	-	-	-	(3)
De-recognition of deferred tax asset (equity)	-	-	-	-	(33)	-	(33)
At 31 March 2020	2,887	-	724	17	(25)	-	3,603

Notes to the financial statements

for the year ended 31 March 2020

23. Deferred tax (continued)

Company	Accelerated tax depreciation	Unrealised gain on investment property	Revaluation of railway network	Short term timing differences including retirement benefit obligations	Derivatives	Tax losses	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2018	2,410	-	163	(54)	-	-	2,519
(Credit)/charge to income	158	(98)	-	(48)	-	-	12
Charge to other comprehensive income	-	-	447	(5)	1	-	443
Reclassification	(58)	58	-	-	-	-	-
Transfer between reserves	-	-	(13)	13	-	-	-
De-recognition of deferred tax asset (income)	-	40	-	-	-	-	40
De-recognition of deferred tax asset (equity)	-	-	-	-	(1)	-	(1)
At 31 March 2019	2,510	-	597	(94)	-	-	3,013
(Credit)/charge to income	198	3	-	(32)	-	-	169
(Credit)/charge to other comprehensive income	-	-	(52)	141	1	-	90
Impact of rate change on deferred tax asset (income)	299	-	-	(31)	-	-	268
Impact of rate change on deferred tax asset (equity)	-	-	70	20	(1)	-	89
Transfer between reserves	-	-	(12)	12	-	-	-
Transfer between reserves	(122)	-	122	-	-	-	-
De-recognition of deferred tax asset (income)	-	(3)	-	-	-	-	(3)
At 31 March 2020	2,885	-	725	16	-	-	3,626

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Deferred tax liabilities	3,628	3,124	3,626	3,107
Deferred tax assets	(25)	(120)	-	(94)
	3,603	3,004	3,626	3,013

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.

Notes to the financial statements

for the year ended 31 March 2020

24. Share capital

Company	2020 £m	2019 £m
Authorised:		
50,200,000 ordinary shares of 0.1p each	-	-
500,000,000 redeemable shares of £1 each	500	500
	500	500
Issued and fully paid:		
50,084,937 ordinary share of 0.1p each	-	-
160,000,000 redeemable share of £1 each	160	160
	160	160

The company has the option to repurchase any or all of the redeemable shares at any date after 31 March 2003. No premium is repayable on such redemption and the option to repurchase has no expiry date. The redeemable shareholders have no right to redemption at their instigation.

25. Notes to the statement of cash flows

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Profit/(loss) before tax	368	(181)	536	26
Adjustments for:				
Property revaluation movements and profits on disposal	(3)	(363)	(5)	(351)
Fair value gains on derivatives and debt	(213)	(220)	(268)	(369)
Net interest expense	2,163	2,189	1,977	1,990
Depreciation of the railway network	2,022	1,810	2,021	1,810
Amortisation of capital grants	(162)	(136)	(162)	(136)
Amortisation of intangible assets	1	1	-	-
Movement in retirement benefit obligations	188	169	188	169
(Decrease)/increase in provisions	16	(17)	16	(18)
Operating cash flow before movements in working capital	4,380	3,252	4,303	3,121
Increase in inventories	(36)	(11)	(35)	(10)
Increase in receivables	(105)	(167)	(103)	(73)
Increase in payables	685	548	682	519
Cash generated from operations	4,924	3,622	4,847	3,557

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

for the year ended 31 March 2020

26. Leases

The group and company as 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	Non property leases	Total
Group	£m	£m	£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 liabilities at 31 March 2020	230	181	411
The lease liabilities are split between the current and non-current liabilities as shown below:		2020	2019
Current lease liabilities		92	-
Non-current lease liabilities		319	-
Total lease liabilities		411	-

As at 31 March 2020, the total lease liabilities for the company were £410m and lease payments made during the period of £115m.

The movement in the period for the ROU assets is reconciled as follows:

	Property leases	Non property leases	Total
Group	£m	£m	£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.

As at 31 March 2020, the total ROU assets for the company were £426m and depreciation of ROU assets of £84m.

Network Rail Infrastructure Limited

Notes to the financial statements

for the year ended 31 March 2020

26. Leases (continued)

The following table details the group's remaining contractual maturity for its financial liabilities. See Note 27 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 and company as a lessor

Minimum lease payments receivable on leases of investment properties 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

Notes to the financial statements

for the year ended 31 March 2020

27. 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 Infrastructure 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 new 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 Network Rail Infrastructure Finance PLC's Debt Issuance Programme, including nominal and index-linked benchmarks and private placements in all currencies, 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 Infrastructure Limited, Network Rail Infrastructure Finance PLC may issue further bonds or commercial paper to meet funding requirements.

Notes to the financial statements

for the year ended 31 March 2020

27. 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 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, investment properties, finance lease receivables, trade and other payables and trade and other receivables, fair value equates to carrying value.

Group	2020 Carrying value £m	Fair value £m	2019 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)	996	996	617	617
Collateral receivable	534	534	727	727
Derivatives				
Derivatives designated as cash flow hedging instruments	138	138	126	126
Derivatives designated as fair value hedging instruments	-	-	-	-
Other derivatives as fair value through profit and loss	346	346	224	224
Total financial assets	2,444	2,444	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)	(30,103)	(23,909)	(29,518)
Borrowings issued by Department for Transport	(29,834)	(30,374)	(30,580)	(31,175)
Collateral payable	(120)	(120)	(38)	(38)
Trade and other payables at amortised cost (less deferred income)	(2,447)	(2,447)	(3,087)	(3,087)
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	(58,496)	(65,130)	(59,434)	(65,991)

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 20) 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.

Notes to the financial statements

for the year ended 31 March 2020

27. Funding and financial risk management (continued)

Company	2020 Carrying value £m	Fair value £m	2019 Carrying Value £m	Fair Value £m
Financial Assets				
Cash and cash equivalents	493	493	488	488
Other non-derivative financial assets				
Trade and other receivables (<i>less prepayments and accrued income and other taxation and social security</i>)	965	965	634	634
Total financial assets	1,458	1,458	1,122	1,122
Financial Liabilities				
Financial liabilities held at amortised cost				
Bank loans and overdrafts	(157)	(157)	(69)	(69)
Loans from subsidiaries	(25,398)	(25,398)	(24,631)	(30,146)
Department for Transport borrowings	(29,834)	(30,374)	(30,580)	(30,523)
Total borrowings	(55,389)	(55,929)	(55,280)	(60,738)
Trade and other payables	(2,230)	(2,230)	(2,898)	(2,898)
Derivatives				
Embedded derivatives in inter-company borrowing	(414)	(414)	(681)	(681)
Other derivatives	(1)	(1)	(2)	(2)
Total derivatives	(415)	(415)	(683)	(683)
Total financial liabilities	(58,034)	(58,574)	(58,861)	(64,319)

Notes to the financial statements

for the year ended 31 March 2020

27. 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 of Network Rail Limited (the ultimate parent company of NRIL) through a treasury sub-committee (the treasury committee) have approved and monitor 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) is 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 creditworthiness of customers and suppliers, see Notes 18 (Trade and other receivables) and 19 (Trade and other payables).

The group considers its maximum exposure to credit risk to be the sum of its financial assets, as set out on Note 18.

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.

Notes to the financial statements

for the year ended 31 March 2020

27. Funding and financial risk management (continued)

Interest rate and inflation risk

The group has 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.

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 and company	31 March 2020		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	3
1% increase in the GBP RPI on index linked bonds	(185)	-	(182)	-

A one per cent decrease in the above rate 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.

Embedded derivatives

The obligations and rights of Network Rail Infrastructure Limited under the inter-company loan agreement with its financing company give rise to an embedded derivative in that agreement which reflects the external currency and interest rates risks to which the financing company is exposed. The embedded derivative is treated as a separate derivative and is accounted for in accordance with the accounting policy disclosed in Note 2.

Notes to the financial statements

for the year ended 31 March 2020

27. Funding and financial risk management (continued)

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 company'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 company's needs, while reducing financial risks and prudently maximising interest receivable and 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 20 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 and company's remaining contractual maturity for their 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	(1,435)	(77)	-	-	(1,512)
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)
	(13,509)	(8,888)	(13,988)	(39,924)	(76,309)

Network Rail Infrastructure Limited

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27. 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)

Notes to the financial statements

for the year ended 31 March 2020

27. Funding and financial risk management (continued)

Company 31 March 2020	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Non-derivative financial liabilities					
Inter-company loan	(1,486)	(887)	(2,437)	(44,713)	(49,523)
Trade and other payables	(1,357)	(137)	-	-	(1,494)
Department for Transport borrowings	(10,410)	(7,988)	(11,383)	(1,239)	(31,020)
Derivative financial liabilities					
Embedded derivative	(414)	-	-	-	(414)
Other derivatives	(1)	-	-	-	(1)
	(13,668)	(9,012)	(13,820)	(45,952)	(82,452)
Company 31 March 2019	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Non derivative financial liabilities					
Inter-company loan	(484)	(1,492)	(2,929)	(44,913)	(49,818)
Trade and other payables	(1,216)	(175)	-	-	(1,391)
Department for Transport borrowings	(9,592)	(8,163)	(10,741)	(3,218)	(31,714)
Derivative financial liabilities					
Embedded derivative	(681)	-	-	-	(681)
Other derivatives	(2)	-	-	-	(2)
	(11,975)	(9,830)	(13,670)	(48,131)	(83,606)

Notes to the financial statements

for the year ended 31 March 2020

27. Funding and financial risk management (continued)

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		Net amount £m
				Financial instruments	Cash collateral received	
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		Net amount £m
				Financial instruments	Cash collateral paid	
31 March 2020						
Derivative financial liabilities	(895)	-	(895)	369	(24)	(550)
31 March 2019						
Derivative financial liabilities	(1,033)	-	(1,033)	307	276	(450)

Network Rail Infrastructure Limited

Company	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		Net amount £m
				Financial instruments £m	Cash collateral paid £m	
Financial liabilities						
31 March 2020						
Derivative financial liabilities	(415)	-	(415)	-	-	(415)
31 March 2019						
Derivative financial liabilities	(683)	-	(683)	-	-	(683)

Network Rail Infrastructure Limited has a collateral obligation of £2.8m which is paid for by Network Rail Infrastructure Finance Plc through the intercompany arrangements.

Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement and will have matured by 2027.

Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 20.

Fair value measurements recognised in the balance sheet

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); and
- 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).

Group	2020			Total £m
	Level 1 £m	Level 2 £m	Level 3 £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)

Notes to the financial statements

for the year ended 31 March 2020

27. Funding and financial risk management (continued)

Group	2019			Total £m
	Level 1 £m	Level 2 £m	Level 3 £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)

Company 31 March 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash and cash equivalents	493	-	-	493
Financial assets	493	-	-	493
Derivative financial liabilities	-	(415)	-	(415)
Financial liabilities	-	(415)	-	(415)
Total	493	(415)	-	78
31 March 2019				
Cash and cash equivalents	488	-	-	488
Financial assets	488	-	-	488
Derivative financial liabilities	-	(683)	-	(683)
Financial liabilities	-	(683)	-	(683)
Total	488	(683)	-	(195)

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.

Notes to the financial statements

for the year ended 31 March 2020

28. 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

for the year ended 31 March 2020

28. Retirement benefit schemes (continued)

	2020 %	2019 %
<i>Key assumptions used:</i>		
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 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 greater than discount rate	43	(208)
Actuarial (gain)/loss recognised in the statement of comprehensive income	(742)	31

Notes to the financial statements

for the year ended 31 March 2020

28. Retirement benefit schemes (continued)

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 members	(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)
Company'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.

Notes to the financial statements

for the year ended 31 March 2020

28. Retirement benefit schemes (continued)

Movements in defined benefit plan assets and liabilities (including members' share)

	Assets*	Liabilities**	Deficit
	£m	£m	£m
At 1 April 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 Cost)	-	(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 1 April 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 Cost)	-	-	-
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
Loss 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).

Notes to the financial statements

for the year ended 31 March 2020

28. Retirement benefit schemes (continued)

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.

	Level 1 £m	2020 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.

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for the year ended 31 March 2020

28. Retirement benefit schemes (continued)

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.

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 point increase	(547)	(603)
Change in defined benefit obligation at year end from a 25 basis point 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 increases		
Change in defined benefit obligation at year end from a 25 basis point increase	152	172
Change in defined benefit obligation at year end from a 25 basis point decrease	(147)	(166)
Price inflation (CPI measure)*		
Change in defined benefit obligation at year end from a 25 basis point increase	555	619
Change in defined benefit obligation at year end from a 25 basis point decrease	(517)	(576)

* Including consistent increases to Retail Price Index, salary growth and Retail Price Index/ Consumer Price Index related pensions assumptions.

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29. Related parties

	2020 £m	2019 £m
Loans to subsidiaries of the company		
Network Rail Development Limited	36	37
Network Rail Consulting Limited	12	12
Network Rail (VY1) Limited	6	5
Network Rail (VY2) Limited	12	11
Total	66	65

The amount repayable from Network Rail Development Limited is considered as long-term funding and used to invest in joint ventures; Solum Regeneration (GP) Limited and Solum Epsom (GP) Limited. No interest is charged on the loan.

Loans from subsidiaries

	2020 £m	2019 £m
Network Rail Infrastructure Finance PLC	(25,398)	(24,631)

The Department for Transport (DfT) and Transport Scotland (TS) is considered related parties of NRIL. NRIL received grant income of £4,936m from the DfT in the year ended 31 March 2020 (2019: £3,786m). NRIL received grant income of £323m from TS in the year ended 31 March 2020 (2019: £339m). In the current year, the group did not pay any Financial Indemnity Mechanism fee to DfT (2019: £266m). 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 NRIL. During the year ended 31 March 2020, NRIL received income of £0.3m from EWR for the provision of feasibility studies and development activities services.

Ultimate parent company

The company's ultimate parent company and controlling entity is Network Rail Limited (NRL), a company limited by guarantee without shares. NRL is a public sector company, answerable to the Department for Transport (DfT), Transport Scotland and Secretary of State. The company's immediate parent company is Network Rail Holdco Limited. Both parent companies are incorporated in Great Britain and registered in England and Wales. The largest group of undertakings of which the group is a member and for which group financial statements are drawn up is Network Rail Limited. Copies of the ultimate parent company's financial statements can be obtained by contacting the company secretary at 1 Eversholt Street, London, NW1 2DN.

30. 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.