



Government Actuary's
Department

Actuarial Review of Network Rail Risk Funds

Industry Risk Fund & Network Rail Fee Fund

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Author: Andy van Buiten (FIA CAct)

Navigating risk | Cutting through complexity

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Executive Summary

Key Findings

- The risk funds are solvent overall, with total projected headroom (the difference between contributions and ultimate expected claims) estimated to be positive.
- The Industry Risk Fund (IRF) is on a relatively strong footing, with substantial headroom remaining even after allowing for expected future claims from agreements attaching to 2025/26 and prior financial years.
- The Network Rail Fee Fund (NRF) has lower headroom, making it more exposed to large individual claims.
- Current fee rates (post-2021) are closer to break-even than the rates in force before, narrowing—but not eliminating—imbalances across agreement types.
- Experience varies significantly by agreement type, with some categories showing surpluses and others showing deficits.
- Data quality has improved over time, particularly in recent control periods, however further improvement could be made. Significant data limitations in relation to earlier years impacted our review, by constraining the breadth of our analysis and increased uncertainty in certain elements of the analysis and results.
- Multiple options exist for revising fee rates, aligned to differing risk appetites and policy goals.
- Regular actuarial oversight and improved transparency could support stronger governance and a more open, investor-ready framework.

Background

The Office of Rail and Road ('ORR') commissioned the Government Actuary's Department ('GAD') to undertake an independent actuarial review of Network Rail's Industry Risk Fund and Network Rail Fee Fund. These funds are key components of the Rail Network Investment Framework (RNIF), providing third-party promoters with financial protection against defined liabilities that may arise during rail enhancement projects. This review forms part of phase 3 of ORR's wider programme to strengthen the RNIF and support greater private investment in Britain's railway.

Earlier phases of ORR's programme identified strong interest from investors but raised concerns about aspects of Network Rail's risk-management arrangements, including contribution levels, transparency of fund operation, and the processes for allocating and reviewing risk charges. Building on these findings and on the independent review carried out by Europe Economics, this actuarial assessment examines the financial position and fee-rates of the two funds.

GAD's review draws on historical contribution and claims data across all agreement types, as well as information provided by Network Rail on the operation of the funds. Using established actuarial



techniques, we estimated the ultimate level of claims arising from agreements in force between 2004 and 2025—including claims already reported, claims incurred but not yet reported, and the risk associated with future works under existing agreements. We also assessed the adequacy of the funds' current headroom and developed indicative break-even fee rates to compare against the fees charged historically and those currently in place.

The different agreement types we assessed and their acronyms are set out in the table below.

Agreement Type	Acronym
Asset Protection Agreement	APA
Basic Asset Protection Agreements	BAPA
Basic Implementation Agreements	BIA
Basic Services Agreement	BSA
Development Services Agreement	DSA
Implementation Agreements	IA
All other agreement types	Other

Data limitations

The review also notes some inherent data limitations, particularly for older agreement years—for example, inconsistent data entry and lack of knowledge in respect to rates charged on historical non-standard agreements. However, data quality and structure have improved over time, especially in the most recent control period, but more can still be done. The methodologies used help to limit the effect of data limitations, and ranges around best estimates have been provided to give a more balanced view of the funds' long-term sustainability.

High-level results

Headroom

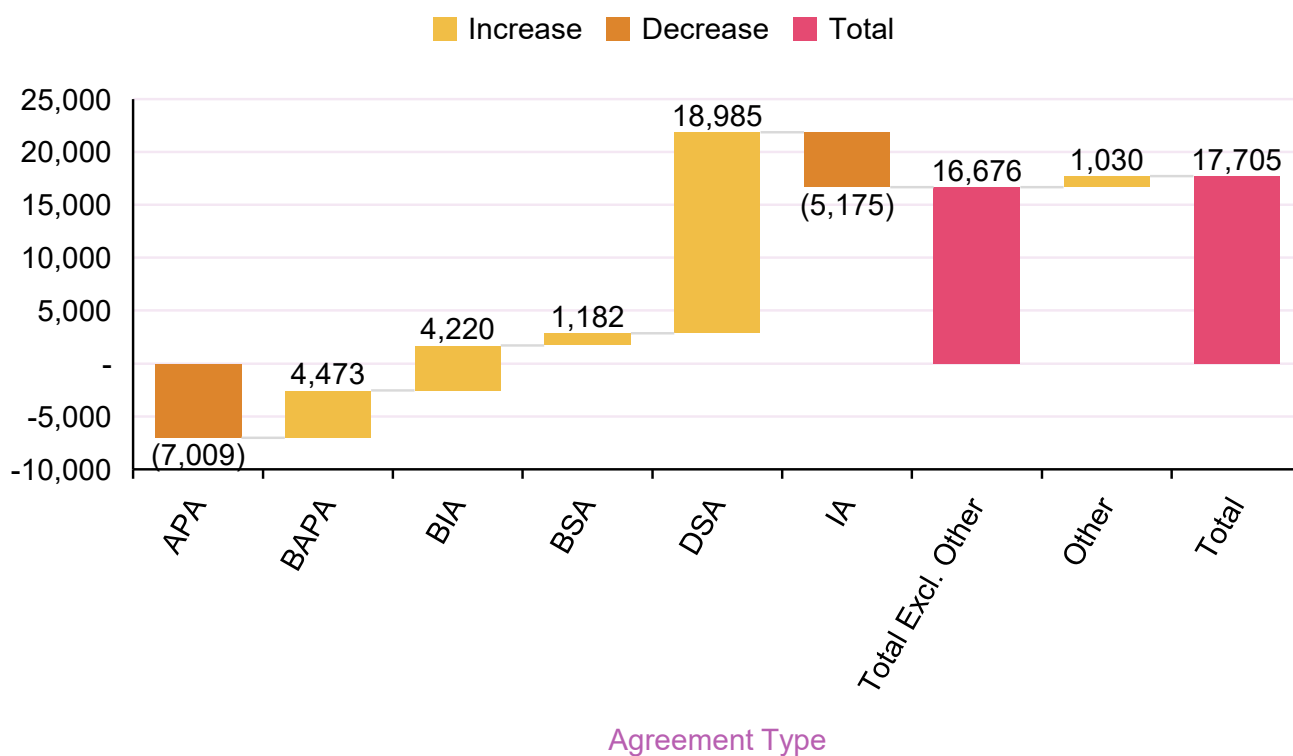
Across both funds combined, total headroom as at 31 December 2025 is **£60.9m** on a best estimate basis. This result excludes non-standard ("Other") agreement types which due to data uncertainty is unclear whether they were covered by the Funds or not. Including such agreement types would increase the headroom to £71.4m.

The results are sensitive to the assumptions adopted which is exacerbated due to data limitations from earlier years. To highlight the possible impact of the uncertainty introduced by these data limitations we also provide a range of results, where the headroom, excluding non-standard ("Other") agreement, lies within **£43.2m to £73.3m**.

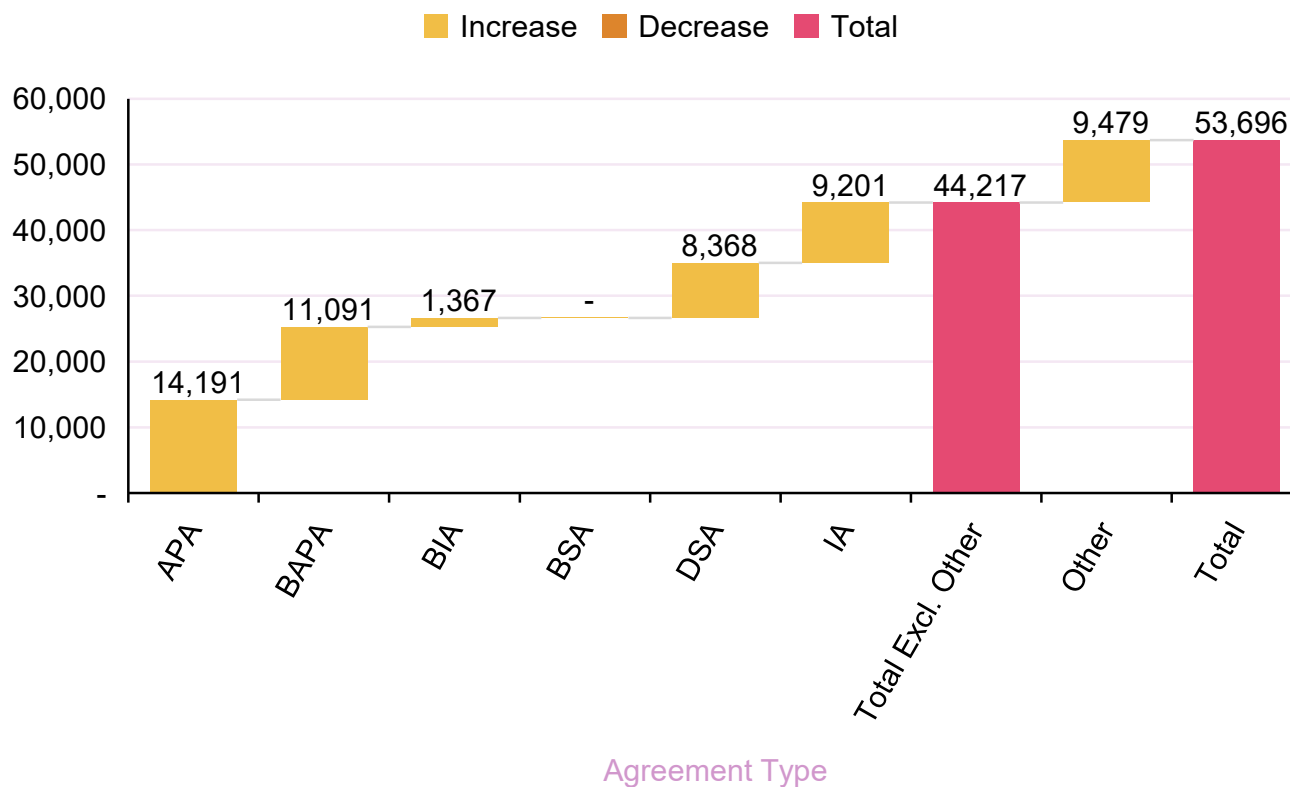
Headroom results for each fund and agreement group are shown in the two charts below, a negative amount indicates a deficit. These headroom amounts are relative to total received contributions of £100m (excluding other) into the Network Rail's Industry Risk Fund and £80m (excluding other) into the Industry Risk Fund.



NRF Best Estimate Headroom (£000's)



IRF Best Estimate Headroom (£000's)



The Network Rail Fee Fund has materially lower headroom and is more exposed to the impact of large individual claims, whereas the Industry Risk Fund remains on a comparatively stronger financial footing.

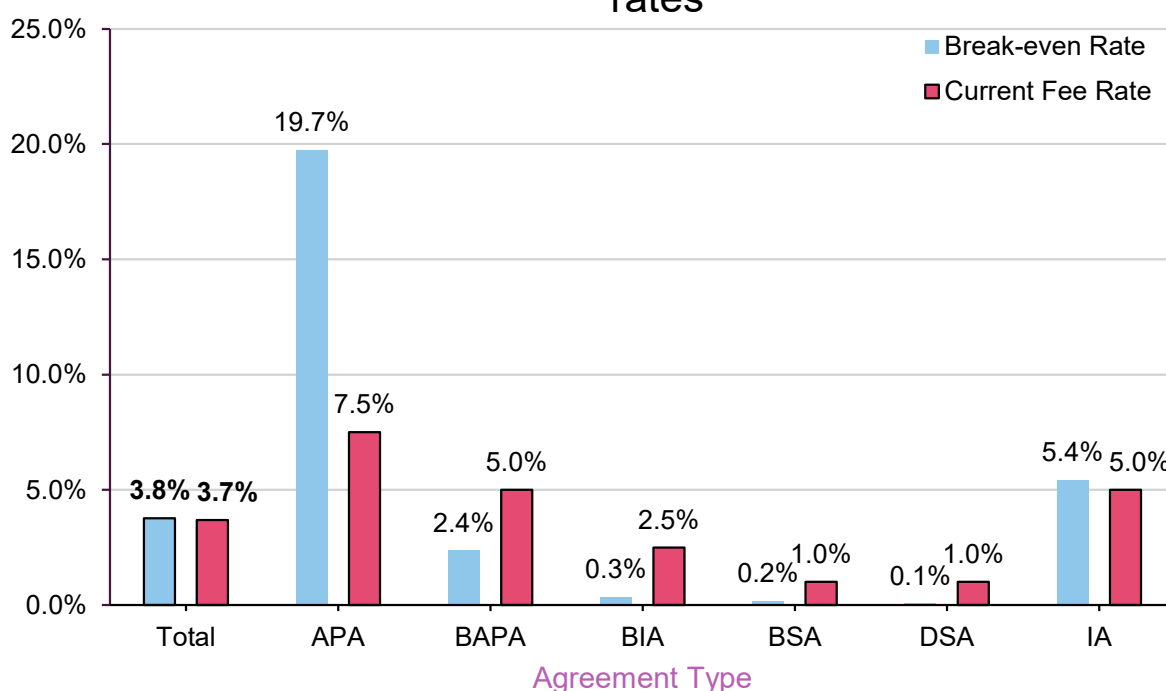
Fee Rates (%)

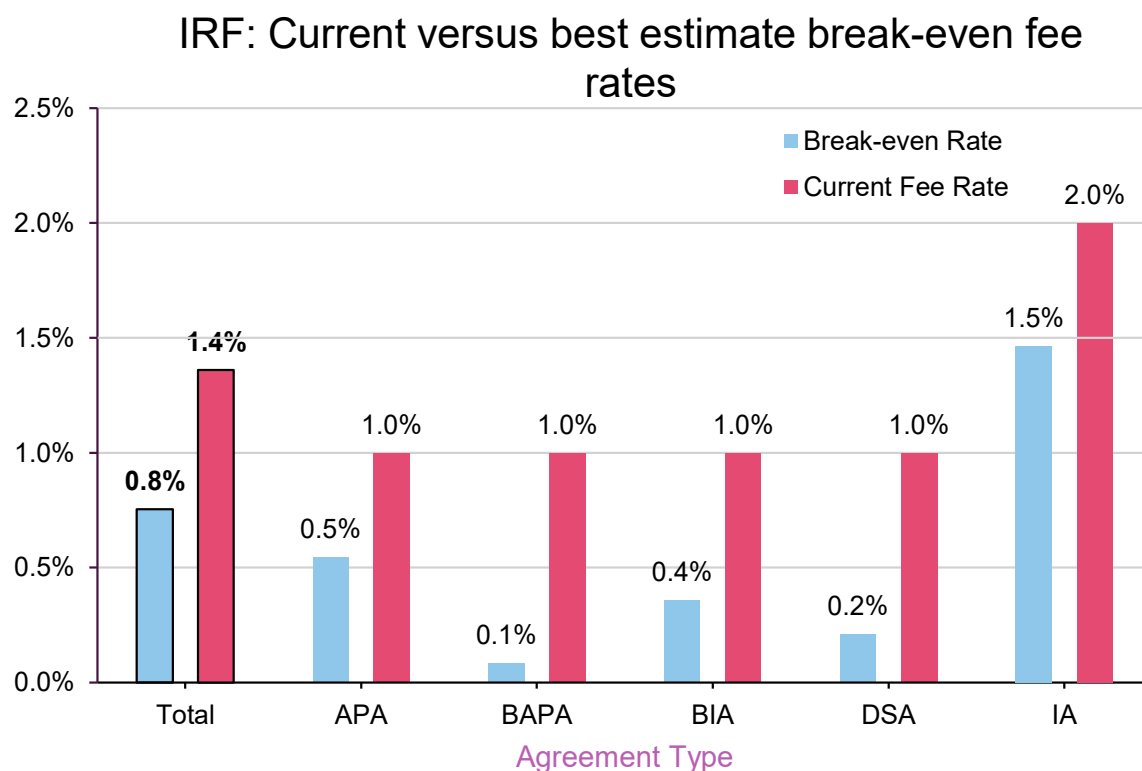
Fee rates (%) are the fixed percentage rates that Network Rail applies to a project's eligible cost exposure in order to calculate the contribution paid into the Industry Risk Fund or the Network Rail Fee Fund. The current fee rates were compared to estimated break-even rates, which represent the fee rate that would have resulted in neither a surplus nor a deficit in the risk funds headroom, had it been charged historically.

The **overall break-even fee rate—excluding non-standard agreements—is estimated at around 1.7%, below the current average fee level of 2.1%** (based on the historic mix of agreements) suggesting that if current rates remain unchanged, further headroom is likely to continue accumulating in aggregate.

Current and estimated break-even rates for each fund and agreement group are shown in the two charts below. These demonstrate that the difference between the break-even fee rate and current fee rate is primarily due to the Industry Risk Fund, with the Network Rail Fee Fund actually having a higher break-even fee rate. Due to data limitations it was not possible to calculate an estimate for the 'Other' agreement grouping (which is also excluded from the total).

NRF: Current versus best estimate break-even fee rates





Fee rates & governance considerations

Based on our findings, we set out a range of options to consider for adjusting fee rates in future. These include approaches aligned to different risk appetites: maintaining rates above break-even to build resilience; setting rates closer to break-even to reduce costs for developers; or reducing rates below break-even to gradually draw down accumulated headroom, subject to active monitoring. We also outline options for amending how rates are adjusted across agreement types, balancing simplicity, cost-reflectiveness, and the need to avoid disincentivising investment.

Finally, our review has identified opportunities to improve transparency and strengthen governance by establishing more regular reviews, enhancing data collection processes, and providing clearer reporting on fund performance. These steps could support ORR's objective of a more open, investor-ready framework for third-party rail investment.

Scope of advice

This report has been produced for ORR only. Other than ORR, no person or third party is entitled to place any reliance on the contents of this report, and GAD has no liability to any person or third party for any act or omission taken, either in whole or part, on the basis of this report.

We have undertaken this review in the capacity of actuarial advisors. This report does not represent accountancy, or legal advice. GAD has relied on the completeness and accuracy of the information supplied without independent verification. Whilst a limited number of data adjustments and checks were made these do not represent a full independent audit of the data supplied.