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Director Planning and Performance

OFFICE OF RAIL AND ROAD

Daniel Earle
HM Treasury
1 Horse Guards Road,
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Dear Daniel,

RNIF deep dive – phase 3 findings and next steps

On 17 March 2025 the Chancellor asked us to conduct a deep dive into the Rail Network Investment Framework (RNIF) with the rail supply chain to encourage direct private investment into railway infrastructure. This was part of the Chancellor's new approach to ensure regulators and regulation support economic growth. We have concluded phase three of our review which builds on work in phase 1 and phase 2.

This letter provides an update on the work undertaken in phase 3, summarises key findings and sets out next steps.

Progress to date

Phase 1 collected feedback from investors and industry stakeholders on how effectively the framework is operating in practice. This work highlighted the need for clearer guidance on the investment pathway and on the options for investing across different aspects of the rail network. In response, we have developed additional guidance and clarified elements of the framework to make it easier for third-party investors to navigate. We also provided advice to Government on how it can support third party investment. For example, establishing a meaningful process for private sector engagement and clarifying roles and responsibilities across Government departments.

Phase 2 delivered a technical review of the core investment mechanisms, designed to confirm their effectiveness and to identify any unnecessary barriers to investment. The review examined the operation of the risk fee funds, the risk allocation matrix, the template contractual agreements and the value thresholds that govern their use. Minor updates have also been made to ensure the framework remains accurate and relevant.

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Phase 3 commissioned the Government Actuary's Department (GAD) to undertake an independent actuarial review of Network Rail's Industry Risk Fund (IRF) and the Network Rail Fee Fund (NRF) – key components of the RNIF, intended to support private investment by providing a consistent approach to risk allocation and liability coverage. The aim of the review was to confirm findings from the phase 2 review by Europe Economics and to improve the operation of the funds by ensuring they operate credibly, proportionately and in a manner that supports long-term investment in the railway.

Key findings

1. **Fee rate:** the review confirmed that current contribution rates paid by third parties to Network Rail are above the level required to break-even. The risk fee funds appear more than adequate overall, but the picture varies significantly between the IRF and the NRF.
2. **Threshold:** there is limited evidence supporting a change to the current £50m threshold. Only four agreements in CP7 to date exceed the £50m threshold which suggests there is limited immediate pressure to change this policy.
3. **Ring fencing and accruing interest:** the review found that there is limited financial justification for establishing a ring-fenced fund or accruing interest on these funds with the administrative costs of doing so being overly burdensome.

Next steps

We asked GAD to develop options for how the funds could be amended in-line with our objective to deliver meaningful improvements to the risk fee funds, lowering costs for investors, improving service standards, while ensuring that risk is allocated appropriately and taxpayer money is achieving value for money. Our conclusions based on the options developed are to:

1. Set **fee rates** paid by third parties closer to the break-even rate. We will do this by working with Network Rail to make targeted adjustments to the fees by different contract type;
2. Maintain the £50m **threshold** at this stage, and commit to reviewing it remains fit for purpose at appropriate intervals; and
3. Not introduce **ring-fencing** or **accrual** mechanisms on the risk fee funds given the limited justification for doing so.

We have engaged with your team, Network Rail and the Department for Transport throughout our deep dive review. We will continue with a programme of targeted engagement across these organisations to deliver the necessary improvements to the risk fee funds in Autumn 2026.

We would welcome the opportunity to discuss these findings further with you and your team and will continue to work collaboratively while implementing these changes.

Yours sincerely

Feras Alshaker