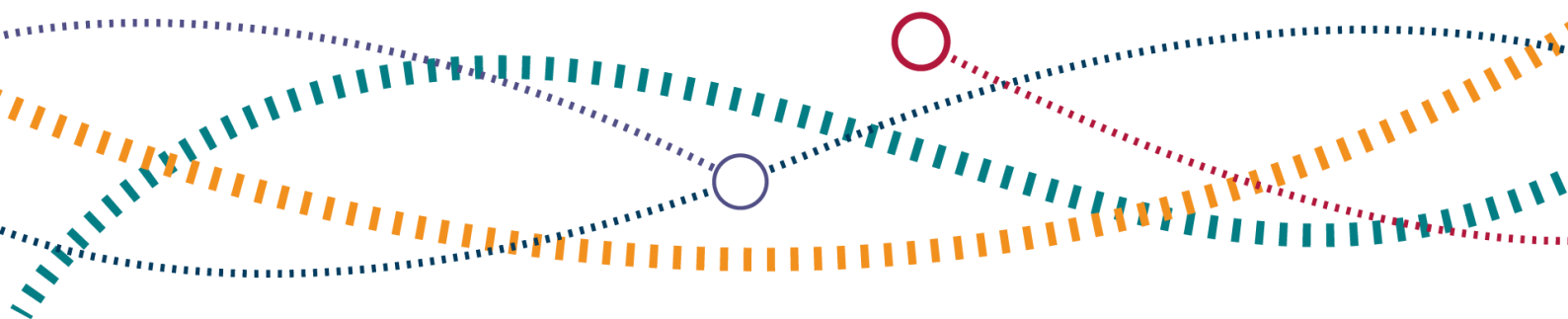




Annual efficiency and finance assessment of Network Rail 2026

30 September 2026



Contents

Executive summary	4
1. Introduction	11
2. Network Rail's financial performance and efficiency	13
Financial performance	13
Expenditure	15
Employment costs	19
Efficiency	21
Inflation, input prices, headwinds, tailwinds and scope changes	23
Leading indicators of efficient delivery	24
Income	25
3. Financial risks and opportunities	29
Inflation and input prices	29
Funding gap	30
Risk funding and input prices	30
Research and development expenditure	31
Budget flexibility	33
Regulatory asset base, net debt and gearing	33
4. Network Rail Scotland's performance	34
Financial performance	34
Risk Funding and input prices	38
Efficiencies	38
Income	40
5. Regional performance	42
Regional financial performance	42
Regional efficiency delivery	43
Leading Indicators	45
Regional and National Functions performance summaries	48

Annex A: Summary of key financial information	55
Great Britain	55
England and Wales	56
Scotland	57
Wales	58
Annex B: Link between efficiency and financial performance	59
Annex C: Network Rail’s ten largest efficiency initiatives in Year 2 of CP7	61

Executive summary

In this report, we focus on the financial and efficiency performance of Network Rail in the second year of Control Period 7 (CP7). Network Rail's funding and requirements for this five-year control period were set out in our [2023 periodic review \(PR23\)](#). In this we determined what Network Rail should deliver in respect of operating, maintaining, and renewing its network, and the funding necessary to do this for the five-year period from 1 April 2024 to 31 March 2029.

Network Rail delivered £614 million of efficiency improvements in the second year of CP7, covering April 2025 to March 2026.

At the same time, inflationary pressures, maintenance of ageing assets and train performance issues placed additional pressure on Network Rail's financial performance in the last year. The company financially underperformed by £490 million in 2025-26 against its CP7 delivery plan, meaning, that, net of income, Network Rail spent £490 million more than originally planned. This indicates that wider cost pressures outweighed the efficiency improvements delivered during the year. This compares with an underperformance of £243 million in 2024-25.

Network Rail spent £10.2 billion on operations, support, maintenance and renewals in the year, which falls within the scope of our PR23 review. A further £4.8 billion was spent on enhancements and financing costs (that sit outside the PR23 settlement) taking total expenditure to £15.0 billion.

Key findings

- 1. Network Rail exceeded its efficiency targets in Year 2 and is planning to exceed its efficiency targets during the remainder of CP7. This will help mitigate forecast inflationary pressures and other delivery challenges which are impacting future renewals delivery**

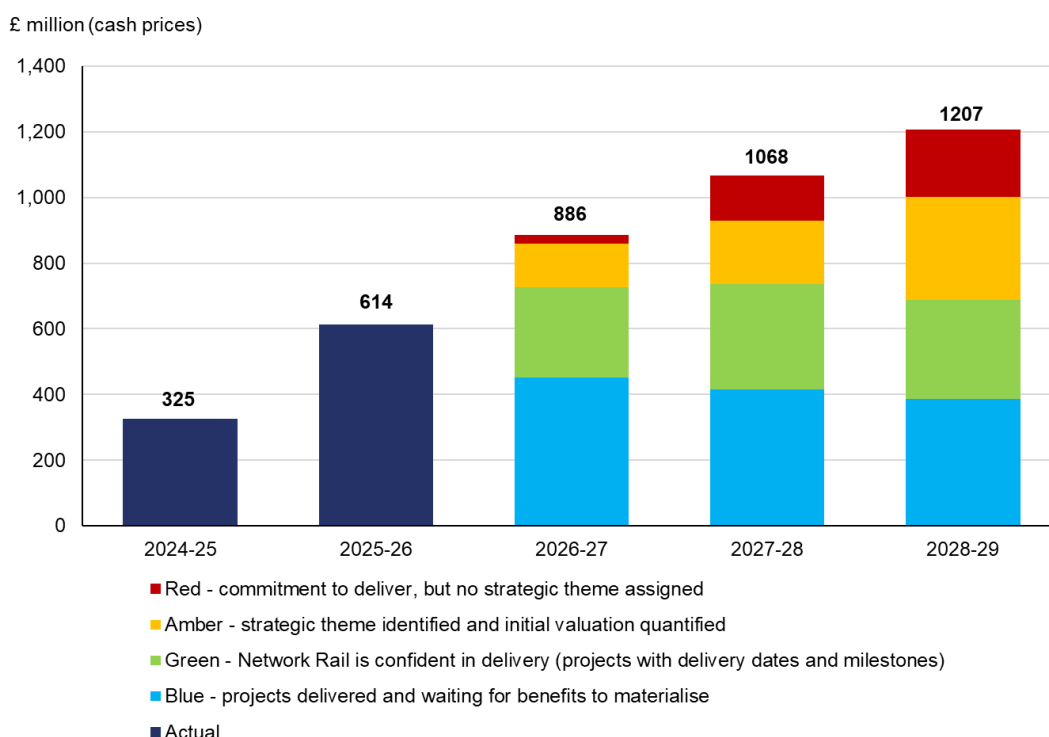
Delivering efficiencies is a core requirement of Network Rail's CP7 funding settlement, requiring material cost reductions over the control period to remain within its funding envelope. As set out in our PR23 determination, this equates to £3.9 billion of efficiencies in cash terms, which are embedded within Network Rail's CP7 delivery plan and underpin its funding. These efficiencies must be achieved to ensure the available budget withstands the forecast of inflation underpinning the funding settlement.

Office of Rail and Road | Annual efficiency and finance assessment of Network Rail April 2025 to March 2026

In Year 2 of CP7, Network Rail delivered £614 million of efficiency improvements, 4% ahead of our PR23 target of £589 million. This builds on the efficiencies achieved in Year 1 and represents a combined total of 23% of its five-year efficiency plan for CP7. Further details on these savings are set out in [Chapter 2](#).

However, inflation has persisted above the forecasts underpinning the PR23 financial settlement and continued to put pressure on Network Rail's funding. To help counter these pressures Network Rail has re-forecast its CP7 efficiency target up from £3.9 billion to £4.1 billion. We welcome this as continued delivery of efficiencies will be important to mitigate ongoing inflationary pressures and support delivery of its renewals programme.

Figure 1: Network Rail's actual and latest CP7 forecast efficiency improvements, April 2024 to March 2029



Source: ORR analysis of Network Rail's data

All five of Network Rail's regions exceeded their Year 2 efficiency targets. These efficiencies are further explored in [Chapter 5](#).

2. Higher inflation and input prices added £651 million to costs over the year, impairing financial performance and increasing pressure on asset renewals

Network Rail financially underperformed by £490 million in the year compared to its original CP7 delivery plan. This means it spent £490 million more (net of income) on

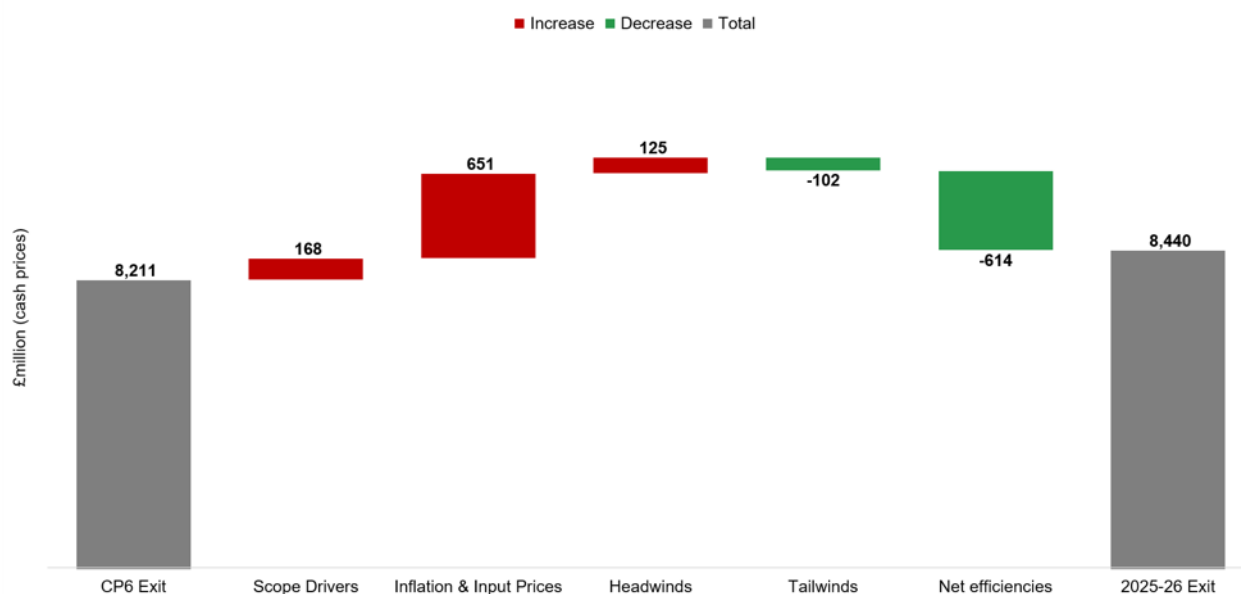
operating, maintaining, renewing, enhancing and financing the railway than it was funded to deliver (approximately 3.3% of its annual expenditure).

The main driver of this underperformance has been higher-than-expected inflation. This has significantly impacted the cost of delivering maintenance and renewals activities. Compared to the start of CP7, general price inflation (measured by CPI) added £492 million of cost pressure in the year before taking account of any increases in income resulting from higher inflation, with a further £159 million of additional cost from higher input prices above CPI inflation.

While Network Rail has improved how it delivers work (i.e. efficiencies), reducing the cost of individual activities, these cost savings (or higher output) were already embedded in its delivery plan (which is set on a post-efficient basis). As a result, these efficiencies have not been sufficient to offset rising costs, particularly from high inflation.

Increased volume and complexity of renewals and maintenance activities added £168 million of costs in the year compared with the start of CP7. Network Rail also incurred £125 million of headwinds ('exogenous costs'), most notably from the increase to Employer National Insurance contributions (NICs).

Figure 2: Network Rail's Year 2 cost drivers, compared to CP6 exit



Source: ORR analysis of Network Rail's data

Financial under-performance has varied across regions (but within a fairly narrow range of 1% to 6% of overall expenditure), reflecting differences in cost pressures, efficiency performance and delivery challenges. These variances were driven by higher maintenance

and renewals costs, differing levels of efficiency delivery, as well as higher-than-planned Schedule 8 compensation payments associated with poor train performance. These variances are covered in [Chapter 2](#).

Over CP7, general inflation and input prices are forecast to increase Network Rail's costs by approximately £2.3 billion (as at the end of March 2026) compared to the forecast used in PR23. This comprises £2.0 billion from general inflation and a further £0.3 billion from input price inflation. To manage this cost pressure, Network Rail has revised its CP7 plans to reduce renewals delivery in England & Wales. While this will help to manage short-term financial pressures, the reduced renewals increase the risks to reliability and long-term sustainability of the rail infrastructure.

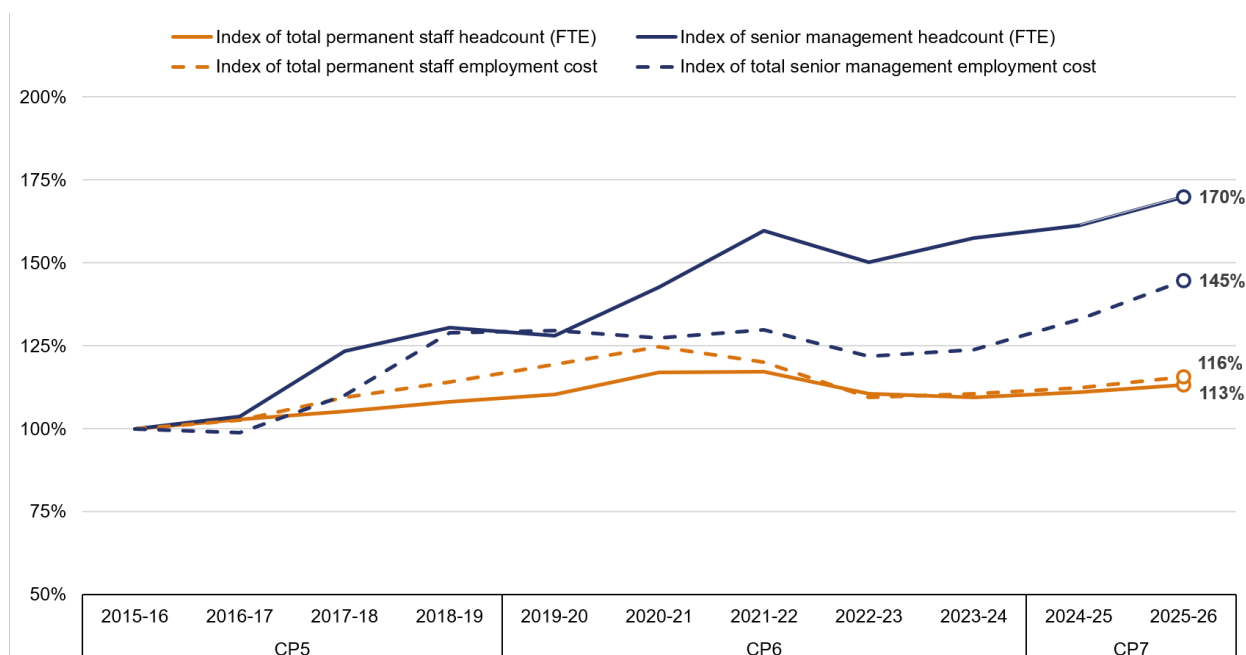
3. Staff costs have increased above CPI inflation with a continued shift to more senior grades

Total permanent staff costs increased by 5% over the last year to £3.2 billion due to a 2% increase in headcount (to 41,794 FTE) and a 1% above inflation increase to average remuneration. A significant proportion of the increase in staff costs relates to higher employer National Insurance contributions (NICs), which are outside Network Rail's control and are treated as an external cost pressure.

Senior management staff costs increased by 9% to £142 million, reflecting a 5% increase in headcount (to 697 FTE) and a 3% above inflation increase in average remuneration.

Figure 3 shows the ten-year trend in total headcount and staff employment costs (including bonus, pensions and allowances) for both the overall workforce and senior management. Senior management headcount and employment costs have exceeded those for all staff over the last decade.

Figure 3: Change in total permanent staff and senior management headcount (FTE) and total employment costs (real prices), April 2015 to March 2026



Source: ORR analysis of Network Rail's data

Our analysis shows that including employee benefits, average employment costs have increased by 2% above inflation over the past ten years. Over the same ten-year period, Office for National Statistics (ONS) data shows that average UK earnings have increased by 3% above inflation. Overall, this suggests that Network Rail's employment costs trend is broadly consistent with earnings in the wider economy.

4. Network Rail Scotland made good progress in its efficiency delivery but also faced financial pressures

Network Rail Scotland continued to make strong progress in its efficiency delivery in Year 2, achieving £79 million of savings, 26% above its PR23 target of £62 million. This performance was supported by a relatively stable delivery plan at the start of CP7, enabling effective workbank planning and more favourable commercial outcomes with the supply chain than assumed in its delivery plan. The region has been able to bring forward efficiencies to flatten its trajectory in later years, in line with independent reporter recommendations, providing greater confidence in the deliverability of its overall CP7 efficiency target.

Whilst delivering strongly to exceed efficiency targets, other cost pressures resulted in Scotland financially underperforming by £37 million compared with its CP7 delivery plan, meaning that it spent £37 million more (net of income) than planned to operate, maintain, renew and enhance the Scottish railway (approximately 2.5% of its annual expenditure).

The underperformance was driven by higher than assumed inflation and input prices, and increased employer National Insurance contributions (NICs). Renewals performance remained broadly in line with the delivery plan, with cost pressures being managed well.

5. Forward look: Rising pressures over CP7 present delivery challenges, while rail reform may offer new efficiency opportunities

Looking ahead, Network Rail faces a more challenging financial environment over the remainder of CP7, including:

- higher-than-forecast inflation and other cost pressures, including increased pay awards and employer National Insurance contributions;
- a significantly reduced CP7 risk fund; and
- a steeper efficiency delivery challenge over the final three years of the control period.

Continued higher-than-forecast inflation and the cost impact of pay awards and employer National Insurance contributions (NICs) above those assumed in Network Rail's plan are increasing the scale of the financial challenge. This is compounded by a funding stretch following the 2025 Spending Review, which reduced Network Rail's funding by around £165 million.

This comes alongside increasingly limited flexibility within Network Rail's remaining CP7 risk fund, which stands at £443 million at the end of Year 2, 27% of the original £1.6 billion fund set aside at the start of CP7, despite around 60% of the control period remaining.

Network Rail's efficiency trajectory also steepens significantly over the final three years of CP7. Given these pressures, this is likely to require continued trade-offs in how funding is prioritised. If inflation remains above forecast, or other cost pressures emerge, there is a risk that renewals volumes could be reduced to help manage affordability, which would have implications for asset condition and longer-term performance.

Network Rail will need to demonstrate sustained progress on efficiency alongside clear prioritisation choices to remain within its funding envelope. These choices will need to be made proactively to support a stable renewals workbank and avoid further disruption to delivery plans. How effectively it manages these trade-offs, particularly between short-term affordability and longer-term sustainability will be critical not only to maintaining a stable financial position through the remainder of CP7, but also to supporting long-term growth objectives by maintaining the condition, capability and reliability of the railway.

The latter part of CP7 is also when Great British Railways (GBR) will take responsibility for infrastructure management from Network Rail. This provides an opportunity to improve how the railway is planned and operated, with greater integration between track and train. This could help the railway respond to future affordability pressures and improve value for taxpayers and passengers.

Ensuring these efficiencies are realised over the course of CP7, supporting a more affordable and sustainable railway, also forms part of ORR's [growth goals](#) recently set by government. While responsibility for delivering efficiencies in rail infrastructure will transition from Network Rail to GBR as rail reform progresses, the importance of delivering the CP7 efficiency commitments, and ORR's monitoring of progress against them, will remain unchanged.

1. Introduction

- 1.1 Our annual efficiency and finance assessments provide our view of how Network Rail has financially performed each year. This 2026 publication covers the second year of the control period 7 (CP7), April 2025 to March 2026. It provides detailed support for our [Network Rail Annual Assessment](#) published in July 2026, which also covers Network Rail's operational performance, including in respect of train performance and asset management. We also published a detailed [annual health and safety report](#) in July 2026.
- 1.2 The financial information in this report is based on [Network Rail's regulatory financial statements](#) and management information shared with us. Efficiencies, headwinds and financial risk numbers in this report are presented on a cash basis. All other financial information is presented in 2025-26 prices, except where stated.

How we calculate Network Rail's financial performance and efficiency

- 1.3 Our assessments help to give assurance to rail users and funders about whether Network Rail's regions are delivering what is expected of them whilst providing a reputational incentive for the company and its regions to become more efficient. They focus on two primary measures:
- **Financial performance:** This compares income and expenditure to the financial assumptions underpinning Network Rail's CP7 funding. The efficiency improvements that regions are expected to achieve are embedded in the financial assumptions in their CP7 delivery plans. As such, these baselines are described as being 'post-efficient'. Other things being equal, if a region has spent less and / or has received more income than its delivery plan (for what it has delivered), it will report financial outperformance, and vice versa for underperformance. Financial performance is adjusted for what has been delivered compared to what it was funded to deliver, so for example, it adjusts for underspend resulting from doing less work than planned.
 - **Efficiency:** This compares the relationship between expenditure on core business activities (operations, support functions, maintenance, and renewals) and outputs on a like-for-like basis over time. It excludes enhancement activities and external factors such as inflation, input price changes, and volume changes, focusing instead on the reasons for cost changes over time.

Financial performance

- 1.4 Our primary measure of Network Rail's financial performance is the Financial Performance Measure (FPM). FPM compares Network Rail's income and expenditure to its CP7 delivery plan. It adjusts for the amount of work done compared to plan, and excludes income and expenditure that are not controllable by Network Rail. These include network grant income from governments, fixed track access charges, traction electricity income and costs, business rates and financing cost variances. Our [CP7 regulatory accounting guidelines](#) explain further how FPM is calculated.

Efficiency

- 1.5 Efficiency assesses the relationship between expenditure on core business activities (operations, maintenance, renewals and supporting functions) and the outputs delivered. To support our assessment of efficiency, we required Network Rail's reporting in CP7 to provide:
- greater emphasis on reporting how regions have delivered efficiency improvements;
 - more detailed assessment of the drivers of cost changes over time and across regions; and
 - a forward-looking view of the efficiencies that Network Rail will likely achieve across CP7. This includes reporting on the progress of regions' efficiency plans and leading indicators of delivery.
- 1.6 Efficiency and financial performance are related but not the same. The relationship between these measures is explained in more detail in [Annex B](#).

Baseline for assessment

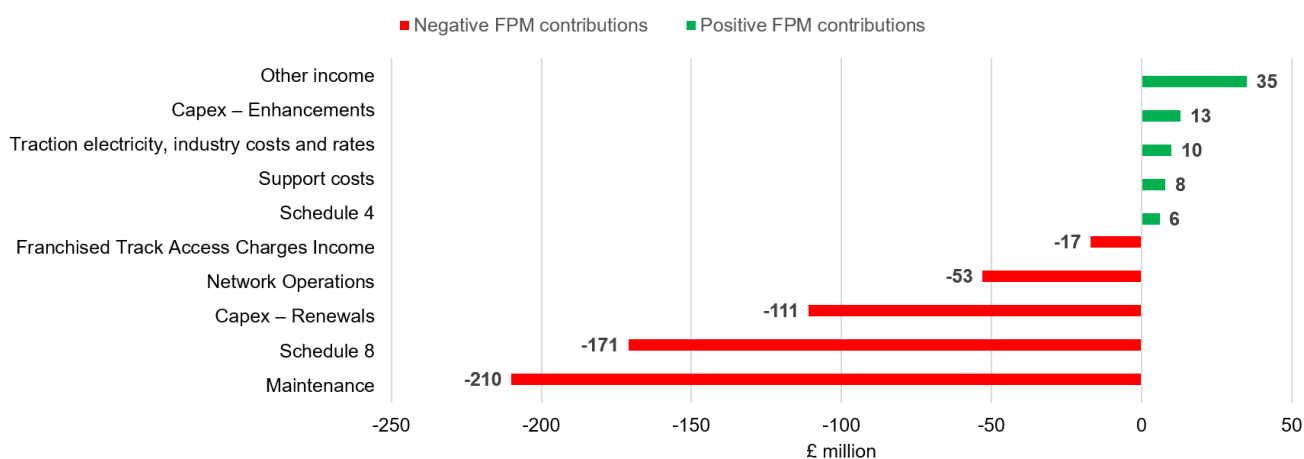
- 1.7 Network Rail developed a CP7 delivery plan which set out how it intended to deliver the requirements of our PR23 determination within the funding available. For the purpose of comparing Network Rail's financial performance to our PR23 funding assumptions, we use [Network Rail's CP7 delivery plan](#) as the funding baseline in this assessment.
- 1.8 We welcome comments on the content of this report. These should be sent to:
Customer Correspondence Team
Office of Rail and Road
25 Cabot Square
London E14 4QZ
Email: contact.cct@orr.gov.uk

2. Network Rail's financial performance and efficiency

Financial performance

2.1 Due to higher than expected inflation and other pressures in the year, Network Rail reported a £490 million underperformance against its original CP7 delivery plan (DP24). This means that net of income, Network Rail spent £490 million more than originally planned. The factors that have contributed to Network Rail's underperformance in the year are shown in Figure 2.1 with further details in Table 2.1.

Figure 2.1: Contributions to Network Rail's financial underperformance in April 2025 to March 2026



Source: ORR analysis of Network Rail's data

2.2 Network Rail's financial underperformance in 2025-26 was driven primarily by higher maintenance costs, reflecting increased maintenance activity and staff pay increases above inflation. Schedule 8 performance also contributed to underperformance, as train delays and cancellations exceeded targets.

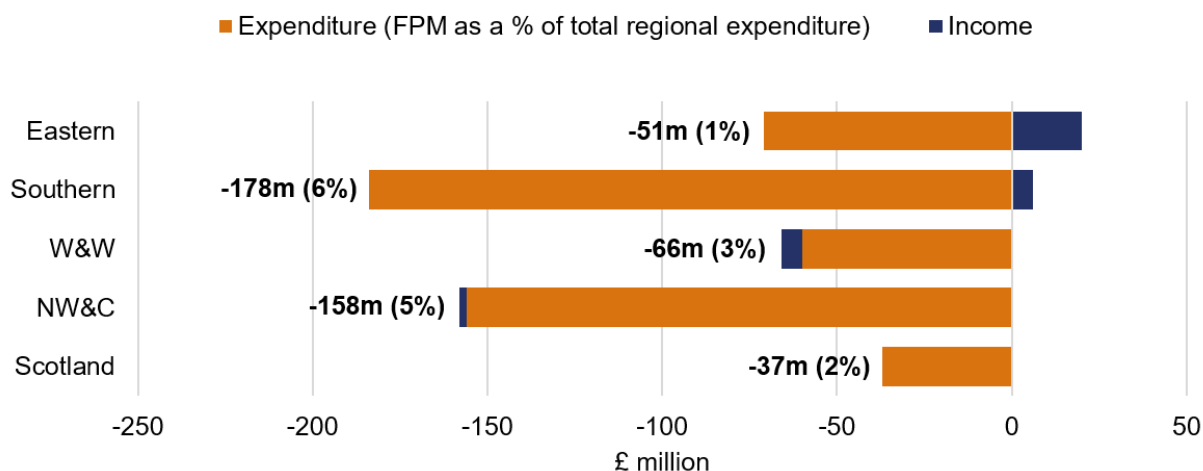
Table 2.1: Network Rail's financial performance, Great Britain, April 2025 to March 2026

£ million, cash prices	Actual	Original CP7 delivery plan for Year 2	Variance	FPM out / (under) performance	% of FPM contribution
Network grant income	8,127	8,175	(48)	0	0
Franchised track access charges	3,385	3,401	(16)	(17)	3%
Other single till income	831	797	34	35	(7%)
Total income	12,343	12,373	(30)	18	(4%)
Network operations	963	910	(53)	(53)	11%
Support costs	1,137	1,185	48	8	(2%)
Traction electricity, industry costs and rates	1,285	1,296	11	10	(2%)
Maintenance	2,657	2,439	(218)	(210)	43%
Schedule 4	307	322	15	6	(1%)
Schedule 8	177	6	(171)	(171)	35%
Total operating expenditure	6,526	6,158	(368)	(410)	84%
Capex – Renewals	3,654	3,968	314	(111)	23%
Capex – Enhancements	1,896	2,136	240	13	(3%)
Total capital expenditure	5,550	6,104	554	(98)	20%
Risk expenditure	0	139	139	0	0
Financing costs and other	2,952	2,884	(68)	0	0
Total expenditure	15,028	15,285	257	(508)	104%
Financial performance measure (FPM)				(490)	100%

Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding. Note that total income does not equal total expenditure, this is because of the timing of recognition of income and expenditure (particularly in relation to indexed-linked financing costs) as explained in Network Rail's regulatory financial statements.

2.3 Figure 2.2 shows the contributions of Network Rail's five regions to the company's financial underperformance. Further detail on regional performance can be found in [Chapter 5](#).

Figure 2.2: Regional contributions to Network Rail's financial underperformance, April 2025 to March 2026

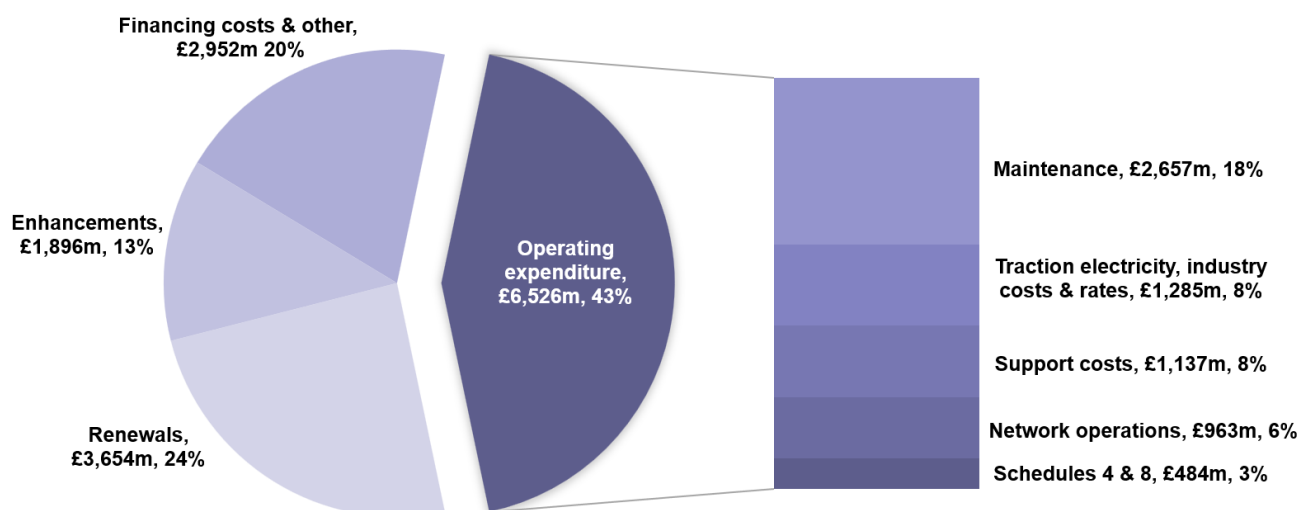


Source: ORR analysis of Network Rail's data

Expenditure

2.4 Network Rail spent £15.0 billion from April 2025 to March 2026, a 1% year-on-year increase. Figure 2.3 shows the main categories of Network Rail's expenditure.

Figure 2.3: Network Rail's expenditure from April 2025 to March 2026



Source: ORR analysis of Network Rail's data

Operating expenditure

- 2.5 Operating expenditure relates to maintenance activities, network operations, support costs, traction electricity, industry costs and rates, and the Schedule 4 and 8 regimes.
- 2.6 Operating expenditure was £6.5 billion, with an underperformance of £410 million in the year. This was largely driven by underperformance of maintenance costs (£210 million) and Schedule 8 (£171 million).

Maintenance

- 2.7 Maintenance expenditure relates to activities that maintain the condition and capability of the existing infrastructure to the previously assessed standard of performance.
- 2.8 Maintenance expenditure was £2.7 billion, underperforming by £210 million. The main drivers were pay awards for staff that exceeded CPI inflation assumptions and wider inflationary pressures across the supply chain. Network Rail also incurred additional maintenance costs associated with increased reactive maintenance activity, including work undertaken in response to reduced renewals delivery, as well as the increased scope and complexity of maintenance work.
- 2.9 Network Rail has sought to deliver efficiencies through its maintenance modernisation programme, with maintenance headcount reducing by 9% since the start of the previous control period, CP6. However, the associated workforce changes created short-term vacancy gaps, increasing reliance on temporary resources, overtime and the recruitment and training of new staff, which contributed to higher than planned costs.
- 2.10 Network Rail plans to undertake additional maintenance activity in response to reduced renewals delivery and funding challenges to help manage asset condition and performance risks. While the company has provided some positive evidence of regional initiatives to rebalance renewals and how it intends to carry out additional maintenance activity to stabilise its plans, further evidence is required to demonstrate the long-term sustainability of this approach. Further details on our assessment of Network Rail's maintenance plans, resource capability and asset condition risks can be found in our [Network Rail Annual Assessment 2026](#).

Network operations, support costs

- 2.11 Network operations expenditure relates to activities such as signalling and operating Network Rail's managed stations. Network operations costs were

£963 million, with an underperformance of £53 million. This is due to higher than expected pay awards to front line staff and additional expenditure on train performance initiatives.

- 2.12 Support costs relate to activities that facilitate Network Rail's core business activities including corporate functions and IT services. Support costs were £1.1 billion and outperformed by £8 million in the year. This was largely due to a higher than anticipated proportion of projects being classified as capital expenditure and reduced utility costs.

Schedule 4 & 8

- 2.13 The Schedule 4 regime compensates train operators for planned reductions to network availability. It incentivises Network Rail to plan engineering work early and efficiently to reduce disruption. The Schedule 8 performance regime compensates train operators or Network Rail for the impact of unplanned service disruption.
- 2.14 Schedule 4 costs were £307 million in year, with an outperformance of £6 million. This was due to fewer major weather events impacting possessions, which caused fewer disruptions. This reduced costs compared to the delivery plan.
- 2.15 Schedule 8 costs were £177 million with an underperformance of £171 million. Punctuality and cancellation levels were the main drivers which were worse than planned, resulting in increased compensation payments to train operators. This was further compounded by several smaller incidents across the network which included cable theft and trespassing resulting in delays and cancellations. Further details about Network Rail's train performance can be found in our [Network Rail Annual Assessment 2026](#).

Capital Expenditure

- 2.16 Capital expenditure relates to renewals and enhancements. Capital expenditure totalled £5.6 billion and underperformed by £98 million. This was largely driven by a £111 million underperformance of renewals which was slightly offset by £13 million outperformance of enhancements.

Renewals

- 2.17 Renewals expenditure relates to activities to replace (in whole, or in part) network assets that have deteriorated such that they can no longer be maintained economically. Renewal of an asset restores the original performance of the asset and can add additional functionality as technology improves.

- 2.18 Network Rail spent £3.7 billion renewing the rail network. This represented an underspend of £314 million compared to the delivery plan. For the renewals work that was delivered, Network Rail overspent (i.e. underperformed) by £111 million. The reasons for this are examined below.
- 2.19 The underperformance was primarily driven by higher-than-expected inflation, which increased the cost of delivering renewals and contributed to reductions in planned effective volumes (c.12%). Delivery issues were also experienced across several renewals programmes, most notably signalling, which accounted for 41% of the total renewals underperformance. As set out in our [Network Rail Annual Assessment 2026](#), the lower renewals volumes, including the deferral of digital signalling renewals, is increasing reliance on maintenance and minor works, with potential implications for long-term asset sustainability, reliability and performance.

Figure 2.4: Network Rail renewals expenditure, Great Britain, April 2016 to March 2026



Source: ORR analysis of Network Rail's data

- 2.20 As shown in Figure 2.4, following an increase in renewals expenditure in early CP6, renewals expenditure has declined year-on-year over the past five years and was 27% lower in 2025-26 than its peak in 2020-21. Rising delivery costs have reduced the volume of renewals that Network Rail can deliver within available funding, meaning less work is being delivered for a given level of expenditure. As highlighted in our [Network Rail Annual Assessment 2026](#), lower renewals volumes increase the

risk of asset condition declining over time, which could lead to more asset failures and poorer safety and performance outcomes in the long term. Lower levels of renewals activities beyond an asset's economic life may also increase future funding requirements if renewals work is delayed and not effectively managed.

Enhancements

- 2.21 Enhancements are changes to improve network capacity or capability, for example, enabling more train journeys or higher speeds.
- 2.22 Network Rail spent £1.9 billion on enhancements in the year, with a £13 million outperformance. This is a reduction of £255 million compared to the previous year. The largest three enhancement schemes in 2025-26 were:
- (a) **Transpennine Route Upgrade (£1,022 million)** – A major railway upgrade programme across the North of England, delivering increased capacity, electrification, faster journeys and improved reliability between Manchester, Leeds and York.
 - (b) **East Coast Digital Programme (South) (£151 million)** – A programme to introduce digital signalling on the southern section of the East Coast Main Line, improving railway performance, safety and network capacity.
 - (c) **Midland Mainline Programme (£69 million)** – A major enhancement programme to modernise the Midland Main Line through electrification, line speed improvements, bridge and tunnel modifications, and station upgrades, improving capacity, reliability and journey times across the route.
- 2.23 Further information on Network Rail's enhancements can be found in the capital investments section in our [Network Rail Annual Assessment 2026](#).

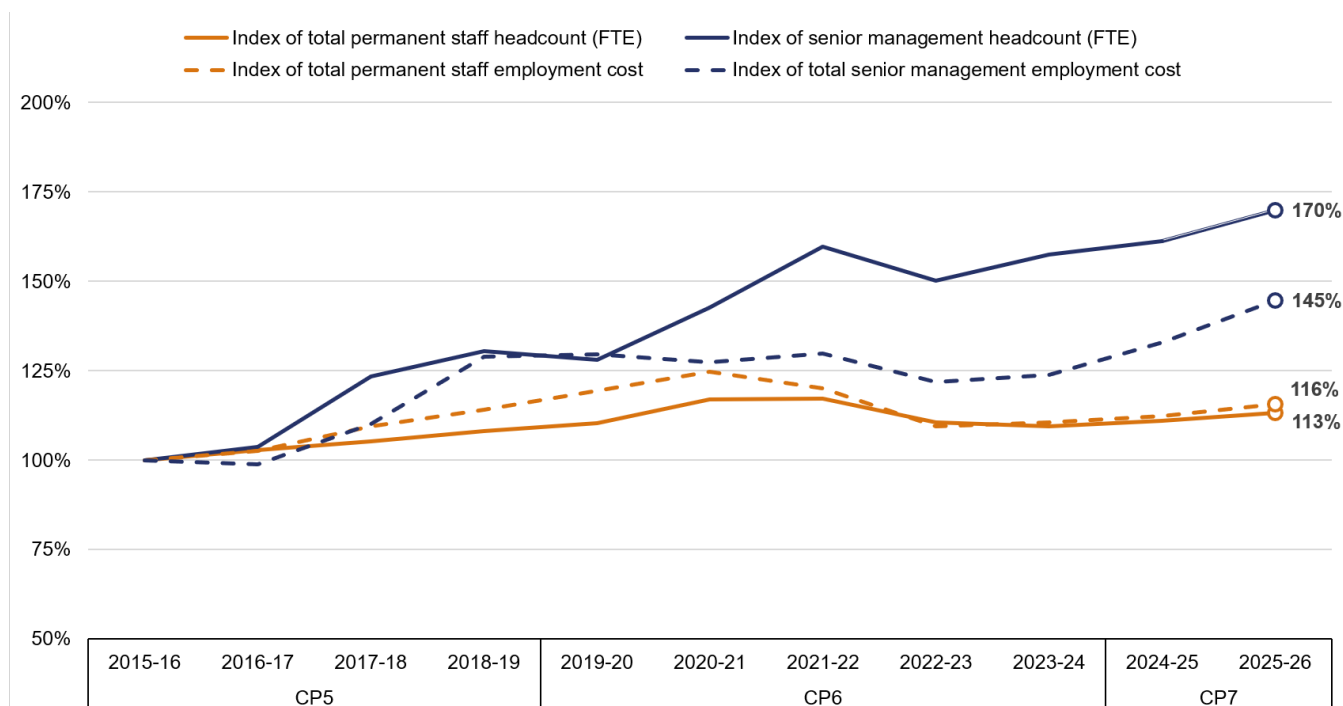
Employment costs

- 2.24 Network Rail's permanent staff costs (excluding agency staff) increased by 5% in real terms to £3.2 billion in the year, representing 21% of its annual expenditure. Permanent staff headcount increased by 2% to around 41,800 full-time equivalent employees (FTE).
- 2.25 The average employment costs of an FTE increased by 1% to over £67,000 per employee. Around 26% of employment costs relate to overtime, allowances, performance-related pay and employer pension contributions. Average employment costs have increased by around 2% above inflation over the past ten years, broadly

in line with the 3% real-terms increase in average UK earnings reported by the Office for National Statistics.

- 2.26 Around 20% of the increase in staff costs relates to higher employer National Insurance Contributions (NIC), which are outside Network Rail's control and are treated as an external cost pressure.

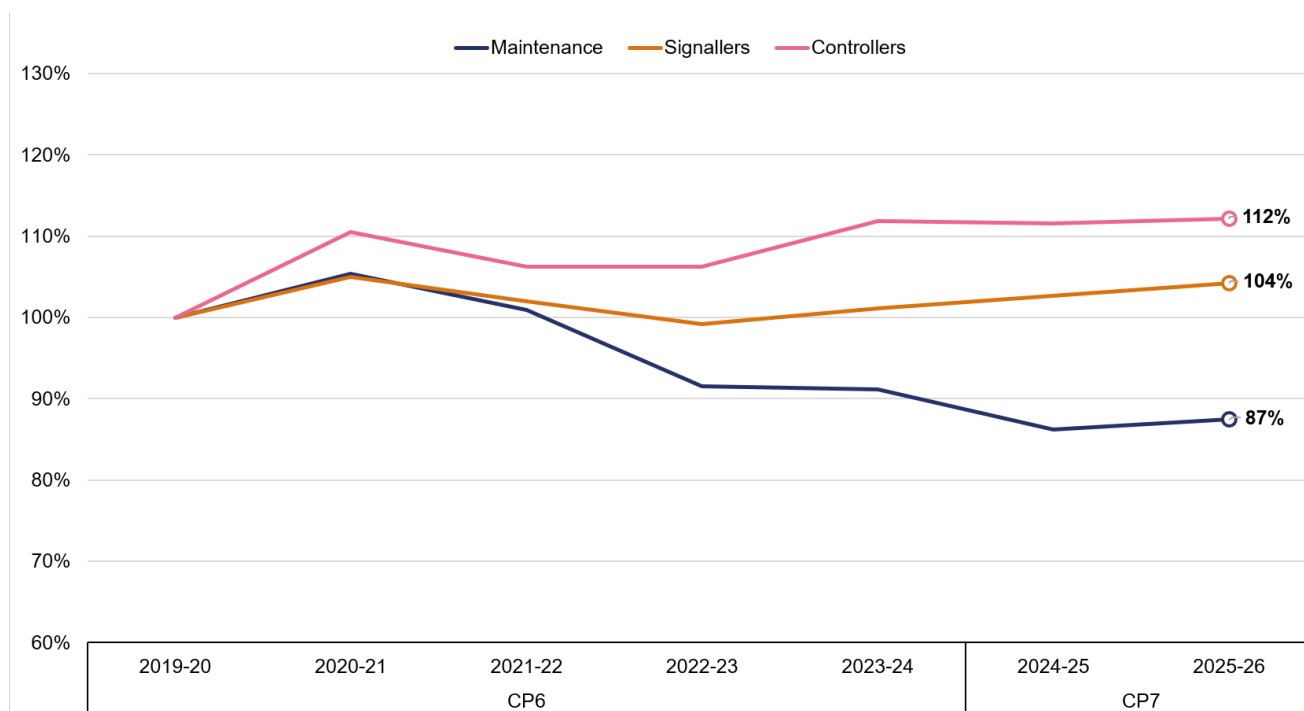
Figure 2.5: Network Rail maintenance, signallers and controllers total employment costs, April 2019 to March 2026



Source: ORR analysis of Network Rail's data

- 2.27 Network Rail employed 697 senior managers (Directors and Band 1) with an average employment cost, including employment benefits, of £179,000 (a 3% annual increase). The number of senior managers increased by 5% in the year, continuing a longer term trend of growing senior management positions. As shown in Figure 2.5, senior management headcount has increased by 70% over the past ten years, compared with 13% growth in the wider permanent workforce.
- 2.28 Over the same period, total employment costs for senior managers increased by 45%, compared with 16% for the wider permanent workforce, contributing to higher overall employment costs.

Figure 2.6: Network Rail maintenance, signallers and controllers total employment costs, April 2019 to March 2026



Source: ORR analysis of Network Rail's data

- 2.29 Employment costs have varied across Network Rail's key operational workforce groups. As shown in Figure 2.6, since 2019-20, employment costs for maintenance staff have fallen by 13% in real terms, reflecting a reduction in maintenance headcount following Network Rail's modernising maintenance programme. In contrast, employment costs for signallers have remained broadly stable, while controller employment costs have increased by 12%, driven by growth in both headcount and employment costs.

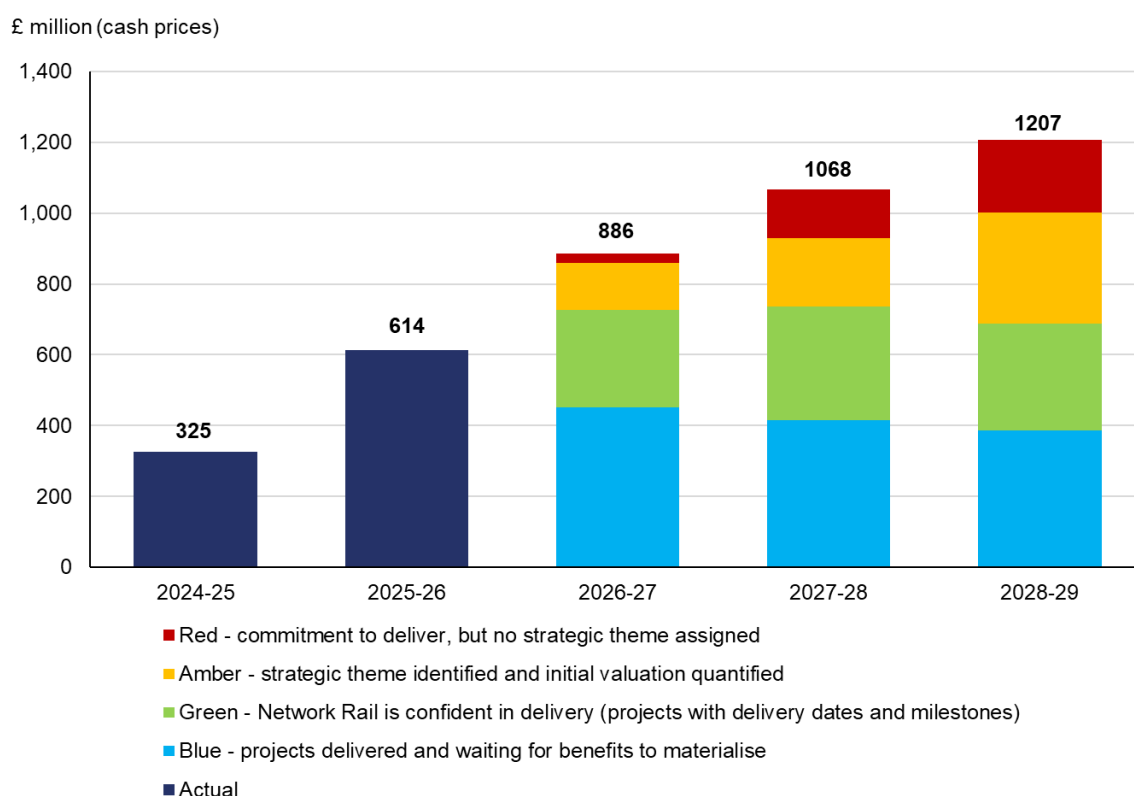
Efficiency

- 2.30 Our 2023 Periodic Review required Network Rail to achieve £3.9 billion of efficiency improvements in CP7. This target was embedded within Network Rail's CP7 delivery plan and underpins its funding settlement.
- 2.31 Network Rail delivered £614 million of efficiencies in the year, 4% ahead of its annual target with all five regions exceeding their own targets.
- 2.32 Key initiatives to support delivery included, negotiating contracts with improved terms or rates, enhancing market research and monitoring contracts more effectively, better management of staff related costs, improved planning, rescoping

and delivery of projects and improving workbank planning through better coordination and sequencing of activities. Further detail on regional efficiency delivery is set out in [Chapter 5](#).

- 2.33 Due to pressures on its budget from inflation and from drawing less on government funding than envisaged in PR23 (see above), Network Rail has now increased its own efficiency target and is aiming to deliver £4.1 billion of efficiency improvements in CP7. This will help to support its planned renewals programme.

Figure 2.7: Network Rail's actual and latest CP7 forecast efficiency improvements



Source: ORR analysis of Network Rail's data

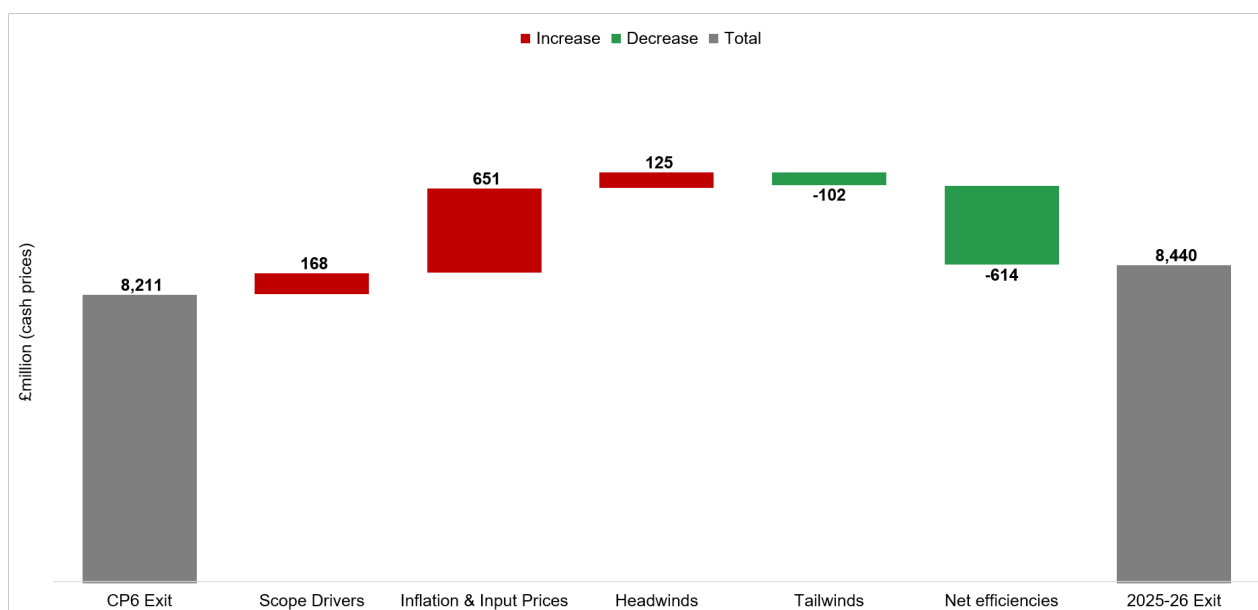
- 2.34 Whilst Network Rail has exceeded its efficiency targets in the first two years of CP7, more than 75% of Network Rail's CP7 efficiency target remains to be delivered.
- 2.35 Delivering the remaining efficiencies will be important to improving the affordability and long-term sustainability of the railway. Our role in monitoring how Network Rail delivers its CP7 efficiency target in a way that is sustainable, measurable and aligned with financial performance and long-term asset condition supports our [growth goals](#) and builds on our longstanding role in assessing Network Rail's efficiency performance and promoting value for money.

- 2.36 The efficiencies delivered to date, and those planned over the remainder of CP7, can help release resources for investment, strengthen the railway's financial sustainability and support future growth for passengers, freight users and the wider economy. They can also help support a more stable and predictable workbank, providing greater confidence for the supply chain through increased certainty over future activity and creating conditions that support innovation and productivity improvements across the sector.
- 2.37 We will continue to monitor progress against the CP7 efficiency target and report on delivery, helping to ensure that efficiencies are realised in a way that supports a more affordable, sustainable and growth-focused railway. While responsibility for delivering these efficiencies will transition from Network Rail to Great British Railways (GBR) as rail reform progresses, the importance of delivering CP7 efficiency commitments, and ORR's monitoring of progress against them, will remain unchanged.

Inflation, input prices, headwinds, tailwinds and scope changes

- 2.38 Efficiency improvements remained the primary offset to cost pressures during the year. However, efficiencies delivered in Year 2 were lower than the combined impact of inflation and input price increases. When combined with other cost pressures, this contributed to expenditure increasing by more than £200 million compared with the CP6 exit position.
- 2.39 Figure 2.8 shows the main drivers of changes to Network Rail's operations, maintenance, support and renewals expenditure in 2025-26. It breaks cost movements down into scope drivers (changes to complexity or volumes of work), inflation, external factors (headwinds and tailwinds), and efficiencies net of inefficiencies.

Figure 2.8: Network Rail's Year 2 cost drivers, compared to CP6 exit



Source: ORR analysis of Network Rail's data

- 2.40 Network Rail reported £168 million in additional costs due to scope changes during the year, primarily reflecting additional work required to maintain network performance, safety and asset condition beyond that assumed in the delivery plan.
- 2.41 Inflation and input prices totalled £651 million for the year, mainly driven by CPI inflation (£492 million) and higher input price (£159 million), including increases in the cost of materials, contracts and other externally sourced goods and services.
- 2.42 Network Rail has reported £125 million in headwinds, mostly due to the increase in employer national insurance contributions that took effect in 2025. Network Rail benefited from £102 million in tailwinds during the year, mainly due to lower support costs as a result of reduced work supporting the development of HS2's future connection to the national rail infrastructure.

Leading indicators of efficient delivery

- 2.43 In this section we update on Network Rail's preparations to deliver efficiently in 2026-27, the third year of CP7.
- 2.44 Network Rail considers that 83% of its regional 2026-27 target efficiency will be achieved from projects that have already been delivered or have clear project plans (blue and green categories in the table below), putting it in a good position for Year 3 delivery. The remainder (17%) have plans in place but low confidence in delivery or no plans in place (yellow and red categories in the table below).

Table 2.2: Network Rail's assessment of the maturity of its April 2026 to March 2027 efficiency plans as of 31 March 2026

	Eastern	NW&C	Scotland	Southern	W&W	GB
Project delivered, waiting for benefits to be realised	57%	42%	33%	80%	53%	52%
Network Rail is confident in delivery (projects with delivery dates and milestones)	34%	28%	57%	24%	46%	31%
Strategic theme identified, but no strategic theme assigned	9%	30%	15%	-6%	1%	16%
Commitment to deliver, but no strategic theme assigned	0%	0%	0%	2%	0%	1%
	100%	100%	100%	100%	100%	100%

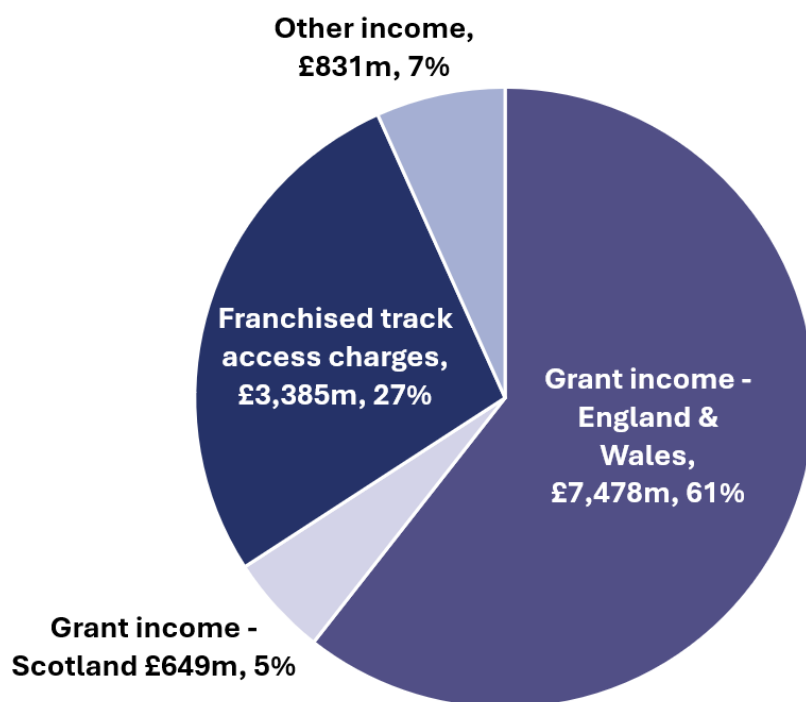
Source: ORR analysis of Network Rail's data. Note, Network Rail GB data includes national functions plan maturity.

- 2.45 Network Rail's Year 3 renewals planning indicators suggest it is better prepared for delivery than at the same point last year. These indicators measure readiness to deliver renewals work, including whether projects have received the necessary approvals, whether delivery organisations have accepted the work allocated to them, and whether sufficient access to the railway has been secured to undertake planned engineering activities.
- 2.46 Across the network, 66% of renewal projects had been authorised, 70% of remits had been accepted and access equivalent to 109% of the planned requirement had been secured. Access secured exceeded planned requirements, reflecting additional access booked to manage potential slippage and support delivery. [Chapter 5](#) provides a more detailed regional analysis of these leading indicators.

Income

- 2.47 Network Rail received £12.3 billion of income in the year, a 2% annual increase. It also received separate government funding for £1.9 billion of enhancements to the network.
- 2.48 Figure 2.9 provides a breakdown of the main sources for this income. Overall income is higher than the previous year largely due to higher grant income, which is consistent with the delivery plan target.

Figure 2.9: Breakdown of Network Rail's income for April 2025 to March 2026

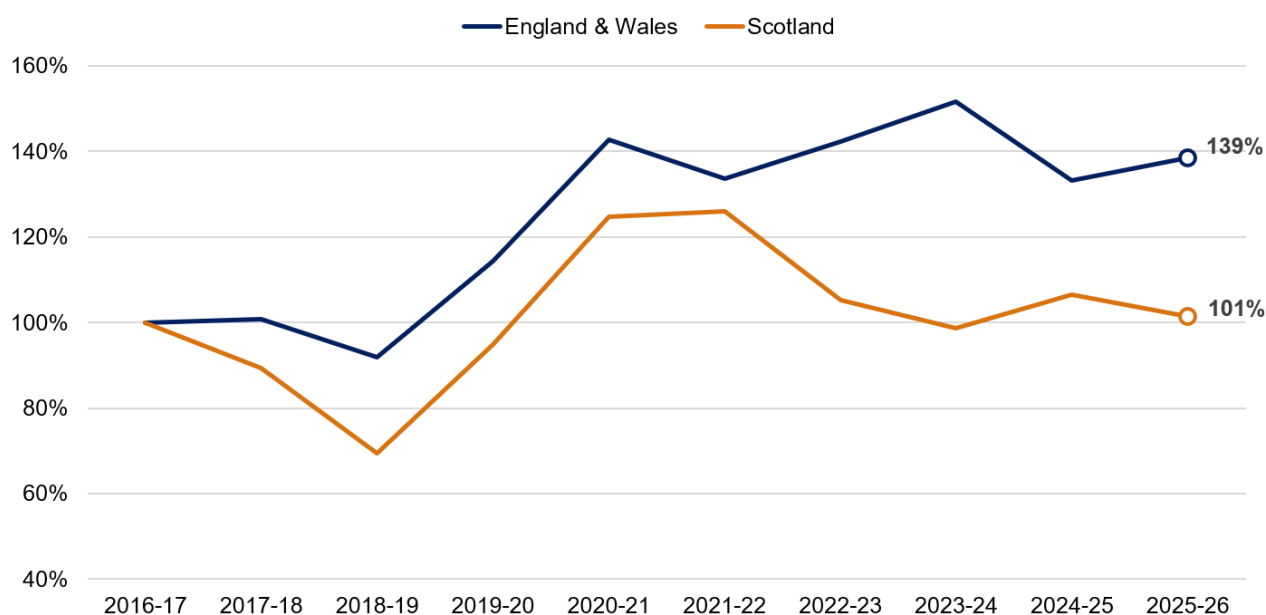


Source: ORR analysis of Network Rail's data

Grant income

2.49 Network Rail received £8.1 billion of grant income in 2025-26. This comprised £7.5 billion from DfT for England & Wales and £439 million from Transport Scotland for Network Rail Scotland. A further £210 million was provided by DfT to Network Rail Scotland to fund its share of financing costs, British Transport Police costs and corporation tax. Grant income was £48 million below the delivery plan, mainly reflecting lower expenditure than planned.

Figure 2.10: Network Rail grant income, England & Wales and Scotland, April 2016 to March 2026



Source: ORR analysis of Network Rail's data

- 2.50 As shown in Figure 2.10, grant income has increased over the last decade, although the trend differs between England & Wales and Scotland. The growth reflects changes in funding settlements across control periods, including differences in the level of planned expenditure and the level of funding provided, as well as higher internal financing grants. Internal financing grants have increased in recent years, as higher interest rates have increased financing costs on debt instruments (excluding financing costs associated with index-linked debt), with these costs funded by DfT for both England & Wales and Scotland.
- 2.51 As grant income is used to fund Network Rail's expenditure, changes in grant income generally reflect changes in spending rather than financial performance. Any differences between actual and planned grant income are therefore treated as financially neutral.

Franchised track access charges income

- 2.52 Franchised track access charge income was £3,385 million, with a £17 million financial underperformance. This was due to fewer train services than forecast reducing variable usage charge income. This was partly offset by higher infrastructure cost charge income. Franchised track access charge income in the prior year (i.e. 2024-25) was £3,465 million, representing a year-on-year decrease of £80 million (2%), largely due to reduced traction electricity income.

Other income

- 2.53 Network Rail received £831 million of income from other sources in 2025-26. These included access charges paid by freight operators (£89 million), together with income from commercial properties (£337 million), stations and depots (£405 million). This delivered £35 million of financial outperformance, driven primarily by higher property rental income and retail income.

3. Financial risks and opportunities

- 3.1 Network Rail faces financial pressure from higher than expected inflation and input price costs, together with the challenge of delivering its planned renewals and efficiency improvements within the funding available for CP7. This chapter examines how these pressures have affected Network Rail's finances in the first two years of CP7 and the options available to manage emerging funding pressures.

Inflation and input prices

- 3.2 Network Rail continued to face significant cost pressures from inflation and rising input prices during Year 2. Although the company exceeded its annual efficiency target, it financially underperformed against its original delivery plan as increased costs outweighed the benefits of efficiency delivery. Compared to the start of CP7, inflationary pressures added around £651 million of costs (gross of income effects) during the year, including £492 million from general inflation (CPI) and £159 million from input prices increasing faster than CPI inflation.
- 3.3 In the first two years of the control period, higher general inflation and input prices have cumulatively added £978 million of cost pressure. Combined with other cost pressures, this has contributed to Network Rail having to revise its plans. As a result, it is now forecasting lower renewals delivery in England & Wales over CP7, placing additional pressure on asset reliability and sustainability in CP7 and beyond.
- 3.4 While Network Rail Scotland has also faced inflationary and input price cost pressures (included in the above figures), these have been managed well through a stable delivery plan at the start of CP7, which supported efficient workbank planning and delivery. Network Rail Scotland also received a higher proportion of income from infrastructure cost charges than England & Wales's regions, this income is adjusted for actual inflation. As a result, Network Rail Scotland has not needed to reduce its planned renewals delivery. Further detail on Scotland's performance is provided in [Chapter 4](#).
- 3.5 Compared with the inflation assumptions underpinning the PR23 Final Determination, current forecasts indicate that general inflation alone is forecast to increase Network Rail's CP7 costs by around £2.0 billion over the five-year control period, with a further £0.3 billion arising from higher input prices. Under the Bank of England's latest central scenario, general inflation is expected to remain above 2%

until late 2027. This increases the risk of further cost pressures during CP7 and places greater pressure on decisions about which renewals can be delivered.

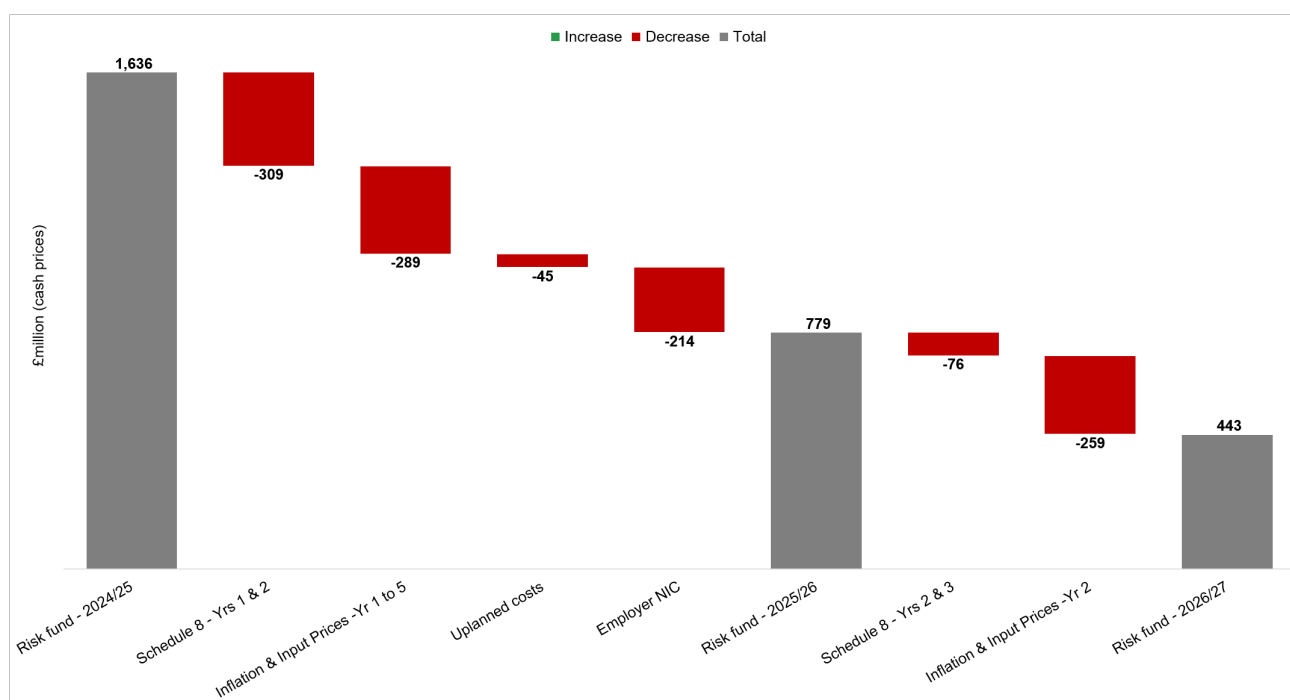
Funding gap

- 3.6 Higher-than-forecast inflation and input prices increased Network Rail's expected CP7 costs relative to the assumptions underpinning the PR23 Final Determination. As a result, Network Rail's England & Wales CP7 delivery plan included a funding gap between available funding and planned expenditure, which stood at around £500 million by the end of Year 1.
- 3.7 Throughout Years 1 and 2, Network Rail made significant efforts to reduce the funding gap while seeking to minimise the impact on core renewals and maintenance activities. However, continued inflationary pressures made this increasingly challenging. Network Rail ultimately closed the funding gap during Year 2, primarily through reductions in planned renewals.
- 3.8 In contrast, Network Rail Scotland did not have a funding gap in its CP7 delivery plan which increased the stability of its plan, resulting in a stronger capacity to withstand additional inflationary pressures.

Risk funding and input prices

- 3.9 To help manage inflation and other uncertainties during CP7, our PR23 determination allowed for £1.6 billion (cash prices) of funds to manage financial risks including higher than forecast inflation. This comprised of £1.4 billion for England & Wales and £0.2 billion for Scotland. Since the start of CP7, substantial drawdowns have been required to fund Schedule 8 payments associated with poor train performance, increased inflation and input price pressures affecting Years 2 and 3 and higher employer National Insurance Contributions (NIC).
- 3.10 As shown in Figure 3.1, the pace at which the fund has been utilised highlights the scale of these pressures. The fund reduced from £1.6 billion at the start of CP7 to £779 million by the end of Year 1, before falling further to £443 million by the end of Year 2. As a result, 73% of the fund has been committed in the first two years of CP7, with the majority of this funding planned to be utilised in Years 3 to 5. This leaves 27% available to manage future financial risk over the remaining three years of the control period.

Figure 3.1: Network Rail risk fund, April 2024 to March 2026



Source: ORR analysis of Network Rail's data

- 3.11 Further pressure is expected following the 2025 Spending Review, which has already reduced Network Rail's funding by around £165 million from April 2026. With approximately 60% of CP7 remaining, the combination of a reduced risk fund and lower available funding leaves less flexibility to absorb future cost pressures, increasing the importance of delivering planned efficiencies and raises the risk of difficult prioritisation decisions should further cost pressures emerge.

Research and development expenditure

- 3.12 Our PR23 determination included £165 million (cash prices) of funding for research and development (R&D) activities during CP7. Due to financial pressures, Network Rail has subsequently reduced its planned R&D spend to £134 million (cash prices).
- 3.13 Network Rail spent £15 million on R&D activities in 2025-26, compared with its revised plan of £29 million. In CP7 to date, it has spent £47 million, which is lower than its revised plan. The lower spend is due to delays and slippage across a number of projects, resulting in expenditure being deferred into later years.
- 3.14 Compared with CP6, when Network Rail spent £238 million on R&D activities, the level of funding and expenditure in CP7 is significantly lower. Coupled with

expenditure below the revised plan, raises concerns that the pace of innovation may slow, reducing the pipeline of opportunities to deliver future efficiencies and performance improvements.

- 3.15 Several projects have begun to deliver benefits as they are adopted across the network, with around £6 million of efficiencies reported in regional plans during 2025-26. However, forecast savings of £54 million over CP7 remain below the £72 million target set for the programme.
- 3.16 While Network Rail's reporting has increasingly focused on benefits expected to be realised during CP7, it is also important that the programme continues to develop innovations capable of delivering material benefits beyond the current control period.
- 3.17 Third-party funding continued to support Network Rail's R&D programme during 2025-26. Network Rail secured £9 million of additional external funding in the year and aims to secure a further £57 million over the remainder of CP7.

Industry Performance Improvement Fund

- 3.18 Our PR23 determination included funding for an Industry Performance Improvement Fund (IPIF) in England and Wales and the Targeted Performance Fund (TPF) in Scotland to support industry-led initiatives aimed at improving network performance and delivering benefits for passengers and freight users.
- **Industry Performance Improvement Fund (IPIF, England & Wales).** Our PR23 determination provided £41 million (cash prices) for the IPIF. During 2025-26, £7 million was spent on projects through the fund, following £5 million spend in 2024-25, to support innovation and performance improvement initiatives across the network. To date, 21 projects have been delivered, along with 20 further projects in delivery, of which 13 have received full Technical Authority approval. Projects supported by the fund include the rollout of PRIMA, which supports more proportionate speed restrictions during adverse weather conditions, and Beyond Visual Line of Sight (BVLOS) drone trials, which explore more efficient approaches to infrastructure monitoring and inspection.
 - **Targeted Performance Fund (TPF, Scotland).** Our PR23 determination provided £53 million (cash prices) for the TPF. During 2025-26, to date, 28 projects with a total approved value of £40 million have been supported by the fund. The largest scheme, North Clyde Integration, which brings Network

Rail and Scotrail Operations teams together within Yoker Signalling Centre, with new signalling control, traffic management, and track access technology solutions, valued at over £10 million, was delivered during 2025-26, with benefits expected to be realised in the coming year.

Budget flexibility

- 3.19 Network Rail is subject to the Government's resource and capital departmental expenditure limits, which restrict its ability to reprofile funding between years and limit flexibility to switch spending between resource and capital budgets.
- 3.20 No budget rollover was available for England and Wales as of 31 March 2026. It is anticipated that budget rollover will also not be available in 2026-27.
- 3.21 Responsibility for overseeing grant payment flexibility in Scotland sits with Transport Scotland and is subject to the Scottish Government's budgetary framework. As a result of these flexibilities, £20 million of funding was reprofiled from Year 2 to Year 4 of CP7.
- 3.22 Further details on the budget flexibility rules for CP7 are explained in our [PR23 financial framework document](#).

Regulatory asset base, net debt and gearing

- 3.23 Network Rail's regulatory asset base (RAB) remained broadly unchanged from the previous year at £92.7 billion. Renewals expenditure during the year was offset by amortisation, while property sales totalled £23 million.
- 3.24 Network Rail no longer issues debt to fund its capital expenditure. However, it continues to hold legacy debt (£61.1 billion), including financial instruments issued to investors before the company's reclassification to the public sector. It incurred £3.0 billion of financing costs in the year, including £1.4 billion of financing costs on index-linked debt. These costs are funded separately by the Department for Transport (DfT). Network Rail's gearing (net debt relative to RAB) is at 66%.

4. Network Rail Scotland's performance

Financial performance

- 4.1 Between April 2025 and March 2026, Network Rail Scotland spent £1.5 billion on operating, maintaining, renewing, enhancing and financing the rail infrastructure. It reported £37 million of financial underperformance against its Year 2 CP7 delivery plan. This means, net of income, Network Rail Scotland spent £37 million more than originally planned.
- 4.2 Table 4.1 shows that the underperformance was largely driven by maintenance and network operations.

Table 4.1: Network Rail Scotland's financial performance April 2025 to March 2026

£ million, cash prices	Actual	Original CP7 delivery plan for Year 2	Variance	FPM out / (under) performance	% of FPM contribution
Grant income	649	689	(40)	0	0%
Franchised track access charges	527	523	4	1	(3%)
Other income	58	62	(4)	(1)	3%
Total income	1,234	1,274	(40)	0	0%
Network operations	97	80	(17)	(17)	46%
Support costs	113	121	8	2	(5%)
Traction electricity, industry costs & rates	127	127	0	0	0%
Maintenance	261	238	(23)	(18)	49%
Schedule 4	22	14	(8)	(6)	16%
Schedule 8	1	1	0	0	0%
Total operating expenditure	621	581	(40)	(39)	105%
Renewals	426	449	23	2	(5%)
Enhancements	153	159	6	0	0%
Total capital expenditure	579	608	29	2	(5%)
Other expenditure	0	31	31	0	0%
Financing costs	300	293	(7)		0%
Total expenditure	1,500	1,513	13	(37)	100%
Financial performance measure (FPM)				(37)	100%

Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding. Note that total income does not equal total expenditure, this is because of the timing of recognition of income and expenditure (particularly in relation to indexed-linked financing costs) as explained in Network Rail's regulatory financial statements.

Operating Expenditure

Network operations costs

- 4.3 Network Rail Scotland spent £97 million on network operations in Year 2 of CP7. It financially underperformed by £17 million due to additional expenditure on performance improvement initiatives to improve passenger experience, combined with increased signalling resources and additional headcount to improve operational resilience on the network. Additionally, pay awards for frontline staff were higher than expected, exceeding CPI.

Support costs

- 4.4 Support activities such as human resources, finance and other corporate services cost Network Rail Scotland £113 million in Year 2. The Scotland region financially outperformed on support costs by £2 million due to small savings across several areas, including utilities which was driven by market prices.

Traction electricity, industry costs and rates

- 4.5 Network Rail Scotland spent £127 million in Year 2 on traction electricity, industry costs and rates. This was in line with plan and offset by operator income for traction electricity. Wider geopolitical events and the associated increase in energy prices did not impact the 2025-26 financial position as rates had already been agreed with the supplier in advance.

Maintenance

- 4.6 Network Rail Scotland spent £261 million on maintenance activities. It financially underperformed by £18 million. This was driven by increased reactive maintenance activity on buildings to help manage asset condition; additional temporary resources and training to address organisational gaps and increased civils inspections to support safety requirements. Cost pressures were exacerbated by above-inflation increases in materials, contractor rates, and pay awards.

Schedule 4 & 8

- 4.7 The Schedule 4 regime compensates operators for planned reductions to network availability. It incentivises Network Rail to plan engineering work early and to

reduce disruption. Schedule 4 costs in Scotland were £22 million in Year 2 with £6 million financial underperformance recorded. Costs were higher than the delivery plan due to additional engineering work delivered to manage weather risk and following the fire at Glasgow station to ensure passenger safety.

- 4.8 The Schedule 8 performance regime compensates train operators or Network Rail for the impact of unplanned service disruption. Schedule 8 performance was largely in line with plan, in contrast to England & Wales where there was a material underperformance in Schedule 8 costs. Despite being in line with plan on schedule 8 costs, Scotland missed its passenger train performance target and must maintain its focus on improving performance for the future. Further details on Network Rail Scotland's train performance can be found in our [Network Rail Scotland Annual Assessment 2026](#).

Capital expenditure

Renewals

- 4.9 In Year 2 of CP7, Network Rail Scotland spent £426 million on renewals which was 5% (£23 million) below its delivery plan. This was mainly due to the reprofiling of renewals activity, particularly signalling work, to later years in the control period. Financial performance for the work that was actually delivered was broadly neutral with £2 million outperformance recorded.
- 4.10 Just like other regions, Network Rail Scotland faced inflationary pressures. However, the region did not have to cut renewals as it had a more prudent plan and undertook a range of other measures to offset inflation. Bulk delivery, project coordination, use of blockades and minimum viable product interventions reduced delivery costs. Further details on Network Rail Scotland's renewals can be found in our [Network Rail Scotland Annual Assessment 2026](#).

Enhancements

- 4.11 Network Rail Scotland spent £153 million on enhancement projects funded by Transport Scotland, delivering new infrastructure capabilities. An additional £26 million was spent on schemes funded by third parties including local councils. These costs were broadly in line with the delivery plan, with no financial outperformance or underperformance recorded.
- 4.12 Key enhancement projects undertaken in the year included the Fife Decarbonisation programme (£64 million), the Feeder Stations programme

(£46 million) and the East Kilbride and Barrhead Rail Enhancement scheme (£19 million).

Other expenditure

Centrally managed expenditure

- 4.13 Costs incurred by central teams are re-charged to regions in proportion to their use of services and in accordance with the ORR's [CP7 regulatory accounting guidelines](#). Around £418 million (10%) of national functions costs were recharged to Scotland in Year 1 of CP7, of which £300 million related to financing costs.
- 4.14 Centrally managed costs allocated to Scotland were 2% lower than the delivery plan, contributing £17 million of financial outperformance. These reductions were related to savings across a number of central functions. For example, support costs are lower than the delivery plan due to reduced costs associated with the restructuring of High Output resource.

Table 4.2: Allocation of centrally managed expenditure to Scotland, April 2025 to March 2026

£ million (cash prices)	Actual	Original CP7 delivery plan for Year 2	Variance	FPM out / (under) performance
Network operations	3	4	1	1
Maintenance	11	14	3	3
Support costs	68	78	10	4
Traction electricity, industry costs and rates	8	8	0	0
Schedule 4	1	2	1	1
Schedule 8	0	0	0	0
Operating expenditure	91	106	15	9
Renewals	27	28	1	8
Enhancements	0	0	0	0
Capital expenditure	27	28	1	8
Financing costs	300	293	(7)	0
Total centrally-managed expenditure	418	427	9	17

Source: ORR analysis of Network Rail's data. Numbers may not sum due to rounding.

Risk Funding and input prices

- 4.15 At the start of CP7, Network Rail Scotland set aside £234 million (cash prices) of ring-fenced risk funding for unplanned costs.
- 4.16 65% of the funding has now been allocated out to manage cost pressures such as higher-than-expected staff costs, national insurance payments, inflation and input prices, property costs and storm remediation costs.
- 4.17 Network Rail Scotland enters Year 3 with £82 million of unallocated risk funding remaining to tackle unexpected costs such as higher-than-expected inflation or costs of the Glasgow fire. While Network Rail Scotland's stable delivery plan positioned them well for continued delivery, the remaining risk fund will need to be carefully managed for the remainder of CP7.

Targeted Performance Fund

- 4.18 Our PR23 determination included £53 million (cash prices) of funding for a Targeted Performance Fund (TPF) in Scotland to support industry-led initiatives aimed at improving network performance and delivering benefits for passengers and freight users.
- 4.19 Network Rail Scotland has maintained momentum on allocating the Targeted Performance Fund to performance-improving schemes. At the end of Year 2, 28 projects have been approved with a value of around £40 million. The largest approved scheme – North Clyde integration, which brings Network Rail and Scotrail Operations teams together within Yoker Signalling Centre, with new signalling control, traffic management, and track access technology solutions, valued at over £10 million, recently opened. These improvements should deliver improved reliability and resilience of one of Scotland's busiest railway routes.

Efficiencies

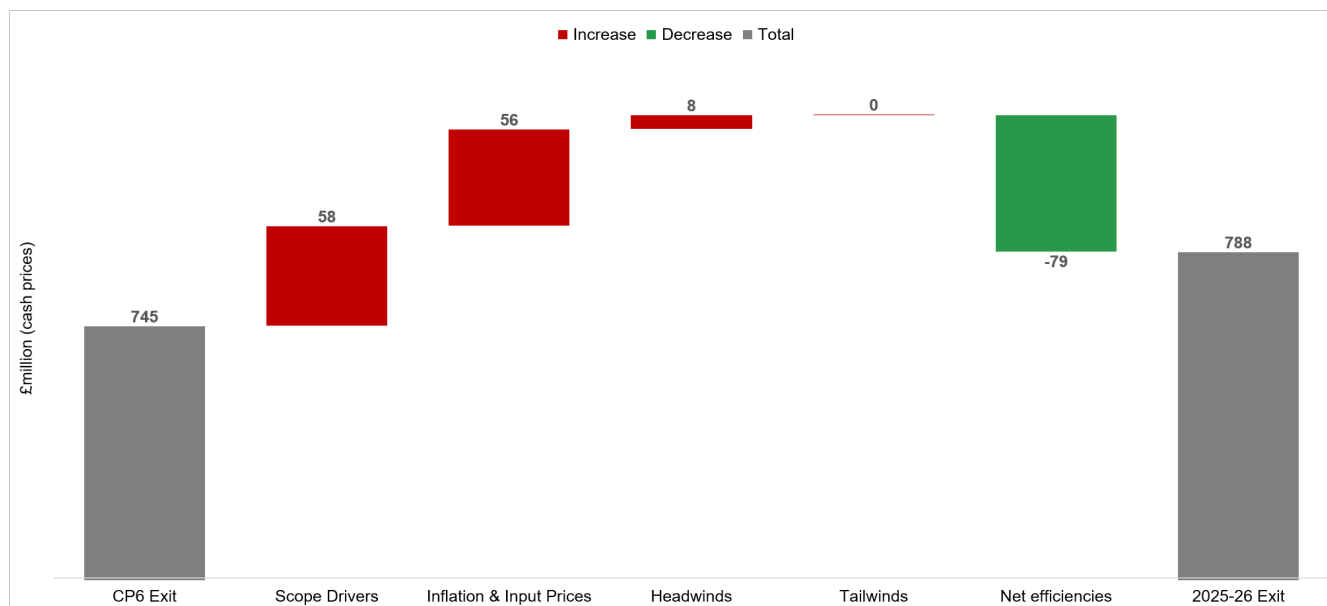
- 4.20 Network Rail Scotland reported £79 million of efficiency improvements in Year 2 of CP7, exceeding its original CP7 delivery plan target by £16 million (26%).
- 4.21 Delivery of efficiencies benefited from improved contract negotiations with suppliers and more efficient use of access – underpinned by the relative stability of the delivery plan.

- 4.22 While over 71% (£276 million) of the £389 million CP7 efficiency target remains to be delivered, current progress indicates a positive trajectory towards the delivery plan target.
- 4.23 Leading indicators show that Network Rail Scotland is well prepared for delivery in Year 3. Efficiency plans are 85% developed, renewals remits issued and accepted by the supply chain are at 95%, above the national average of 70%, and 127% of required access has been secured to deliver the planned work.
- 4.24 While Network Rail Scotland has made good progress at improving its efficiency in CP7, as discussed earlier in the chapter it has underperformed financially. This is largely due to the structural differences between the two measures, as explained in [Annex B](#).

Efficiencies, headwinds, tailwinds, scope changes and input prices

- 4.25 Efficiencies are only one type of cost driver. Figure 4.1 demonstrates all the other drivers impacting Network Rail Scotland, which explains why Year 2 costs have increased compared to the CP6 exit position despite successful delivery of efficiencies.

Figure 4.1: Network Rail Scotland's Year 2 cost drivers, compared to CP6 exit



Source: ORR analysis of Network Rail's data

- 4.26 Scope drivers refer to changes to complexity or scale of work being delivered, resulting in higher costs. Cost increases have been driven by additional activity in

structures, earthworks, performance improvement, buildings, drainage, asset improvement and in examinations of civil infrastructure.

- 4.27 Inflation and input prices were higher than assumed in Network Rail Scotland's CP7 delivery plan. General inflation (CPI) increased costs by £44 million, with a further £12 million arising from higher rail-specific input prices, including materials, labour and supply chain costs.
- 4.28 Headwinds encompass other cost drivers which increase the cost of delivery beyond Network Rail's control. Headwinds have included higher national insurance payments, higher pay awards and the Union Street fire in Glasgow.
- 4.29 Tailwinds refer to cost drivers which decrease the cost of delivery, which are beyond Network Rail's immediate control. No tailwinds were recorded for the last year.

Income

- 4.30 Network Rail Scotland received £1.2 billion of income in 2025-26. This excludes enhancement grants, which are funded separately by Transport Scotland and financing costs related to indexed linked debt.

Franchised track access charges

- 4.31 Franchised track access income comes from fees paid by train operating companies (excluding open access and freight operators) to use Network Rail Scotland's rail infrastructure. Track access charges income was broadly in line with plan, at £527 million, which was 1%, above the delivery plan.

Grant funding

- 4.32 Network Rail Scotland received £439 million in network grant funding in 2025-26, £26 million less than planned in the CP7 delivery plan. Most of the 2025-26 difference in grant payments reflects the reprofiling of £20 million of funding from Year 2 to Year 4 of CP7. The flexibility of grant payments in Scotland is under the oversight of Transport Scotland and Scottish Government's CP7 budget process. Total CP7 funding remains £2,299 million, in line with the plan.
- 4.33 Separate arrangements with the DfT cover Network Rail Scotland's share of financing costs, British Transport Police, and corporation tax. Funding for these totalled £210 million, £14 million below plan, reflecting lower-than-expected costs and therefore reduced grant requirement.

- 4.34 Grants are considered outside Network Rail's control and do not impact financial performance assessments.

Other income

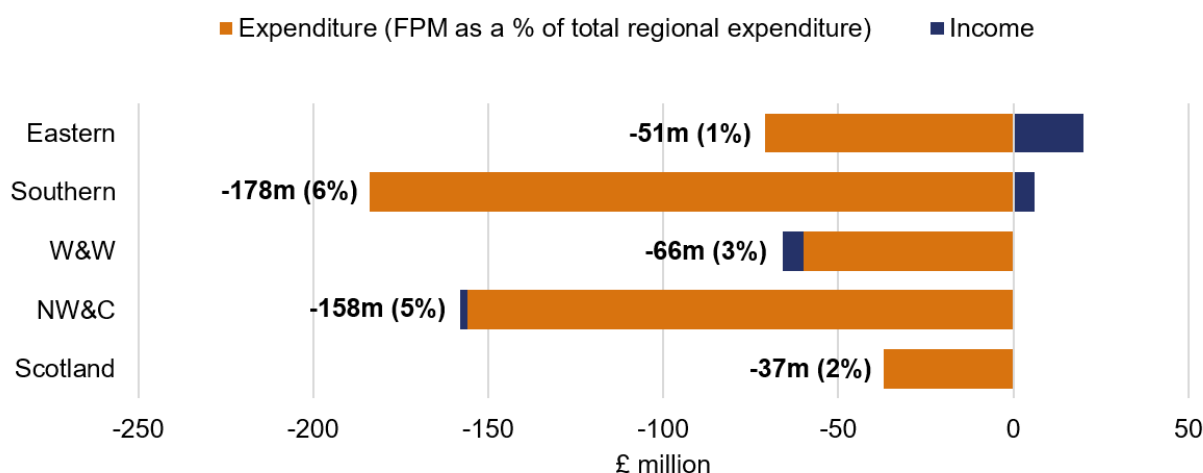
- 4.35 Other income includes freight and stations income, property rental and sales income, depots income and freight traction electricity income. Network Rail Scotland received £58 million of other income, broadly in line with target.

5. Regional performance

- 5.1 This chapter compares and examines the performance of Network Rail's five regions and the National Functions: Eastern, North West & Central (NW&C), Scotland, Southern, and Wales & Western (W&W).

Regional financial performance

Figure 5.1: Regional contributions to Network Rail's financial underperformance, April 2025 to March 2026



Source: ORR analysis of Network Rail's data

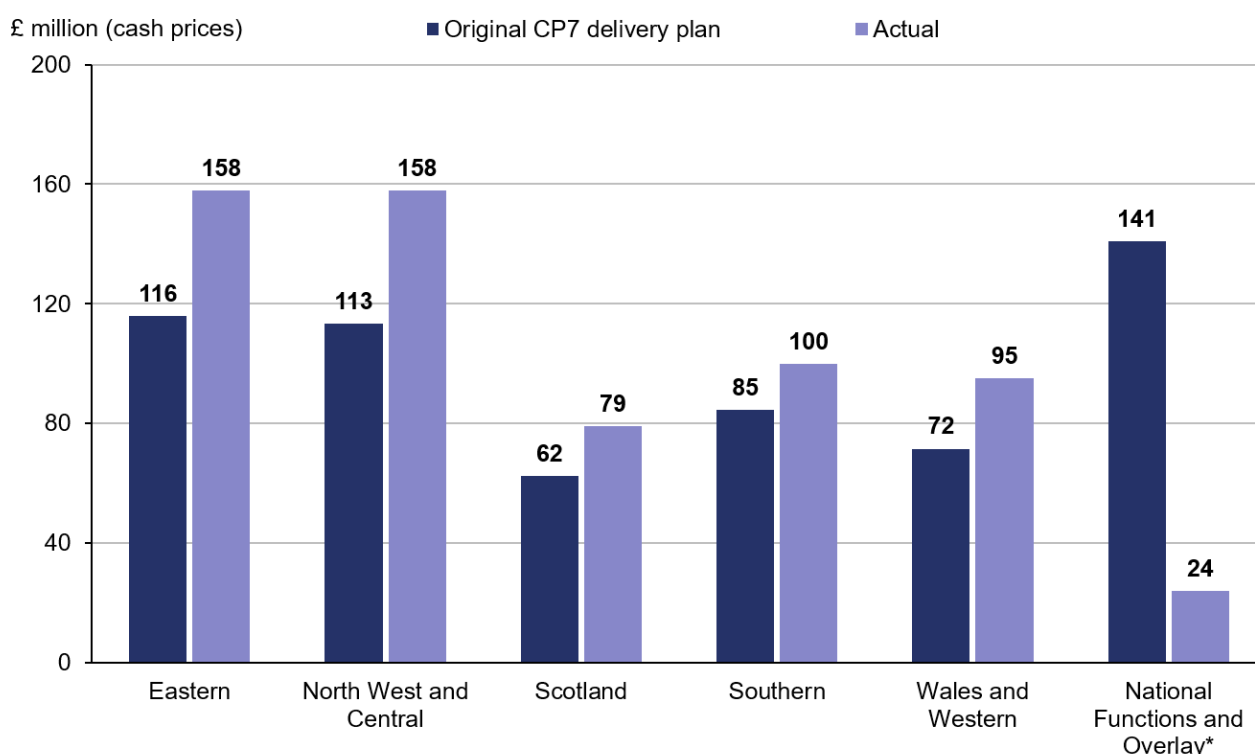
- 5.2 Financial performance varied across Network Rail's regions in 2025-26. Scotland delivered the strongest financial performance, contributing the least to Network Rail's overall underperformance, while Southern and North West & Central together accounted for around two-thirds of the company's total underperformance.
- 5.3 Maintenance cost pressures were evident across much of the regions. Southern, North West & Central and Wales & Western all reported significant maintenance underperformance, driven by higher costs as a result of higher-than-planned inflation, increased supply chain costs and pay awards above CPI inflation. Several regions also undertook additional maintenance activity to manage asset condition and operational risks, including where renewals volumes were reduced to remain within funding.
- 5.4 The main drivers of underperformance differed between regions. Southern's underperformance was largely in renewals and maintenance, reflecting increased cost of delivering its plan. North West & Central and Eastern experienced significant

Schedule 8 underperformance arising from operational incidents and asset failures, with North West & Central recording the highest Schedule 8 costs across the regions.

- 5.5 Wales & Western reported a lower level of underperformance than Southern and North West & Central. The region was impacted by higher maintenance cost pressure and also incurred additional costs associated with seasonal management and readiness activities.
- 5.6 Some regions benefited from offsetting factors. Eastern delivered the strongest Schedule 4 performance across the regions, reflecting more productive engineering possessions and lower planned disruption, and was one of two regions to report renewals outperformance. Scotland delivered the strongest overall financial performance and, alongside Eastern, also outperformed on renewals, demonstrating effective management of financial pressures during the year.

Regional efficiency delivery

Figure 5.2: Regional contributions to efficiency improvements in April 2025 to March 2026



* An overlay represents reductions to reported efficiencies where the underlying figures have not been fully validated or assurance processes are still ongoing.

Source: ORR analysis of Network Rail's data

- 5.7 All regions exceeded their original Year 2 efficiency delivery plans, collectively delivering £614 million of efficiencies. Eastern and North West & Central delivered the largest savings, while North West & Central achieved the largest outperformance against plan.
- 5.8 North West & Central and Eastern exceeded their original delivery plans by 39% and 36% respectively, while Wales & Western and Scotland exceeded plan by 32% and 27%. Southern also exceeded its original plan but reported the lowest level of outperformance at 18%.

Table 5.1: Top 5 key efficiency initiatives, annual data, April 2025 to March 2026

Top 5 efficiency initiatives (£ million)	Eastern	North West & Central	Scotland	Southern	Wales & Western	National Functions	Total	% of Year 2 delivery
Contracting strategies/packaging /rates	38	29	20	24	30	20	161	26%
Resource Management	63	20	4	11	2	16	115	19%
Minimum Viable Product (MVP)	24	32	8	4	2	5	75	12%
Workbank Planning / Synergies	59	2	4	4	6	0	75	12%
Innovation and Technology	2	5	3	8	20	26	63	10%

Source: ORR analysis of Network Rail's data

- 5.9 Table 5.1 highlights the largest efficiency initiatives delivered across Network Rail in Year 2. Contracting strategies, packaging and rates was the largest contributor, delivering £161 million of efficiencies and accounted for over a quarter of Year 2 delivery. Resource management was the second-largest contributor, delivering £115 million, while Minimum Viable Product (MVP) and Workbank Planning/Synergies each contributed £75 million.
- 5.10 Regions derived their efficiency savings from different initiatives. Eastern delivered the largest contribution from resource management and workbank planning activities, while North West & Central achieved significant savings through MVP and contracting initiatives. Wales & Western and National Functions delivered the

largest innovation and technology savings, whilst contracting initiatives were the largest contributor in Scotland and Southern.

- 5.11 National Functions (including the System Operator and GBRx) delivered £125 million of efficiencies in Year 2, exceeding its revised delivery plan. This excludes a £101 million adjustment for regionally reported efficiencies that have not yet been assured, which is reported separately within Group Finance and reflected in the Network Rail-wide efficiency position shown in Figure 5.2. Innovation and technology, contracting initiatives and resource management represented the largest sources of savings at a national level.
- 5.12 Further detail on Network Rail's ten largest efficiency initiatives in Year 2 of CP7 can be found in [Annex C](#).

Leading Indicators

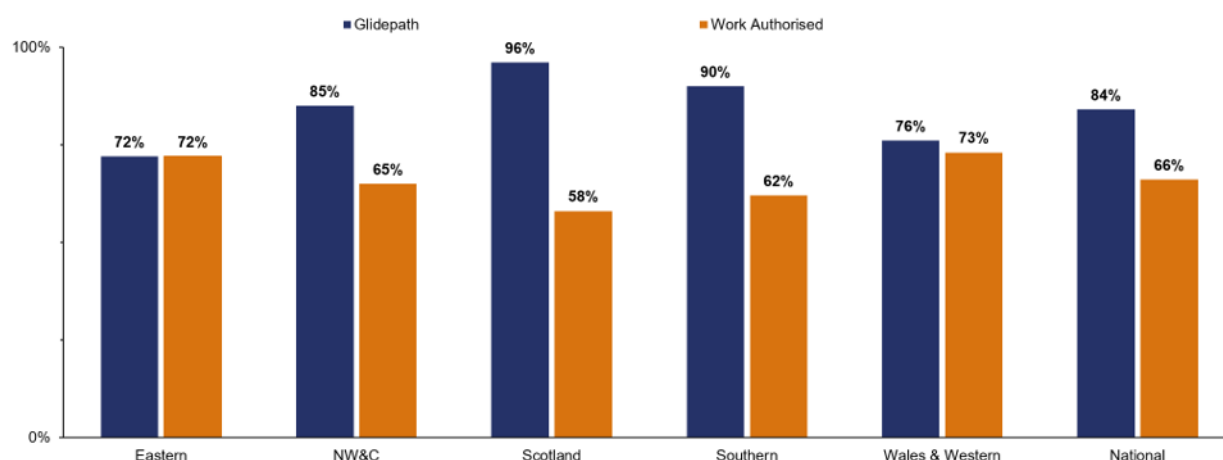
- 5.13 Table 5.2 shows that most regions have developed plans for the majority of their remaining CP7 efficiencies, although confidence in delivery varies. Wales & Western has the highest proportion of efficiencies either delivered, enabled or supported by defined delivery plans (90%), followed by Scotland (82%). In contrast, North West & Central and Eastern have a larger proportion of efficiencies linked to strategic themes that have yet to be developed into specific projects, reducing confidence in delivery over the remainder of CP7.
- 5.14 Southern has a comparatively high proportion of efficiencies that have not yet been linked to a strategic theme or project. While the region has delivered efficiencies successfully to date, further development of its plans will be needed to provide confidence that the remaining CP7 target can be achieved.

Table 5.2: Network Rail's assessment of the maturity of its CP7 efficiency plans as of 31 March 2026

	Eastern	NW&C	Scotland	Southern	W&W	GB
Project delivered, waiting for benefits to be realised	59%	53%	52%	62%	57%	53%
Network Rail is confident in delivery (projects with delivery dates and milestones)	22%	19%	30%	17%	33%	22%
Strategic theme identified, but no strategic theme assigned	17%	26%	18%	6%	20%	16%
Commitment to deliver, but no strategic theme assigned	2%	2%	0%	15%	0%	9%
	100%	100%	100%	100%	100%	100%

Source: ORR analysis of Network Rail's data. Note, Network Rail GB data includes national functions plan maturity.

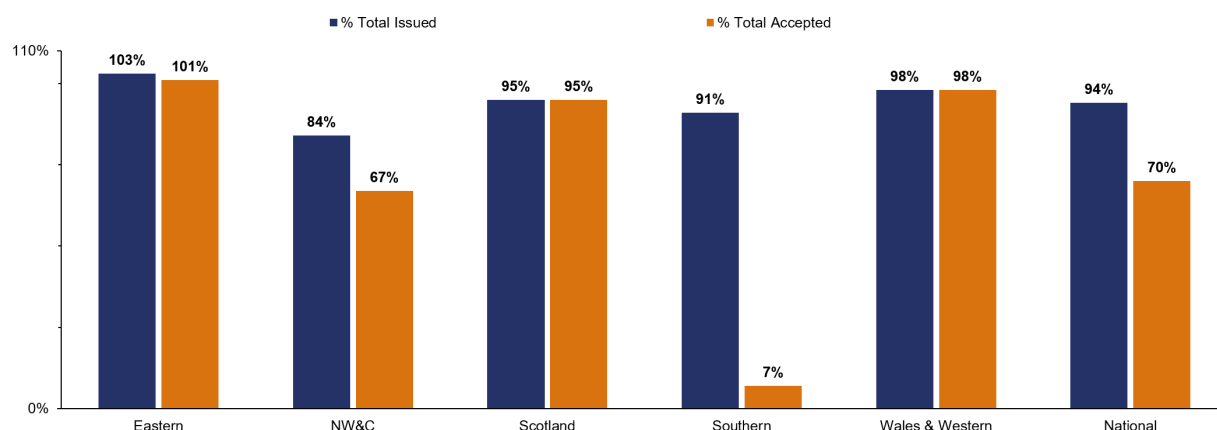
Figure 5.3: National and regional financial authorisations, April 2026 to March 2027



Source: ORR analysis of Network Rail's data

5.15 Financial authorisations provide an indication of how well regions are preparing their renewals programmes for delivery in Year 3. Across Network Rail, 66% of planned renewals expenditure had been authorised by March 2026, below the national glidepath target of 84%. Eastern was the only region to remain on track against its glidepath target, while Wales & Western performed better than all other regions and remained above the national average, despite remaining below its target.

Figure 5.4: National and regional renewals remits, April 2026 to March 2027

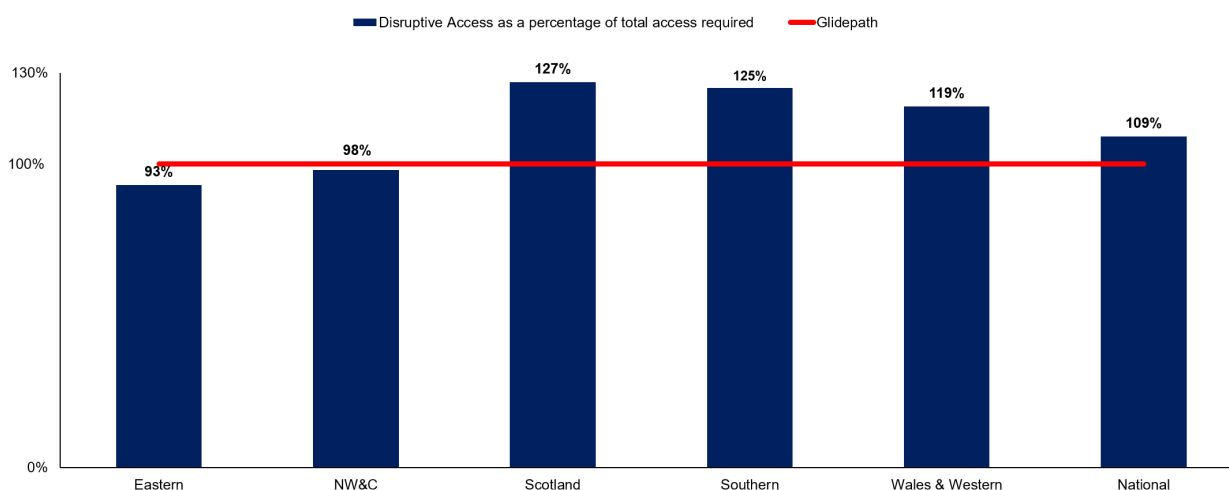


Source: ORR analysis of Network Rail's data

5.16 Financial authorisations provide only a partial view of renewals readiness. Remits issued to and accepted by the supply chain provide an additional indication of workbank development. Nationally, 94% of remits had been issued and 70% accepted by March 2026. Eastern, Scotland and Wales & Western were ahead of the national average on both measures, suggesting strong progress in developing their Year 3 workbanks.

5.17 Southern remains a notable exception, with a very low remit acceptance rate. Delays in the formal acceptance of work continues to create uncertainty around delivery readiness.

Figure 5.5: National and regional disruptive access, April 2026 to March 2027



Source: ORR analysis of Network Rail's data

- 5.18 Securing disruptive access is another important leading indicator of delivery confidence. Network Rail had secured 109% of the disruptive access required for Year 3 by March 2026, exceeding planned requirements and providing a buffer to manage potential slippage and support delivery of planned work. Scotland, Southern and Wales & Western were all above the national average, reducing the risk that access constraints will affect delivery of their planned work.

Regional and National Functions performance summaries

Eastern

- 5.19 Eastern faced a number of financial and operational challenges in Year 2. Despite these pressures, the region made good progress in delivering efficiencies and in areas that should support performance over the remainder of CP7.

Financial performance

- 5.20 Eastern underperformed by £51 million compared to its original delivery plan. The underperformance was largely attributable to:
- **Schedule 8 (£43 million underperformance)**, largely due to circuit and cable-related failures and fires across the region. These incidents contributed to delays and cancellations, resulting in performance below benchmark levels and higher compensation payments to train operators.
 - **Maintenance Costs (£37 million underperformance)**, driven by higher than planned inflation which increased delivery costs, staff pay awards above CPI and additional maintenance activity, including vegetation management, crossing defect and rail detection replacements.
- 5.21 Eastern's underperformance was partially offset by outperformance largely relating to:
- **Schedule 4 (£24 million outperformance)**, driven by more productive engineering possessions resulting in lower levels of planned disruption across the region.
 - **Renewals (£1 million outperformance)**, reflecting improved workbank planning, with resource sharing and extended access windows helping to support additional switches and crossing volumes.

Efficiency

- 5.22 Eastern delivered £158 million of efficiencies in Year 2, exceeding its original delivery plan (£116 million) by 36%. Delivery was supported in part by national programmes, which contributed around 14% of total savings. During the year, Eastern identified an additional £69 million to help mitigate the continued financial pressures across Network Rail. Eastern has delivered 28% (£277 million) of its £990 million CP7 efficiency target across the first two years.
- 5.23 The largest three efficiency initiatives for the region in the year were Resource Management (£63 million), Workbank Planning / synergies (£59 million) and Contracting strategies/ packing / rates (£38 million).

North West & Central

- 5.24 North West & Central exceeded its efficiency target in Year 2, demonstrating strong delivery of efficiency initiatives. However, the region reported significant financial challenges particularly in operating expenditure, largely driven by Schedule 8 costs.

Financial performance

- 5.25 North West & Central underperformed by £158 million compared to its original delivery plan. The underperformance was largely attributable to:
- **Schedule 8 (£92 million underperformance)**, largely due to overhead line equipment failures, an axle counter failure and a train derailment caused by inadequate drainage. These events resulted in significant delays and cancellations, leading to higher compensation payments to train operators.
 - **Maintenance costs (£49 million underperformance)**, driven by increased cost as a result of higher-than-planned inflation, additional maintenance activity to compensate for reduced renewals delivery and staffing cost pressures.
 - **Schedule 4 (£21 million underperformance)**, due to additional cost as a result of accelerated delivery activity that had been scheduled for later in CP7 and emergency access possessions. This resulted in greater than planned level of disruption to the network leading to additional compensation payments to train operators.
 - **Renewals (£13 million underperformance)**, due to sunk cost related to reprioritisation of works, project complexity and emergency works.

Efficiency

- 5.26 North West & Central delivered £158 million of efficiencies in Year 2, exceeding its revised delivery plan (£147 million) by 7% and its original delivery plan (£113 million) by 39%. Delivery was supported in part by national programmes, which contributed around 25% of total savings. Reflecting continued financial pressure across Network Rail, North West & Central has identified additional efficiency savings of £55 million. The region has delivered 30% (£252 million) of its £829 million CP7 efficiency target across the first two years.
- 5.27 The largest three efficiency initiatives for the region in the year were MVP (Minimum Viable Product) (£32 million), Contracting strategies/packages/rates (£29 million), Resource Management (£20 million).
- 5.28 North West & Central has made good progress in developing its future efficiency pipeline. However, a significant proportion (26%) of remaining efficiencies are still to be developed into specific initiatives. Further development of its plans is needed to strengthen confidence in delivery over the remaining years of CP7.

Scotland

- 5.29 Detailed information on Network Rail Scotland's financial and efficiency performance can be found in [Chapter 4](#).

Southern

- 5.30 Southern made good progress in delivering efficiencies in Year 2, despite poor financial performance in renewals, maintenance and train operations.

Financial performance

- 5.31 In Year 2 of CP7, Southern underperformed financially against its original delivery plan by £178 million, reflecting higher costs to deliver planned outputs. The underperformance was largely attributable to:
- **Renewals costs (£94 million underperformance)**, driven by inflationary pressures, increased work complexity, access constraints and worse-than-expected asset condition. As a result of these cost pressures, Southern faced a £217 million gap between its planned delivery over CP7 and available funding. To remain within its funding envelope, the region reduced

planned renewals activities by around £350 million, with the additional reduction providing a buffer against future financial and delivery risks.

- **Maintenance costs (£56 million underperformance)**, largely due to inflation which led to increased supply chain costs, maintenance reorganisation resulting in additional use of overtime, and additional track maintenance to manage asset condition and network performance.
- **Schedule 8 costs (£34 million underperformance)**, due to increased delays and cancellations, resulting in higher compensation payments to train operators.

Efficiency

- 5.32 Southern delivered £100 million of efficiencies in Year 2, exceeding its revised delivery plan of (£98 million) by 2% and its original delivery plan of (£85 million) by 18%. This demonstrates positive progress in the year, with delivery supported by national programmes, which contributed around 22% of total savings. Reflecting continued financial pressure across Network Rail, the region has identified a further £50 million of efficiency savings, increasing its CP7 efficiency target to £705 million. The region has delivered 20% (£144 million) of its CP7 target across the first two years.
- 5.33 The largest three efficiency initiatives for the region in the year were Contracting strategies/packaging/rates (£24 million), Modernisation (£13 million) and Resource Management (£11 million).

Wales & Western

- 5.34 Wales & Western exceeded its efficiency targets in Year 2 despite continued financial pressures. While the region reported financial underperformance, it delivered strong efficiency performance and made good progress towards its CP7 efficiency target.

Financial performance

- 5.35 Wales & Western underperformed financially against its original plan by £66 million. The underperformance was largely attributable to:
- **Maintenance costs (£50 million underperformance)**, driven by increased activity cost due to higher than planned inflation across the supply chain, pay

awards above CPI and additional maintenance activity to ensure asset safety which led to staffing pressures and overtime.

- **Network operation costs (£10 million underperformance)**, reflecting additional expenditure on seasonal management and readiness teams to improve performance.
- **Renewals costs (£7 million underperformance)**, due to higher cost pressures which increased materials and labour costs. The region also incurred sunk costs due to the reduction in renewals volumes and complexity of specific schemes.

5.36 Wales and Western's underperformance was partially offset by outperformance largely relating to:

- **Schedule 4 (£7 million outperformance)**, reflecting improved workbank planning and more productive use of engineering possessions.

Efficiency

5.37 Wales & Western, delivered £95 million of efficiencies in Year 2, exceeding its revised delivery plan (£77 million) by 23% and its original delivery plan (£72 million) by 32%. Delivery was supported in part by national programmes, which contributed around 26% of total savings. Reflecting continued financial pressure across Network Rail, Wales & Western has identified additional efficiency savings of £37 million, increasing its CP7 efficiency target to £531 million. The region has delivered 32% (£172 million) of its efficiency target across the first two years.

5.38 The largest three efficiency initiatives for the region in the year were Contracting strategies/packaging/rates (£30 million), Innovation and Technology (£20 million) and Structural & Commercial – Improved access (£7 million).

National Functions

5.39 Network Rail's National Functions support delivery across regions by underpinning network-wide operations and providing a range of centralised services. They comprise Route Services, Corporate Services, System Operator, Technical Authority and GBRx. In Year 2, National Functions delivered £125 million of efficiencies. This excludes a £101 million adjustment for regionally reported efficiencies that have not yet been assured, which is reported separately within Group Finance and included in the overall Network Rail efficiency position shown in Figure 5.2.

Route Services

- 5.40 Route Services delivered £95 million of efficiencies in Year 2, exceeding its original delivery plan of £91 million by 4% and its revised delivery plan of £89 million by 7%. Route Services remains on track to deliver its CP7 efficiency target of £442 million including £59 million from Project Reach, a programme to renew and upgrade telecommunications infrastructure across the rail network. The largest three efficiency initiatives were contracting strategies/packages/rates (£40 million), innovations and technology (£25 million) and resource management (£11 million).

Corporate Services

- 5.41 Corporate Services delivered £2 million of efficiencies during the year, 50% below its original and revised delivery plan of £4 million. Despite the shortfall in Year 2, Corporate Services remains on track to deliver its CP7 efficiency target of £30 million, supported by the management efficiency programme, ongoing restructuring activity, and further scrutiny of third-party spend to identify additional opportunities.

System Operator

- 5.42 System Operator delivered £10 million of efficiencies during the year, exceeding its original delivery plan of £6 million by 80% and its revised delivery plan of £5 million by 101%. The system operator remains on track to meet its CP7 efficiency target of £36 million. The largest three efficiency initiatives were contracting strategies/packages/rates (£2 million), pay and benefits (£2 million) and change in delivery model (£2 million).

Technical Authority

- 5.43 Technical Authority delivered £11 million of efficiencies during the year, exceeding its original and revised delivery plan of £7 million by 57%. Delivery was supported by external partnership investment programmes, contracting strategies/packages/rates (£9 million), including the renegotiation of signalling support contracts and industry memberships. Technical Authority remains on track to deliver its CP7 efficiency target of £53 million.

GBRx

- 5.44 GBRx, Network Rail's transformation programme, achieved £7 million of efficiencies during the year, 17% above its original and revised delivery plan of £6 million and

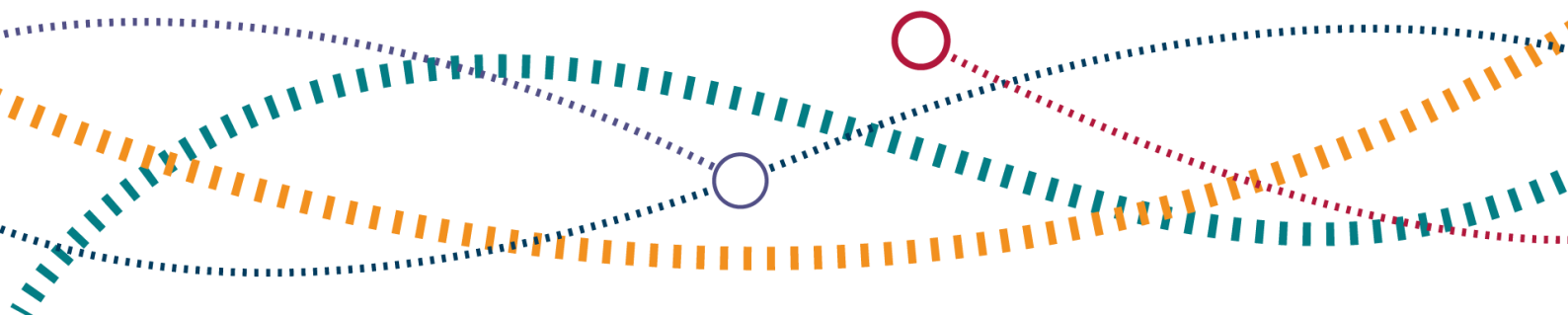
remains well placed to deliver CP7 target of £53 million in efficiencies. Efficiencies identified were across, contracting strategies/packages/ rates (£6 million) and resource management (£1 million).

Annex A: Summary of key financial information

Great Britain

	2025-26			2024-25
£ million, 2025-26 prices	Actual	Delivery plan	Variance	Actual
Income	A	B	C=A-B	
Grant income (exc. enhancement grant)	8,127	8,175	(48)	7,851
Franchised track access charges	3,385	3,401	(16)	3,465
Other single till income	831	797	34	783
Total income	12,343	12,373	(30)	12,099
Operating expenditure	A	B	C=B-A	
Network operations	963	910	(53)	921
Support costs	1,137	1,185	48	1,134
Traction electricity, industry costs and rates	1,285	1,296	11	1,364
Maintenance	2,657	2,439	(218)	2,584
Schedule 4 compensation payments	307	322	15	279
Schedule 8 compensation payments	177	6	(171)	122
Total operating expenditure	6,526	6,158	(368)	6,404
Capital expenditure	A	B	C=B-A	
Renewals	3,654	3,968	314	3,801
Enhancements	1,896	2,136	240	2,151
Total capital expenditure	5,550	6,104	554	5,952
Risk (Centrally-held)	-	120	120	-
Risk (Region-controlled)	-	26	26	-
Input prices	-	(7)	(7)	-
Total risk expenditure	-	139	139	-
Other expenditure	A	B	C=B-A	
Financing costs and other	2,952	2,884	(68)	2,578
Corporation tax	-	-	-	-
Total other expenditure	2,952	2,884	(68)	2,578
Total expenditure	15,028	15,285	257	14,934
Other information				
RAB	92,691	n/a	n/a	92,714
Net debt	61,080	n/a	n/a	60,232
Gearing (net debt/RAB)	66%	n/a	n/a	65%

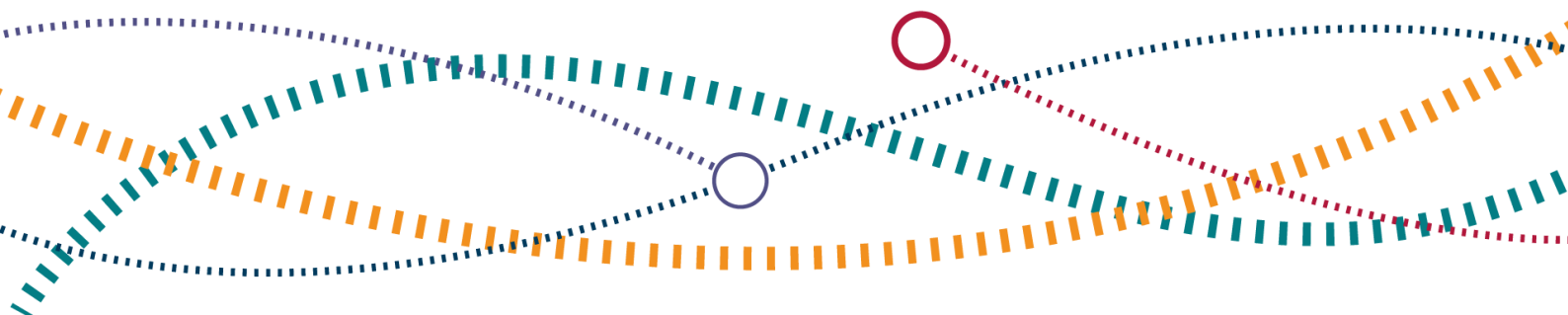
Source: Network Rail's regulatory financial statements



England and Wales

	2025-26			2024-25
£ million, 2025-26 prices	Actual	Delivery plan	Variance	Actual
Income	A	B	C=A-B	
Grant income (exc. enhancement grant)	7,478	7,486	(8)	7,171
Franchised track access charges	2,858	2,878	(20)	2,933
Other single till income	773	735	38	725
Total income	11,109	11,099	10	10,829
Operating expenditure	A	B	C=B-A	A
Network operations	866	830	(36)	833
Support costs	1,024	1,064	40	1,010
Traction electricity, industry costs and rates	1,158	1,169	11	1,230
Maintenance	2,396	2,201	(195)	2,334
Schedule 4 compensation payments	285	308	23	262
Schedule 8 compensation payments	176	5	(171)	124
Total operating expenditure	5,905	5,577	(328)	5,793
Capital expenditure	A	B	C=B-A	A
Renewals	3,228	3,519	291	3,365
Enhancements	1,743	1,977	234	1,992
Total capital expenditure	4,971	5,496	525	5,357
Risk (Centrally held)	-	120	120	0
Risk (Route-controlled)	-	-	-	0
Input prices	-	(12)	(12)	0
Total risk expenditure	-	108	108	-
Other expenditure	A	B	C=B-A	A
Financing costs and other	2,652	2,591	(61)	2,317
Corporation tax	-	-	-	-
Total other expenditure	2,652	2,591	(61)	2,317
Total expenditure	13,528	13,772	244	13,467
Other information				
RAB	83,008	n/a	n/a	83,028
Net debt	54,859	n/a	n/a	54,132
Gearing (net debt/RAB)	66%	n/a	n/a	65%

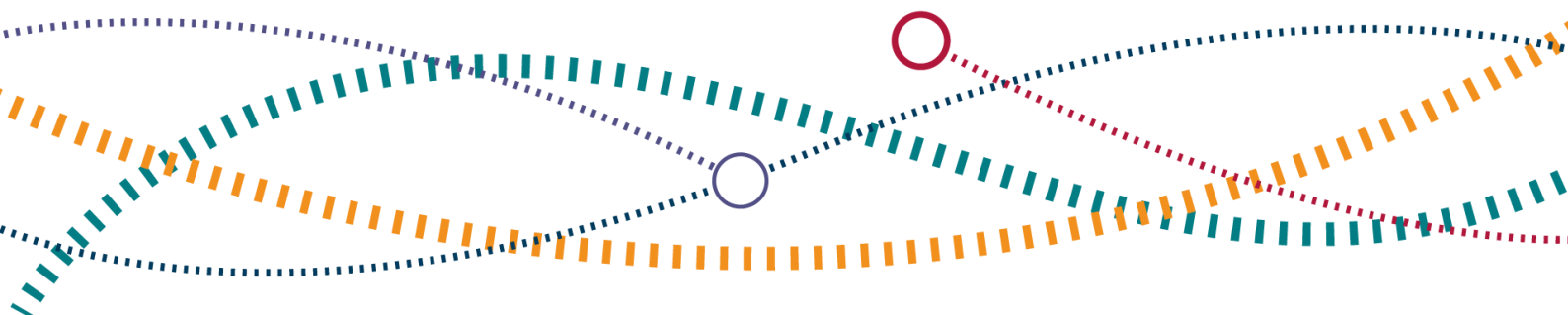
Source: Network Rail's regulatory financial statements



Scotland

	2025-26			2024-25
£ million, 2025-26 prices	Actual	Delivery plan	Variance	Actual
Income	A	B	C=A-B	A
Grant income (exc. enhancement grant)	649	689	(40)	680
Franchised track access charges	527	523	4	532
Other single till income	58	62	(4)	58
Total income	1,234	1,274	(40)	1,270
Operating expenditure	A	B	C=B-A	A
Network operations	97	80	(17)	88
Support costs	113	121	8	124
Traction electricity, industry costs and rates	127	127	-	134
Maintenance	261	238	(23)	250
Schedule 4 compensation payments	22	14	(8)	17
Schedule 8 compensation payments	1	1	-	(2)
Total operating expenditure	621	581	(40)	611
Capital expenditure	A	B	C=B-A	A
Renewals	426	449	23	436
Enhancements	153	159	6	159
Total capital expenditure	579	608	29	595
Risk (Centrally held)	-	-	-	-
Risk (Route-controlled)	-	26	26	-
Input prices	-	5	5	-
Total risk expenditure	-	31	31	-
Other expenditure	A	B	C=B-A	A
Financing costs and other	300	293	(7)	261
Corporation tax	-	-	-	-
Total other expenditure	300	293	(7)	261
Total expenditure	1,500	1,513	13	1,467
Other information				
RAB	9,683	n/a	n/a	9,686
Net debt	6,221	n/a	n/a	6,100
Gearing (net debt/RAB)	64%	n/a	n/a	63%

Source: Network Rail's regulatory financial statements

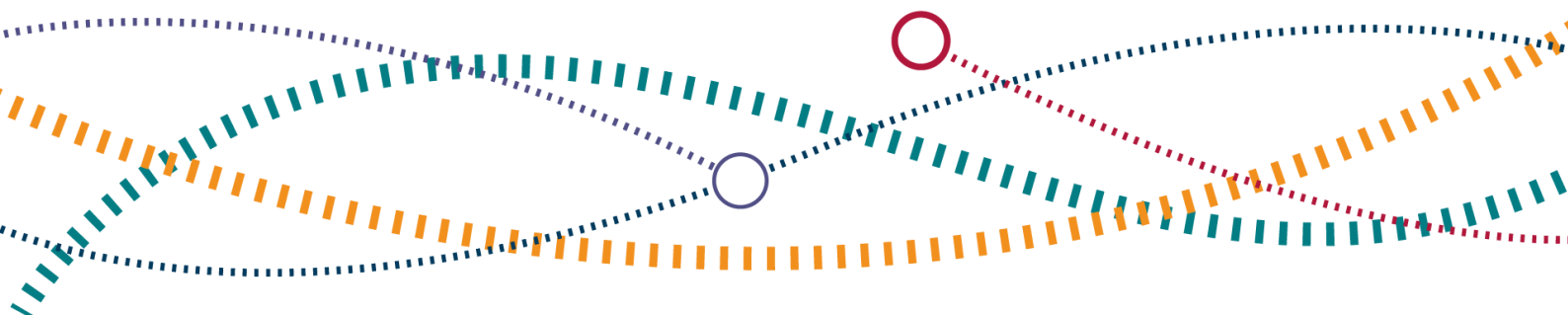


Wales

Note: the numbers set out below are discussed in the above commentary as part of the Wales and Western region.

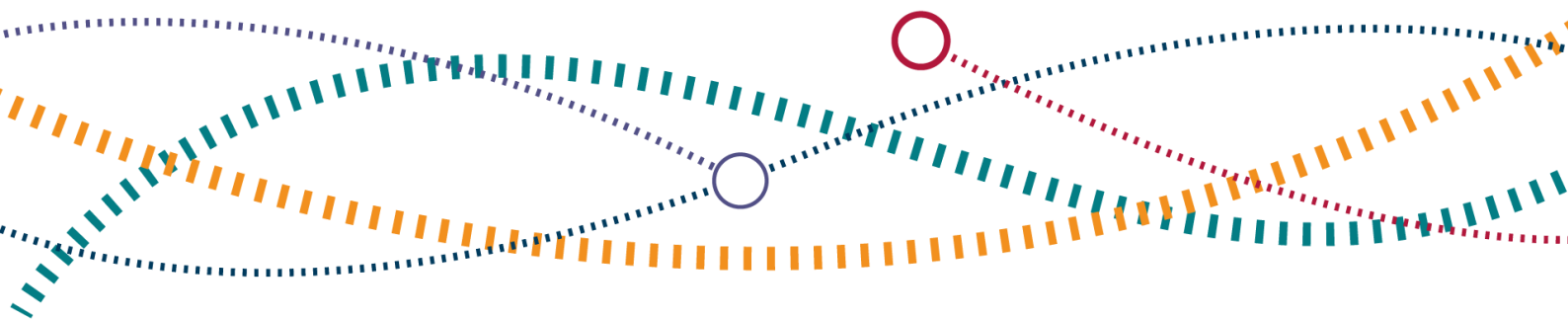
	2025-26			2024-25
£ million, 2025-26 prices	Actual	Delivery plan	Variance	Actual
Income	A	B	C=A-B	
Grant income (exc. enhancement grant)	359			358
Franchised track access charges	104	-	-	103
Other single till income	11	-	-	11
Total income	474	-	-	472
Operating expenditure	A	B	C=B-A	
Network operations	54	-	-	52
Support costs	62	-	-	64
Traction electricity, industry costs and rates	25	-	-	28
Maintenance	131	-	-	113
Schedule 4 compensation payments	18	-	-	16
Schedule 8 compensation payments	(8)	-	-	(7)
Total operating expenditure	283	-	-	265
Capital expenditure	A	B	C=B-A	
Renewals	215	-	-	247
Enhancements	11	-	-	31
Total capital expenditure	226	-	-	278
Risk (Centrally held)	-	-	-	-
Risk (Route-controlled)	-	-	-	-
Input prices	-	-	-	-
Total risk expenditure	-	-	-	-
Other expenditure	A	B	C=B-A	
Financing costs and other	159	-	-	134
Corporation tax	-	-	-	-
Total other expenditure	159	-	-	134
Total expenditure	667	-	-	677
Other information				
RAB	5,397	n/a	n/a	5,286
Net debt	3,776	n/a	n/a	3,764
Gearing (net debt/RAB)	70%	n/a	n/a	71%

Source: Network Rail's analysis of industry financials



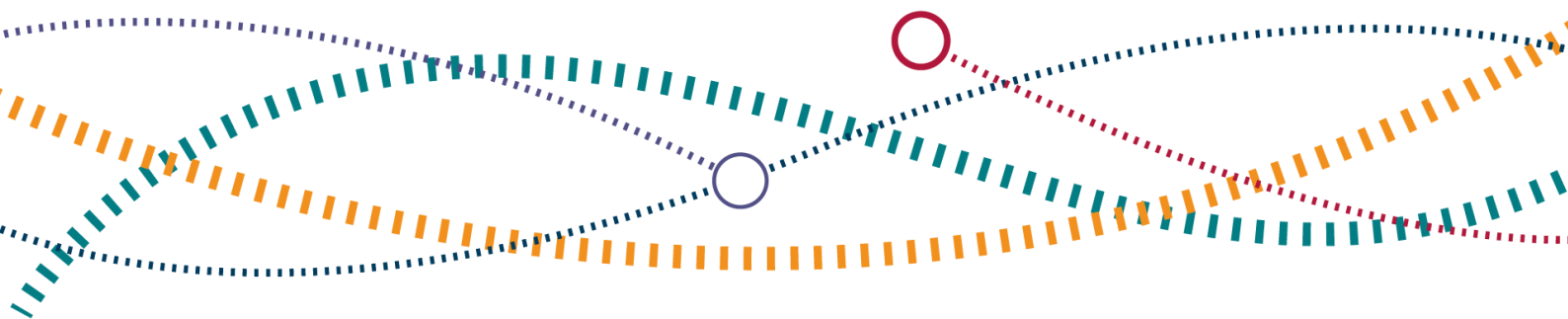
Annex B: Link between efficiency and financial performance

- B.1 Consistent with general use in economic regulation, we use the term ‘efficiency’ to refer to changes over time of the cost of Network Rail’s core business activities. These are Network Rail’s activities of operating, maintaining, and renewing the rail network, and supporting functions such as human resources and finance. These are broadly repeatable activities, which makes them easier to compare over time.
- B.2 We use the term ‘financial performance’ to assess both core business activities and wider activities that generate income (such as property income) and expenditure (such as enhancements to the network). Financial performance is a comparison of income and expenditure to the financial assumptions in a baseline such as in a business plan or regulatory determination. Other things being equal, if Network Rail has achieved the expected level of efficiency improvements in a business plan, it will report neither out nor under-performance against that plan. However, in practice, other things do result in differences between the reporting of efficiency and FPM. These include:
- (i) items of income and expenditure that are included in FPM but not efficiency reporting – such as, for income, access charges; and for expenditure interest payments or insurance costs.
 - (ii) external factors that can result in cost increases (‘headwinds’) and cost decreases (‘tailwinds’) such as changes to employment legislation which are outside of Network Rail’s control. These external factors are reported separately to efficiency. However, these are all considered for FPM, so, for example, a headwind will negatively affect FPM (but not efficiency).
 - (iii) FPM adjusts for future cost increases resulting from business decisions made during the current financial year. For example, the costs of a major re-signalling project may be expected to increase in the next financial year due to a purchase decision made during the current financial year. This will result in negative financial performance being reported during the current financial year (consistent with the accruals accounting concept). Efficiency reporting does not adjust for this; and



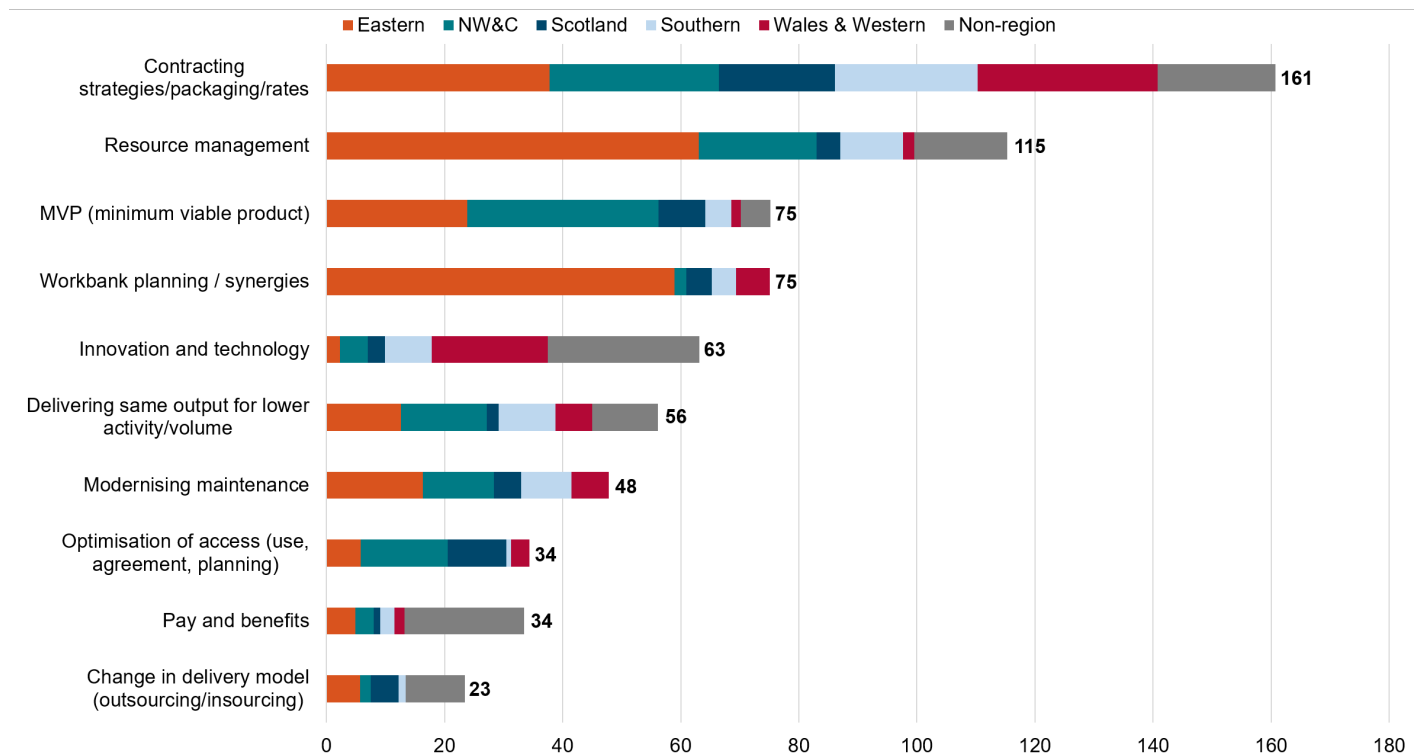
- (iv) the additional cost of any changes to planned renewals work during a year are recorded as negative FPM, whereas the cost of the work avoided is recorded as FPM neutral. This is because FPM measures performance against the delivery plan and is designed to discourage regions from making late changes to planned work during the year.

B.3 Further information on efficiency and financial performance can be found in our [CP7 regulatory accounting guidelines](#).



Annex C: Network Rail's ten largest efficiency initiatives in Year 2 of CP7

Figure C.1: Top ten efficiency initiatives in April 2025 to March 2026



Source: ORR analysis of Network Rail's data

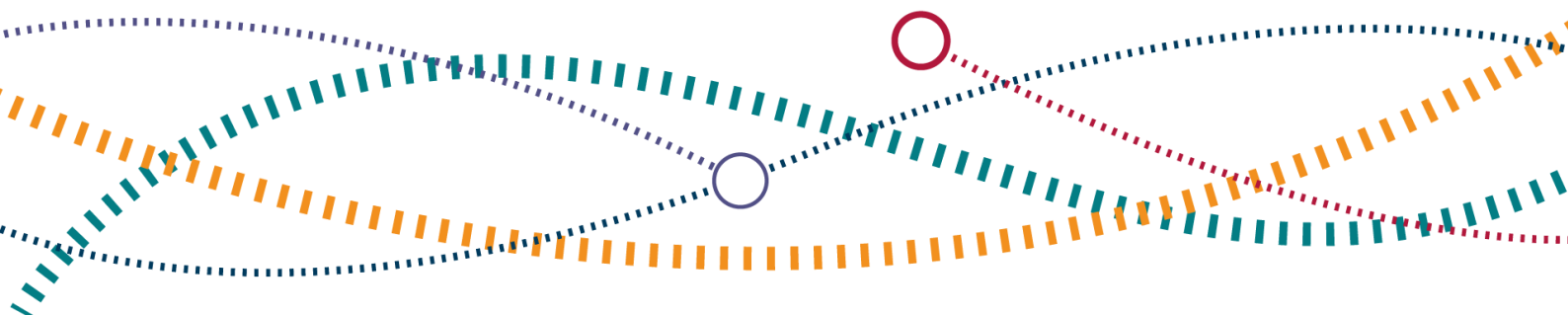
C.1 Network Rail has delivered efficiencies through various initiatives. The largest 10 initiatives are listed below:

Contracting strategies, packaging and rates (£161 million)

C.2 This initiative delivers savings through improved commercial and procurement practices. Efficiencies arise from negotiating better contract terms and rates, packaging work more effectively, increasing competition between suppliers and strengthening contract management.

Resource management (£115 million)

C.3 Resource management focuses on reducing workforce-related costs through improved workforce planning, headcount management, organisational redesign and



better deployment of staff. Savings also arise from reducing reliance on contractors and improving productivity across teams.

Minimum viable product (£75 million)

- C.4 Minimum viable product focuses on delivering projects to the minimum scope necessary to achieve the required outputs and benefits. This reduces costs by challenging requirements, simplifying designs and avoiding unnecessary work throughout project development and delivery.

Workbank planning and synergies (£75 million)

- C.5 The initiative aims to improve planning, sequencing and coordination of work. A more stable and predictable workbank allows resources and supply chains to be used more efficiently, reducing disruption, rework and overall delivery costs.

Innovation and technology (£63 million)

- C.6 Innovation and technology initiatives improve efficiency through the adoption of new technologies, digital tools and improved engineering methods. These initiatives seek to reduce costs, improve productivity and deliver work more efficiently while maintaining network performance and safety.

Delivering the same output for lower activity or volume (£56 million)

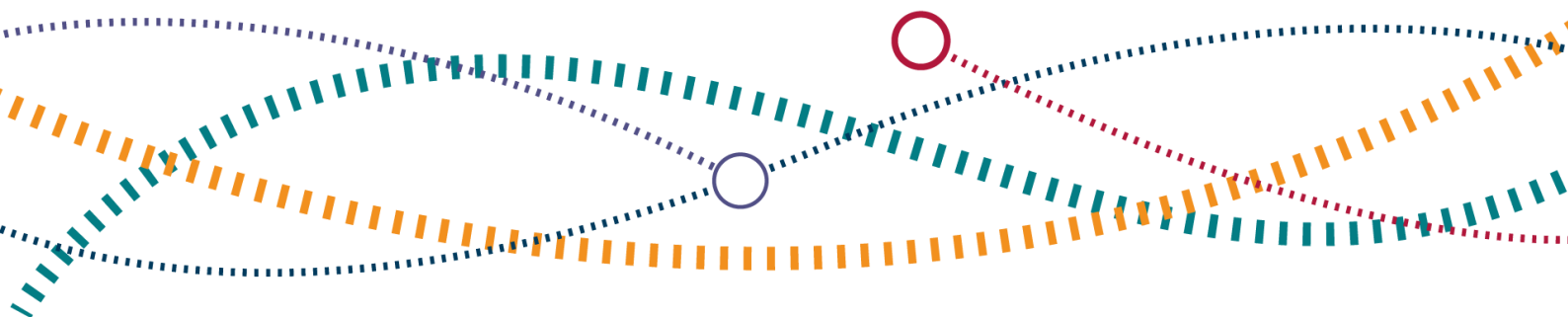
- C.7 These efficiencies arise where Network Rail is able to deliver the same outputs with fewer interventions, reduced activity levels or lower resource requirements. Savings are achieved through improved asset management, prioritisation and more efficient delivery methods.

Modernising maintenance (£48 million)

- C.8 Modernising maintenance improves productivity by changing how maintenance activities are planned and delivered. Savings are generated through improved rostering, more efficient team structures, workforce reform, better use of technology and reduced reliance on contractors.

Optimisation of access (£34 million)

- C.9 This initiative delivers efficiencies by improving how access to the railway is planned, agreed and used. Better coordination with train operators and more efficient use of possessions reduces disruption, improves productivity and lowers the cost of maintenance and renewals work.

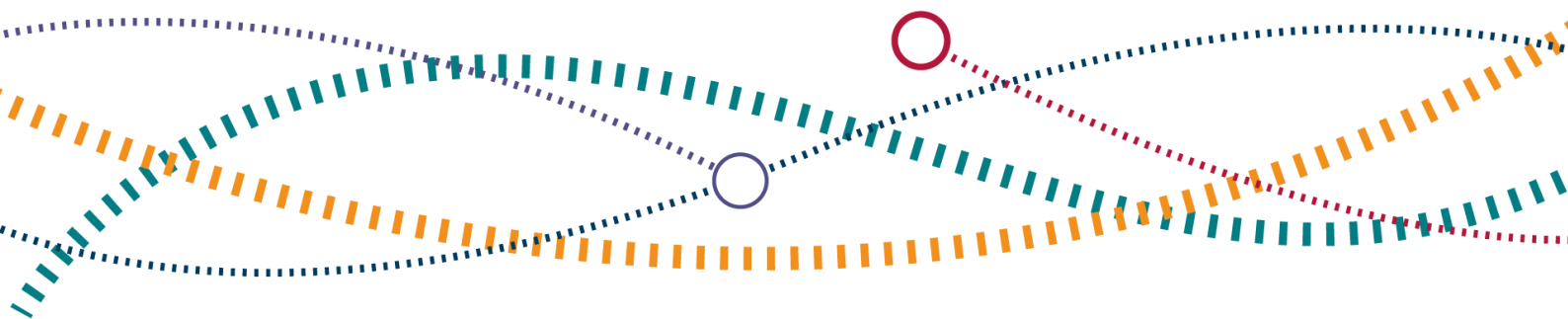


Pay and benefits (£34 million)

- C.10 Pay and benefits efficiencies relate to controlling employment costs through workforce reform, organisational restructuring and reducing staffing costs relative to outputs delivered. The aim is to improve productivity while managing overall employment expenditure.

Change in delivery model (£23 million)

- C.11 This initiative generates savings by changing how work is delivered, including decisions to outsource, insource or transfer activities between delivery organisations. Savings are achieved where alternative delivery arrangements provide a more efficient or cost-effective approach.





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