

## Market Led Investment Proposals Sought

During 2017, FCP advised DfT Rail Group on how to maximise third-party funding for UK rail projects. Our work focused on understanding the funding landscape, identifying barriers to third party investment in rail and outlining solutions, including improvements to industry guidelines. The FCP study generated strong interest from the rail community and involved consultations with developers, Local Authorities, LEPs, regional transport bodies, infrastructure pension funds, TOCs, ROSCOs, financial institutions, DfT, ORR, HM Treasury, Network Rail and private equity sources.

The UK Department for Transport has now launched an industry-wide call for ideas to bring forward rail projects that are financially credible without the need for Government support. Described as “market-led proposals”, these are projects promoted by the private sector that address opportunities not necessarily identified or prioritised in current Government programmes or in the long-term planning process.

The source of ideas is expected to include Passenger and Freight Operating Companies, ports, financial investors and housing developers. The aim is to increase investment in the rail sector while reducing the burden on taxpayers and farepayers. Examples of projects delivered using private finance are given and include the channel tunnel as well as the more recently developed Doncaster iPort.



Doncaster iPort is a £400 million distribution centre with rail intermodal facilities developed by Verdion, an international property company with backing from the Healthcare of Ontario Pension

Successful business cases should include *five compelling components* that reflect –

- Strategic justification
- Economic case
- Commercial case
- Financial return
- Physical ability to deliver the project

The Statement of Funds available (SoFA) for Control Period 6 includes £34.7 billion of Government grant out of the £47.9 billion total and a new procedure has been adopted to allocate money described as the Rail Network Enhancement Pipeline (RNEP), which uses a process that starts with determining opportunities. There are decision break-points between phases that develop, design, deliver, and deploy. Successful projects are to reflect the Government's strategic priorities such as new and better journeys with a focus on outcomes for railway users and taxpayers and any impact on current network operations.

Network Rail is conscious that there are many projects with significant levels of economic benefit that cannot be funded by Government in the immediate future but if private sector funding were attracted such benefits would be delivered in a faster timescale. NR has urged the private sector to recognise it is open for business and wants to make third party delivery easier.

Private sector promoters have presented well-argued business cases in the past. As an example, a proposal (with FCP input) to privately fund the electrification of the route from the East Coast Main Line to Hull (35 miles) was offered at a fixed price that was some way below Network Rail estimates at the time and offered a strong benefit: cost ratio. In the event, a suitable delivery strategy could not be agreed for the project and an alternative investment in bi-mode rolling stock was chosen by Hull Trains (with further input from FCP) who promoted the initiative.



The picture shows Hull Paragon station. The Hull conurbation has a population of 573,000 (2016). There is no overhead wiring to be seen at this important urban centre and a bi-mode rolling stock solution has been adopted for longer distance services.

Network Rail has since recognised and are addressing the sort of process improvements which are required to respond to initiatives of this type, including the appointment of new Business Development Directors for each of the route management organisations to streamline and improve its response to initiatives such as the Hull project.

The Government is now seeking to create a pipeline of opportunities to be considered, which must not require any up-front Government financial support and must demonstrate strong stakeholder support along with a revenue stream to support the cost of financing. There is a short time-frame for promoters to make submissions as proposals must be submitted by 31<sup>st</sup> July and while there is no uniform requirement for proposals, the structure of the business case should include the *five compelling components* described above.

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