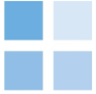

PROJECT FINANCE: BRINGING MORE PRIVATE DELIVERY AND/OR INVESTMENT INTO THE RAIL INDUSTRY

MARCH 2017

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1. INTRODUCTION

As part of responding to the Shaw Report, the Rail Delivery Group (RDG) has been reviewing the role that private finance and alternative delivery models have played in the railway industry over the last decade. RDG is looking to learn lessons to help the industry develop an approach and supporting processes that will facilitate more extensive use of alternative delivery models, and that will attract existing industry partners (as well as infrastructure investors) to invest capital on a greater scale.

Supported by Cambridge Economic Policy Associates (CEPA), a sub-group of the RDG Contract and Regulatory Reform Working Group (CRRWG) has undertaken a two-phase project to consider:

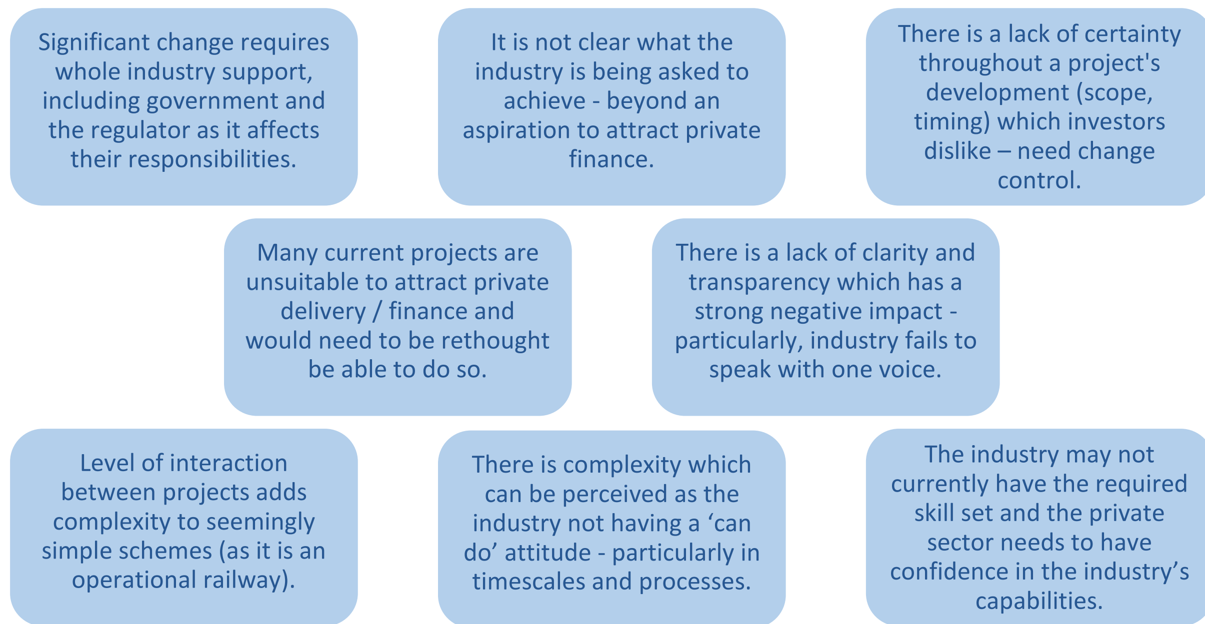
1. the obstacles faced by investors interested in rail and the opportunity for private delivery and/or finance to play a greater role; and
2. how the obstacles might best be best addressed in order to take advantage of the opportunities identified.

Obstacles

Both phases of work have involved widespread stakeholder engagement. The first phase centred on discussions with those within the industry, and meeting third parties that have significant experience of working in rail on projects which utilised private finance and/or other third party funding such as Local Authority contributions.

We identified that there are clear opportunities for the sector, and that there are some sectors of the railway (e.g. rolling stock) where success to date can be built on. We also identified a range of obstacles, summarised in Figure 1, that would need to be addressed for the industry to take full advantage of the opportunities open to it. These were the focus in the second phase.

Figure 1: Obstacles and opportunities for private finance in rail



Overcoming obstacles

To understand how the obstacles would be addressed in the second phase we undertook wider investor engagement, and considered the following:

1. **Governance/regulation**. Here we considered what the challenge being set for the rail industry is, and how the institutional architecture – of the industry and through funders and regulation – impacts the challenge.
2. **Investor views.** This focused on obtaining investor perspectives on appetite for investment in rail and what would make the sector more attractive to invest in. We also asked investors about approaches applied in other sectors and other countries that rail might learn from.
3. **Rail industry analysis.** In the final element of work, we considered how current processes might be changed to respond to the challenges identified during the work.

The **governance/regulation** work stream started by understanding both how current processes function and how they are changing. As context for this work, we also sought to understand what is expected of this industry, in terms of alternative delivery models and attracting private finance. The Shaw Report (March 2016) recommended that third party funding and financing of enhancements be extended, to reduce the requirement on public finances. The report did not expand on this to consider in detail the range of approaches or scale of the opportunity.

Our discussions with industry and funders have suggested that the challenge is to identify projects that can attract investors through the promise of their own revenue stream (projects which are effectively self-funding (of which there may not be many)), and/or to identify

projects which third parties could deliver more efficiently through innovative methods and/or performance incentives. We have taken this understanding as our working assumption and it drives the recommendations of this report.

Investor meetings focused on gauging interest in investing in new railway infrastructure (for this purpose, we include rolling stock), drawing out what investors look for when they are considering entering a sector or becoming involved in a particular project. In around 15 meetings, we spoke to active investors in the infrastructure sector across the equity and debt sectors. On the equity side, these included industrial equity funds, some more UK centric, others, more global; direct pension fund investors as well as fund managers, developers and construction companies and equipment vendors with an established interest in the railway. The debt side included both banks and institutional investors. Some of the key points raised by investors include:

- Broad agreement with the obstacles to investing in rail identified in the first phase.
- There is very significant current liquidity for equity investment in infrastructure assets, with an appetite for rail as it is regarded as 'core infrastructure' but with limited opportunities to invest.
- Increasing appetite in a significant portion of the market, for more risk (including some willing to take traffic risk) resulting from the current low return environment and limitations on the ability to deploy capital. Our meetings suggested the trends for recent increased allocations to infrastructure as sustaining if not increasing from current levels.
- A preference for known and understood models; availability risk still has broad appeal.

Our key finding is that there is currently a substantial appetite for railway infrastructure deals. We had previously considered that interface and traffic/volume risk would be a substantial limiting factor on the type of deals that would be of interest. We found investors more open to these risks than might previously have been the case, assuming that these risks are appropriately structured. At the developer/constructor end of the market there is already experience of working in rail – perhaps as part of Network Rail's (NR) existing supply chain – so interfaces with the operational railway are understood.

Availability of finance is not an issue – the lack of a pipeline of suitable projects is a more substantial barrier to greater investment, as is the current institutional capability in the rail industry to deliver these projects. As demonstrated in the figure below, investors had clear ideas of what they think the industry would need to do to attract private finance to rail infrastructure projects.

Figure 2: Recommendations from investors to facilitate private investment in rail projects

Provide a pipeline and a programme approach

- NR investors particularly will typically only commit resources to understand a market if there's a significant programme of projects.
- The Dutch Road PPPs and Ofgem for electricity transmission were mentioned by several as approaches that have been successful in attracting private finance to infrastructure projects.
- Some called for a pilot programme of a reasonable but achievable number (e.g. 5-6) of similarly structured projects to build confidence with investors.

Rethink Value-for-Money analysis for private finance

- Projects using private finance need to demonstrate Value-for-Money within Network Rail's governance processes. The assessment needs to take a whole-system whole-life approach. Such an approach will account for improved maintenance and operation, as well as benefits from delivery on time and budget.
- A simple cost of finance vs efficiency proposition excludes the wider benefits provided by the private sector in terms of risk assessment, project scoping and price certainty.

Exert leadership in industry

- Government and the public sector must demonstrate commitment and provide a strategic overview of what the industry is seeking to achieve.
- The industry should create strong sponsorship for any programme, including appropriate parties developing the capacity to lead these transactions effectively.

Structure propositions carefully

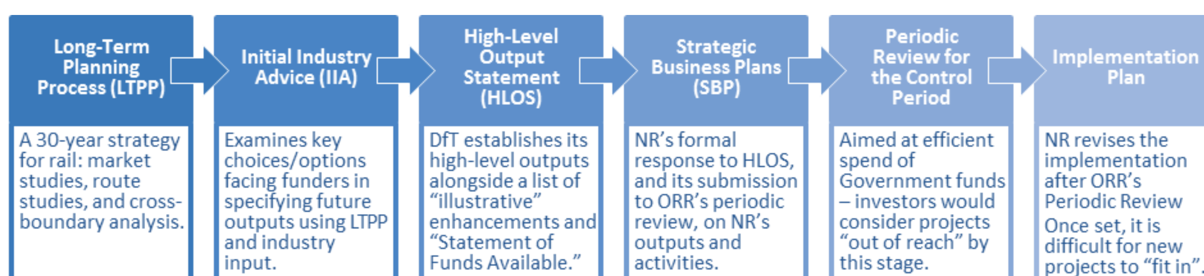
- Present only well-structured investment proposals to investors and pre-test these with the market early on to gauge appetite.
- Ofgem was mentioned as a good example of a regulator using active market engagement and consultation to prepare bidders and test procurement proposals.

We have subsequently considered what these findings mean for the industry and how process reform could support the objective of greater private sector involvement in rail.

2. Current Industry Process

Most enhancements in the rail industry have traditionally been set on a control-period basis and funded through a mix of railway access charges and government grant, with delivery by NR and its supply chain. The PR13 periodic review process for the current control period (CP5) is summarised in Figure 3 below.

Figure 3: Current control period enhancements process (under review for PR18)



Projects are also routinely developed outside of this process – most notably mega-projects such as Crossrail, and rolling stock procurements (Intercity Express Programme, and Thameslink) procured by the Department for Transport (DfT). Additionally, enhancements are sometimes included within franchise agreements and the Office of Rail and Road's (ORR) existing investment framework has also been used. However, the overall value of these

schemes (excluding mega-projects) is small in comparison to those funded through Periodic Review.

Industry processes have been developed in this context and, in our view, do not allow for a proper consideration of the potential for attracting private finance to some projects within the overall portfolio. Currently, third party investors are not encouraged into the process and opportunities are lost because there is no effective engagement. There is the potential for the current process to evolve to better facilitate private investment, including using the Long-Term Planning Process (LTPP) and Initial Industry Advice (IIA) to identify suitable projects at an early stage of development.

We recognise that current processes are in any event changing as a result of the Bowe Review which seems likely to result in an amended role for ORR in relation to enhancements. A Memorandum of Understanding was developed between NR and DfT in March 2016, committing to "new working practices and their governance"[1] and further change is happening elsewhere – for instance DfT and passenger train operating companies (TOCs) are currently working to improve the residual value mechanism which currently causes complications with in-franchise enhancements. However, this is not necessarily suitable for infrastructure investments by franchisees and so development of further approaches may be needed. Additionally, NR announced in December 2016 a new competition and contestability review, to be led by Peter Hansford, which will look to build upon areas considered in this report. This changing backdrop creates a clear opportunity for the industry to consider also how to change its processes to facilitate greater use of private finance in the delivery of enhancements.

3. PROCESS REFORM

Beyond expressing real interest and a willingness to get involved in railway infrastructure, investors provided recommendations for where the industry could better facilitate their involvement, as shown in the table below. These should become areas of focus; they are the means by which the rail industry can attract private sector interest.

This section discusses some of the key themes that process reform should consider.

Table 1: Summary of investor perspectives

Overwhelming liquidity in the market for equity investment in infrastructure assets, with appetite for rail.	• Rail is considered core infrastructure. There is a substantial opportunity to secure funds for investment now because opportunities to invest are limited relative to the supply of finance. • Investors are more flexible than previously thought in the risk that they will take. Noting that debt providers are less able to take on demand risk than equity investors. • The rolling stock market has been the main source of opportunity for investors in UK rail. The procurement model used in IEP and Thameslink is attractive to

[1] Dft (Mar 2016) "Improving the delivery of railway investments: MoU between DfT and Network Rail"

	investors (including pension funds). However, there is now a potential risk to re-use if a surplus of rolling stock is created.
Increasing appetite for more risk to access assets and to increase low returns.	• Appetite varies across the sample of investors but there is a much more marked move to equity funds taking construction risk. • Investors with experience working with interface risk are happy to work with this risk in future, understanding where it is manageable. • Amongst investors there is universal ability to take availability risk with some element of performance risk; the appetite for traffic risk has a more mixed picture with some negative experiences weighing on views. However, this is not ruled out, particularly if smoothed or bundled.
Generally strong agreement with identified obstacles.	• Investors agreed with the strong requirement for clearly identified revenue streams on any projects that they are being asked to finance. • Some investors thought that interface risks and the need for discrete assets as obstacles had been overstated – many developers have a contracting arm which is routinely working on the railway. However, there is always a need to define interfaces early to manage risk.

3.1. Strong leadership

Investors expressed a desire to see strong industry leadership – in particular a clear government and institutional commitment to arranging a pipeline and to individual projects within it. It is regarded as important for the government and regulator to demonstrate leadership: government sponsorship of the overall approach will reduce the likelihood (real and perceived) that projects might be cancelled after parties have already invested resources. Investors are familiar with UK regulation and value the role of regulator. The regulator playing a more proactive and facilitating role with respect to market participants would send a strong signal about commitment. Ofgem is cited by many as a regulator that is familiar to investors and which has a strong process for committing to projects and engaging the market.

It is not clear to external parties today that the industry is open to greater private finance/involvement in rail projects, which is understandable given the previous operating environment of the industry – however it now needs to be seen as more accessible. Without strong and consistent leadership around a changed approach, private parties are likely to be nervous about committing a substantial level of resources to projects. Investors feel there is therefore a need for the DfT, the ORR, NR, and perhaps also the TOCs to jointly support an approach to delivery and financing that includes private capital.

3.2. A clear strategy

Government and industry should develop a joint strategy that is consistent with delivery of the current long term plan. The strategy should contain, or at least commit to the development of a pipeline of investment projects drawn from the LTPP that government and industry are committed to pursuing – including when these will happen. This has been done

elsewhere, for example the UK government has developed a capital investment strategy for the UK oil and gas industry, with both a short and long term focus.[2]

The strategy should provide a roadmap for delivery of these projects and details on how to engage, as it is currently difficult for 'outsiders' to establish how to work with the rail industry, given its complexity. It should set out clearly how industry participants and processes will support investors, and similarly outline what investors will be required to do.

We understand that DfT is considering developing a Rail Industry Strategy for publication alongside the HLOS in 2017. In our view this should consider funding options for all forms of project delivery, similar to the public-private comparator for Dutch roads or the preliminary economic study used for German roads.[3] Importantly, it should contain a committed pipeline of projects and provide clarity on how these will be transacted.

3.3. Value-for-Money analysis

Projects being considered by NR are required as part of its governance to demonstrate value-for-money (VfM) via a project appraisal. The classic "cost of finance vs efficiency" approach to VfM analysis may systematically undervalue alternative delivery models/private finance, as it may not take into account the full range of benefits that the private sector[4] can deliver, including:

Price certainty	More precise scoping of needs	Delivery on time of new assets (time benefit)	Risk assessment, scoping of project, and due diligence	More cost efficient/innovative maintenance and operations practices over lifetime of asset	Costs savings from efficiency and innovation in the capital investment itself

The appraisal process must effectively capture these benefits and should be developed in a way which is independent and robust to external scrutiny.

In the Netherlands, all transport infrastructure projects above €60m must be considered for a PPP, as experience suggests that this is the level at which the benefits start to outweigh the transaction and finance costs. We consider that there should be a systematic evaluation of the options for all projects in the LTPP which considers alternative delivery models and options for financing. Similar to the Dutch value threshold, a new process for GB rail investment would need to establish clear criteria to determine at the earliest stage, initially with limited details, whether a project could enter a long list of potential projects – which would then undergo an in-depth VfM analysis to determine the most appropriate approach.

[2] HM Government (Mar 2013) "UK Oil and Gas: Business and Government Action"

[3] Rijkswaterstaat (Nov 2012) "Evaluating Value for Money; Auditing Public Private Partnerships"
Federal Ministry of Transport and Digital Infrastructure (Jul 2015) "Public-Private Partnerships in the Federal Trunk Road Sector – the New Generation"

[4] Our discussions of what the "private sector" can deliver refer to the competitors to NR as the incumbent in railway infrastructure delivery.

A concern has been raised about the timing risk of putting the industry's most critical projects through such a process, since concluding either a privately financed or delivered transaction can be time consuming. While we understand this reservation, we note that private-sector approaches to delivery can also provide time benefits (e.g. faster project completion, if the right incentives are in place). On balance, we consider that it is appropriate to consider private sector participation in critical projects where there is time pressure for project completion if there is a realistic opportunity to deliver the asset faster.

3.4. Pipeline

A project pipeline gives stakeholders early indication of forthcoming projects, in the short term and the long term, allowing them to decide whether (and how) to invest their limited resources. As such, developing a committed pipeline is an essential component of attracting investors. The pipeline of projects should include sufficient detail to allow private parties to assess their level of interest. As a minimum, for each project the pipeline should present:

Length/size/etc. of the asset, and estimated capital expenditure	Objectives of the project (e.g. reliability, capacity), and likely deal type – PPP etc.	Proposed approach to dealing with interfaces with the operating network	Details of the potential access regime	Anticipated project timetable	Details of how investors can get involved/ learn more

The pipeline of projects for private investment should be considered from an investor perspective. This requires sufficient detail for an investor to gauge whether they are interested in the project – and how soon they might need to prepare for the project. Useful detail might include revenue streams, targeted year of financial close, and proposed risk share. The long-term nature of the pipeline, i.e. that it provides a list of projects for delivery several years hence, helps provide confidence of future work and a reason to invest time and effort in a sector.

The earlier that project information can be generated, the sooner it can be used as the basis of a market sounding exercise to gauge appetite for a particular project and to allow investors to input to the approach in a meaningful way. Investor engagement will allow the project to be developed in a way which will generate the most interest and ultimately more competition.

A sustainable pipeline – with a consistent approach to projects to bring some familiarity and repeatability – is also an important factor. Before investors commit resources to developing an understanding of an industry and specific project types, they want to know that they will be able to apply this effort on multiple projects. This is an important aspect that the Dutch transport PPPs have focused on, as briefly discussed in the box below.

Box 1: Dutch roads PPP programme
Rijkswaterstaat (RWS) has a long-running sustainable pipeline. It first developed a roads PPP pilot programme using around six standardised projects: they had the same revenue stream type and duration, and the same PPP format. This simplified the process for investors to get used to a new industry for PPPs, and is cited as one of the key reasons for the success of this PPP programme.

NR is currently developing a list of projects it believes are capable of being project-financed – so some of the important building blocks of a new process are already in progress. One way to build confidence for investors, and to test an approach, would be to start with a pilot programme of at least five to six projects – a small enough number to be achievable with a joint industry effort, but large enough to create a positive reputation if successful – as was achieved in the Netherlands. Fewer projects might not be impactful enough to create a positive reputation or a feeling of change that is required to attract a wider group of investors to the rail industry.

The early/pilot projects should have some clear similarities with each other and have characteristics that investors will be familiar with this will help to attract investors to the new type of investment opportunity – it could draw upon already established PPP/PFI documents or other structures already in use in another sector. In particular, the pilot projects should focus on ensuring a clear and manageable risk share for investors.

A sustainable pipeline kicked off with a successful pilot will signal to the market that industry is serious about accessing private capital, so will encourage investors to commit resources.

3.5. Project preparation

We identify in the figure below three areas of project preparation which are vital for ensuring that projects which seek private investment are successful: preparing investors, identifying a revenue stream, and creating a structured proposition. NR is already undertaking similar activities as part of its Digital Railways programme.

Figure 4: Areas of project preparation for projects with private involvement

Relationship building and market sounding with the private sector	Identification of revenue stream	Creating a structured proposition with a clear allocation of risks
• The procuring body should develop an outline of the commercial proposition with a view to consulting potential bidders to test interest in the proposition. • This allows potential bidders to gain information on upcoming opportunities and provide their views in proposed structures to help ensure deliverable models.	• Investors need to understand the risk profile and revenue stream of the investment – so they can consider the attractiveness of the proposition • Part or fully self-funding projects may be simpler to explain but solutions can be found for integrated projects, such as the "supplemental access charges" for Chiltern Evergreen.	• It is beneficial for projects to be structured in a way that potential bidders (whether for delivery or investment) are familiar with - standardise where possible, and use investor engagement to explain propositions • Investors are used to managing risk but need to understand the specific risks they will be exposed to. Standardised risk allocation, when possible, will help.

Project preparation should focus on delivering as much clarity about the project as possible, including in relation to asset condition, which we understand has been a problem in the past. It must be sufficient to allow firm pricing of the project including pricing of risk and to allow investors to understand in what circumstances their return on the project could diminish or exceed central expectations.

3.6. Procurement process

Bringing a private party to an infrastructure project, whatever the structure role (e.g. BOT, DBFM, DBFMO), creates costs for both the procuring body and the bidders – so it is important to keep the process efficient to minimise those costs. As well as capacity building (discussed in the next subsection) it is important to have a procurement process which is clear, and transparent, so that bidders understand what will be expected of them (and when).

Similarly, when launching a tender the procuring body should be clear about the requirements that are known – and also be clear about those where there is some scope for change or innovation.

Investors have commented that procurement times are prohibitively long in the UK; longer procurement timelines increase the risks to both buyer and seller. There are lessons to be learnt from others sectors/jurisdictions; for example, in the Netherlands, Rijkswaterstaat (RWS) use the flexibility of the competitive dialogue procedure to shorten the procurement timeline: the bidders make interim draft submissions of elements of their bid in advance of the final deadline, to speed up evaluation.[5] Investors also cited very short turnaround times in the North American PPP market. There is no doubt that investors would consider efficient procurement timelines to be attractive.

3.7. Institutional capacity

It is important that there is a sufficiently skilled team in place to develop projects and take them forward, and this will require an active effort in capacity building. It will likely be necessary for NR to strengthen its internal team to adjust to a greater level of private sector involvement in projects, recognising the different skill sets that are needed to act as a smart procurer, negotiator and contract manager of such capacity building activities. Investors consider this an important requirement – their decision to participate will be heavily influenced by whether or not the counterparty is considered credible.

[5] Dockreay, A. (May 2015) "Spanish and Dutch most efficient for PPP procurement" IJGlobal.com

Transport for London (TfL) has undertaken such capacity building previously, as highlighted in the box below.

Box 2: TfL's capacity building
TfL has to have the capability to carry out projects which have funding coming from a range of sources including private finance. They developed a corporate finance team over twelve years ago, comprised of a mix of staff which at that point ensured a depth of experience in PPPs and to build up the wider team knowledge – this included bankers, accountants, public sector and non-public sector staff. The team has evolved over time but is still heavily involved in procurement alongside operational teams who benefit from the asset being delivered.

The Report has focused on the industry generating opportunities for investment but there should perhaps remain scope for unsolicited projects to be brought forward by investors, as is the case now. To facilitate this, the industry needs to set out clearly who investors should engage with in the first instance.

3.8. Role of the regulator

The private sector is familiar with UK regulated assets; investors consider the stability provided by economic regulation attractive. In other sectors the regulator is seen as important to securing investment. The rail regulator should therefore set out how it will support these projects and be proactive in working with market participants and getting feedback on proposed regulatory/commercial approaches.

Of course, it is easier to identify a clear revenue stream for a project that is regulated and will be fully funded by consumers, however this is still possible for more integrated projects. For example, the Chiltern Evergreen 2 and 3 projects (upgrades to an existing line) are being partially paid for through Chiltern paying an additional track access charge. Such 'supplemental charges' could be a helpful approach elsewhere and investors expressed an interest in approaches like this. Elsewhere, some regulators have a broader role. For example, Ofwat was able to define the risk share for the Thames Tideway Tunnel, a project involving risks that are best retained by the public sectors as they have a low probability of occurring but would have a large impact if they did. While ORR would not necessarily play the same role as other regulators given the different industry and funding structure, it may need to state how it would approach dealing with the cost of risks that eventuate and which are retained by the public sector if for instance these costs had an impact on the price control.

It will be important for the new approach to enhancements that is currently in development to clearly establish how and when the private sector (and, where appropriate, investors) can get involved. The new investment framework should recognise that the industry will be pursuing a mixed economy of projects which are government funded, investor funded, devolved authority funded, and for some a hybrid – the approach will need to be flexible to accommodate these different types of project.

The role of the regulator in each project type should be made clear. Investors note that the rail regulator is not particularly visible, but that in other regulated sectors they take comfort from the regulator being an interested and invested party. The new investment framework should consider and address ORR's role in the wider context of creating appetite for, and confidence in, the pipeline of projects that is offered to the market.

3.9. Role of wider industry and the supply chain

The focus of the second phase has been to consider how the main enhancements process might be revised to attract a greater amount of private finance. However, as noted elsewhere in this report, there are other routes that investment can take meaning that there are other potential opportunities to attract private finance.

A complementary approach might be to consider how franchising supported by industrial equity could contribute to the goal of greater involvement of private finance in rail. At present franchises are short, TOCs are thinly capitalised and existing requirements for performance bonds and other company guarantee result in restrictions on any additional finance that a TOC could raise. But, with a partner providing equity, this could change.

A model already exists to facilitate this. The Chiltern franchise runs for 20 years and at its inception saw the TOC working alongside its owner and partner John Laing to develop the Evergreen schemes.[6] The approach arguably changed when Laing sold it to DB but the early schemes pursued under this arrangement were seen as successful and could provide a model for expanding the range and type of investors involved in rail.

Similarly, the recent Greater Anglia and Essex Thameside franchises have also shifted to a model where the TOC plays a greater role although currently in maintaining assets rather than enhancing them. Nonetheless, this serves to demonstrate that appetite for alternate roles exists and it seems likely that a model which builds on both this approach and Chiltern could be attractive to TOCs and potential industrial partners. We spoke to some potential partners in the second phase and they expressed interest in joint ventures and even concession arrangements.

These models and alternative approaches via the TOCs will form part of the scope of the next piece of work undertaken by RDG in this area, which will also consider how schemes brought forward by the FOCs might be pursued.

3.10. Additional considerations

There are additional areas where change may be required to facilitate private sector participation, particularly where current arrangements add cost. For example:

- **Asset protection.** NR undertakes monitoring activities when third parties are working on the rail network, with costs charged to the third party. This adds cost and time to

[6] The schemes involved a series of enhancement projects on the Chiltern Lines

the process, and enhancements could potentially be more efficient, for example if NR appointed a range of "accredited contractors" – although where it remains necessary for NR to undertake asset protection activities it should be made more efficient. We understand that NR is currently working on changes to the asset protection regime.

- **Franchise Agreement Schedule 4.** This is designed to ensure operators are recompensed when their services are disrupted. We recognise that compensation is currently part of the contractual process, and an accepted means of valuing the loss of revenue to TOCs but it may not be the most efficient mechanism. A three-way discussion between NR, a TOC, and a developer might facilitate a more efficient approach.[7] As part of the package of wider changes, industry should consider whether the compensation regimes should be optimised as part of a clear and transparent contractual framework that supports new approaches to financing and delivery.

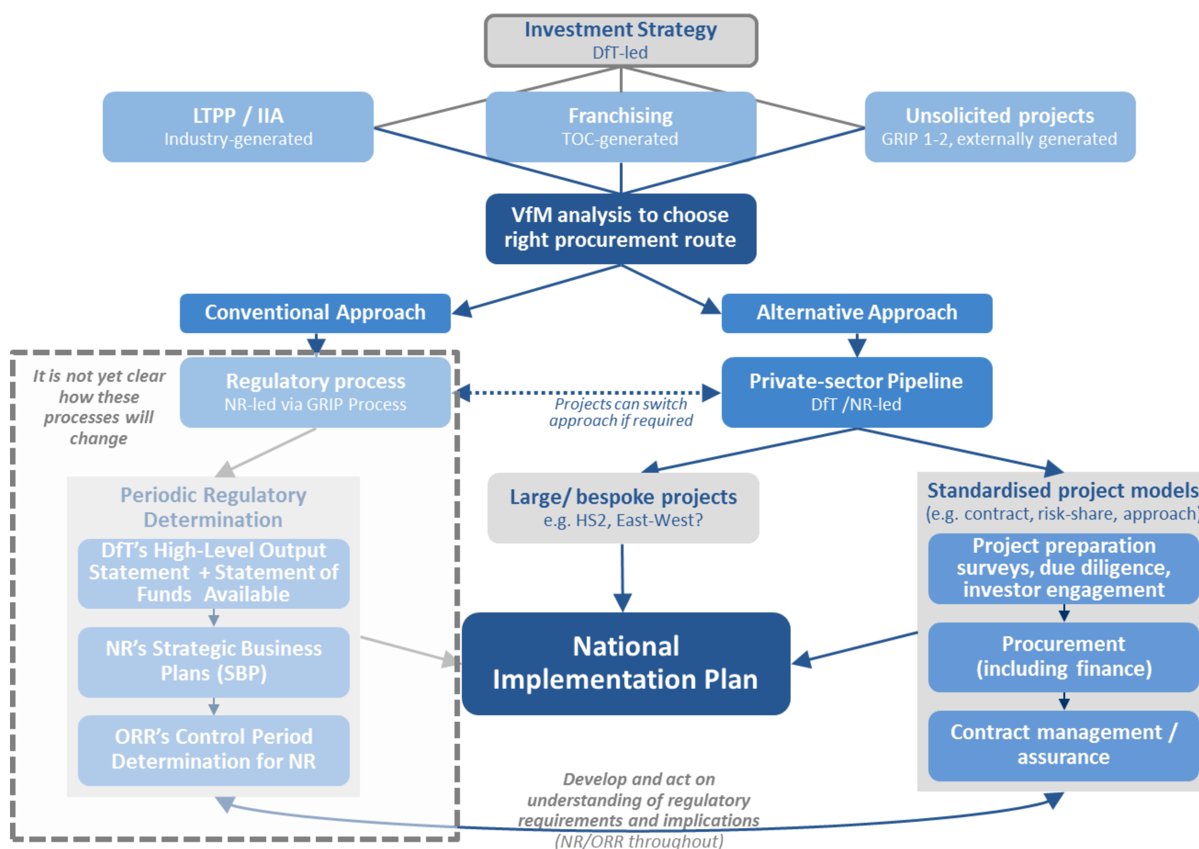
[7] For example, in the Paisley Canal electrification the three parties developed a high degree of transparency and agreed specific terms for the project which helped to ensure the overall success (time, cost, efficiency).

4. DEVELOPING A NEW PROCESS

Figure 5, on the next page, provides a first view of a *potential* new enhancement process that would take a project from initiation to delivery. It assumes three key stages: pipeline development, VfM assessment, and development and delivery (through to inclusion within a national implementation plan that enables the identification and management of interactions between projects and the operational network).

DfT's proposed Investment Strategy currently sits at the start of our new process – but we do not yet know what it will include and therefore this will need to be reviewed once more detail emerges on the content and objectives of the strategy. We expect that it would follow a similar format to the Road Investment Strategy, with a 5-year and 25-year component, analogous to the current IIA/HLOS and LTPP. The Investment Strategy would provide a view of the network and its requirements before determining what could/should be taken through the regulatory process versus any alternative models. Although the strategy should remain consistent over time, the five-year component would need to be updated to reflect, amongst other things, the latest pipeline of projects available to investors.

Figure 5: Potential new process for taking projects from initiation to delivery



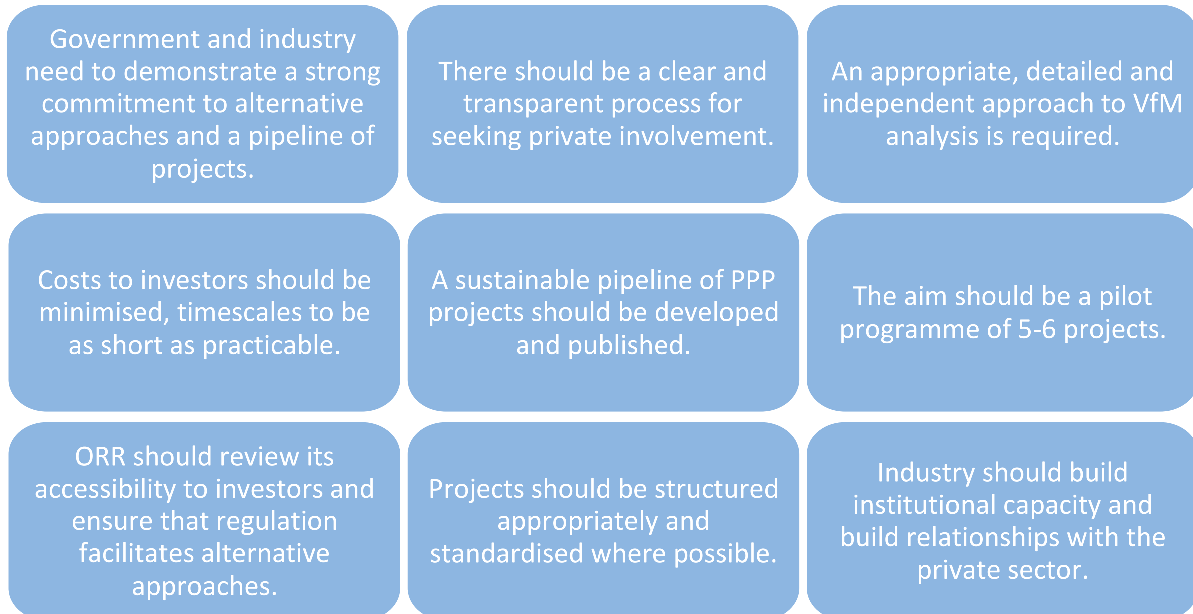
ORR could perhaps have a broader role in relation to adjudication on handover, scope, and standards, but it is important that this is approached with care as there is a risk of overlapping existing contractual arrangements, which often have their own dispute resolution clauses.

As discussed earlier, it is important that there are sufficient details at the “VfM analysis” stage to make an informed decision on the best procurement route for a project. As further details become available later, projects might move from the “alternative approach” pipeline to the “conventional approach” (or in reverse). Without this option, there might be concerns that a project in the alternative pipeline could encounter unresolvable issues and be delayed if it cannot be brought quickly back into the conventional delivery route.

5. SUMMARY OF RECOMMENDATIONS AND INITIAL ALLOCATION TO INDUSTRY PARTICIPANTS

The recommendations made in the preceding sections are summarised below.

Figure 6: Key recommendations



Although the transition to greater private sector participation in rail will require whole industry support, we consider that particular parties should be allocated to lead work under each recommendation. Figure 7 below provides our initial view of which party should lead change in each area. Of course, different parties will need to coordinate in several areas, and it will be important for the industry to demonstrate commitment by jointly supporting an approach to delivery and financing that includes private capital, and demonstrate commitment to bringing about change together. We anticipate that the work of the Hansford Review will build on our analysis of how the industry might approach change and develop it further.

Figure 7: Roles of industry parties in the change and new processes

DfT	ORR	NR	"Industry" *TOCs, FOCs, RDG, NR*
Bringing about change • Use the forthcoming Investment Strategy as a vehicle for change. • Commit to developing a pipeline (with industry input). • With NR, develop an appropriate VfM assessment, and key criteria.	**Bringing about change** • Become more market facing and consider regulatory aspects of new models. • Develop an investment framework with clarity over when private sector can get involved. • Review Schedule 4 for appropriateness.	**Bringing about change** • With DfT, develop an appropriate VfM assessment, and key criteria. • Invest in appropriate institutional capacity. • Ensure that internal processes facilitate investment e.g. GRIP. • Ensure that operating environment facilitates efficiency e.g. review asset protection regime. • Input to others' actions as appropriate, e.g. DfT investment strategy, ORR review of Schedule 4.	**Bringing about change** • Develop alternative approach that facilitates great TOC and FOC role in attracting investment. • Develop own contacts in the investment community perhaps initially focussed on access to industrial equity. • Be actively engaged in wider changes in the industry providing inputs and feedback throughout.
Responsibility in new process • Demonstrate strong leadership sponsorship and commitment to attracting investment. • Drive development of a strong initial pipeline (or pilot) of at least 5-6 projects. • Take forward projects that require a bespoke approach (e.g. HS2) when not appropriate for third party to take them (e.g. like with East-West).	**Responsibility in new process** • Undertake relationship-building and market-sounding activities. • Ensure that investors know who to engage with about what. • Operate a clear, efficient and transparent regulatory process. • Ensure private-sector pipeline fits well within regulatory structures and is transparent.	**Responsibility in new process** • Develop suggested pipeline. • Develop investor relationships. • Lead project preparation and market engagement. • Manage procurement.	**Responsibility in new process** • Provide more detailed input to LTPP/IIA focusing on projects that might attract investor interest. • TOCs to be proactive in considering franchise-based projects for pipeline. • Industry equity to be used to lead wider pool of investors.