



# Rail market-led proposals

## Call for ideas

Today, 20 March 2018, the Department for Transport has launched a call for ideas for market-led proposals (MLPs) to enhance the railway. We are encouraging promoters and investors to bring forward proposals which are financially credible without government support.

We are already aware of some proposals for rail links to Heathrow, notably in response to the government's aspiration for a Southern Rail Link and welcome registrations of interest as part of this national call for ideas.

Alongside the launch of this call for ideas, the department has published guidance for market-led proposals in the rail sector<sup>[1]</sup>. This guidance will provide clarity on what the department is looking for in future MLPs and the process by which it will consider them. We will hold Rail Investment Opportunity Days (RIODs) in May where government officials can provide further support and advice.

The public sector does not have a monopoly on good ideas. We want to provide a sustainable future for the rail sector and open up the development and delivery of rail infrastructure to take full advantage of new and innovative solutions, create real contestability in the market and relieve the burden on taxpayers and farepayers, where possible.

We want to tap into the knowledge and expertise of promoters, investors and local partners and invite them to identify what the right answer is for the public's transport needs and where schemes fit best with housing and other government priorities.

The department is keen to engage with promoters and investors of MLPs across all transport sectors. Some of our delivery bodies already have schemes in place to encourage MLPs such as the designated funds at Highways England. We have also seen how market competition helped to inject competitive tension into the airport capacity decision process. We now want to work with the rail market to build on this success and help it grow commercially sustainable businesses.

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<sup>[1]</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/691714/rail-market-led-proposals-guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/691714/rail-market-led-proposals-guidance.pdf)

## What is a market-led proposal?

We define an MLP as a project promoted by the private sector which addresses an opportunity not necessarily identified or prioritised in a departmental programme or through the Network Rail-led long term planning process. In the rail sector, an MLP could be developed or promoted by, for example, ports, train operators, freight operators, housing developers, financial investors or a consortium of such parties.

## What sort of proposals is the department looking for?

We are looking for creative ideas that make commercial sense and create a new tier of investment in rail infrastructure from the private sector, in addition to those provided by government.

Government's objectives are to:

- Increase overall investment in the railway;
- Relieve the burden on taxpayers and farepayers where possible;
- Open up the development and delivery of rail infrastructure to take full advantage of new and innovative ideas; and
- Create real contestability in the market.

By taking full advantage of innovative ideas, we want to encourage and facilitate proposals which would not necessarily be identified through the existing process in order to identify better schemes or ones that are better value for money. Government is also keen to encourage new partners for infrastructure design, development and delivery.

### **Illustrative MLP example 1 – "Commercial new route"**

A credible MLP could be where a design and build contractor, supported by an investor, proposes a new route which passes through a housing development site with planning permission. The investor could have an equity interest in the housing development.

The MLP could fund 50% of the construction costs, with the remaining 50% raised through private finance. The business case would robustly illustrate how the financing costs could be met by the increased farebox revenue, subject to ORR consent. These payments would be made on the basis of asset availability.

The department could run an open competition for the design, build, finance and maintain (DBFM) contract which would present best value for money for taxpayers.

## Heathrow Rail Access

World class surface access to Heathrow will enhance our global competitiveness, enabling new local, national and international connections and make the UK a more attractive place to invest.

Government is already moving forward with plans for new rail links to Heathrow, to enable holiday makers, business travellers and airport workers to access the airport without having to travel via London. Our plans for a new Western Rail Link are well developed and would enable faster, direct journeys from Reading to the airport.

As we change the face of railway investment in the UK, we are approaching the development of a proposed Southern Rail Link to Heathrow differently. At this early conceptual stage we want to ensure we take full advantage of the opportunity to harness new and innovative ideas. The department and Heathrow Airport Limited are working together to unlock funding for the next phase of development, which will invite ideas for rail access to Heathrow and to explore the market's appetite to share the risk of development.

### **Illustrative MLP example 2 - "Traffic Management System"**

A credible MLP could be one that offers a traffic management system to enhance an existing signalling system - speeding up recovery times following a disruptive incident resulting in fewer compensatory costs for unforeseen train delays (Schedule 8 payments) and improved railway performance.

The MLP would provide all capital costs of installation (e.g. upgrading hardware, license to software, skills uplift), as well as the maintenance support for the system to ensure it operates effectively. The MLP would need to come to commercial terms with the train operating company, based on the savings and benefits provided by the system. The train operating company would seek the department's approval since the funding would ultimately impact the franchise. As part of this approval, it would need to demonstrate that the delivery structure meets the relevant requirements on regulatory, safety and procurement frameworks, as well as being inside affordability constraints (e.g. taking into account the balance sheet treatment for government).

Value for money would need to be demonstrated, taking into account the financial costs of the contract and the financial and passenger benefits associated with faster recovery of services.

## What if my proposal requires government funding?

This call for ideas is for proposals that are financially credible without government support.

MLPs should not rely upon central government funding to meet the scheme's development, design and construction costs. The scheme should use private financing and generate sufficient revenue to repay financing costs; central government payments should not be relied upon. In operation, the scheme should generate sufficient revenue to cover the costs of maintaining and operating the asset.

Government is taking a new approach to the way it enhances the railway and this call for ideas for MLPs is just one element of our wider strategy.

The Rail Network Enhancements Pipeline [2] (RNEP) also published today, sets out a new approach for proposals that require government funding. This approach creates a rolling programme of investment, focused on outcomes that deliver real benefits for passengers, freight users and the economy and moves government investment in enhancements away from a rigid five year cycle.

The RNEP does not assume that the delivery body will always be Network Rail and it encourages more enhancements to be promoted, funded and/or financed by a range of parties, for example City Funds, Local Enterprise Partnerships, and the private sector. The department will market test proposals which have a strong strategic fit with government priorities and can demonstrate the potential for alternative sources of funding and/or private financing.

Further advice on how to develop credible MLPs is provided in the guidance published today.

### **Illustrative MLP example 3 - "Local Branch Line"**

A credible MLP could be where a consortium of promoters, designers and contractors propose a scheme to reinstall a closed branch line and reinstate a terminus station and connection to the existing mainline. This new connection could bring about considerable regional benefits.

Funding for the total capital cost could be secured by the consortium and may include a Local Enterprise Partnership grant and local authority funding.

The department could run an open competition to buy a design and build contract from the consortium, or winning bidder. Affordability could be demonstrated by increased demand realising sufficient track access charges to cover the operation and maintenance costs of the track and the station-equivalent costs would be met by retail revenue and station access charges.

Following construction, the branch line could be accepted into the Network Rail Route asset base. Government may consider accepting demand risk if this achieves value for money (e.g. increased regional economic and social benefits).

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[2]<https://www.gov.uk/government/publications/rail-network-enhancements-pipeline>

## What will happen next?

Call for ideas and publication of guidance	20 March
Rail Investment Opportunity Days	May
Initial proposals submitted to the Department	June - July
Government will provide an initial response to initial proposals	Autumn

We will look to roll this call for ideas out on a regular basis, perhaps annually, depending on the response to this call.

## What should I do next?

- Read the guidance for rail market-led proposals.
- Attend a Rail Investment Opportunity Day (RIOD) in May. You can express an interest in attending a RIOD by emailing [railmlp@dft.gsi.gov.uk](mailto:railmlp@dft.gsi.gov.uk).
- Submit your initial proposal to [railmlp@dft.gsi.gov.uk](mailto:railmlp@dft.gsi.gov.uk) by 31 July 2018.

