

# ROBUST BUSINESS CASES ACCELERATE INVESTMENT PROGRAMMES AND MAXIMISE STRATEGIC OUTCOMES



*“Rail projects are being and will continue to be delayed due to the inability to develop robust business cases that provide a realistic assessment of the full scale and scope of benefits, opportunities and risks.”* Tom Kane - Partner, Head of Rail

To attract long-term funding and achieve sustainable rail developments requires transparent and credible business cases. This underpins stakeholder confidence and clearly defines how investments will be transformed into efficient rail assets that generate maximum benefit. When this is attained governments, international financial institutions and private investors will be better placed to make timely investment decisions.

## Current long-term funding strategies restricts investment

Shortfalls within the current approach to long-term funding strategies actually restrict investment. The cumulative benefits of projects at the programme level are not

fully understood and the business cases for investment programmes are being undersold. Also the benefits of cross-border integration are not always fully considered, which is limiting savings on journey times and improvements to customer services. Current and future needs of both passenger and freight markets requires more detailed analysis.

## Understanding the risks at programme level for maximum benefit

There is an increasing expectation by governments that the private sector will go onto own the revenue risk on PPP projects, which is unrealistic given the scale of the risk. Although the financial, environmental, political and technological risks are often understood at the project level, they are rarely cascaded upwards to the programme level to enable informed phasing decisions. How the investment decision-making process is undertaken requires a rethink across borders and regions in particular Europe, Asia and the Middle-East.

### Achieving the best possible outcome

For finance to be released and used to generate the best possible outcome over the long-term the following needs to be in place:

- A clear understanding of current performance of the rail, road, aviation, port and logistics systems
- The creation of realistic performance targets for the development of the rail system
- Programmes of work that capitalise on the current and future plans for the integration of transport into the region
- Development of robust and directly associated socio-economic, environmental and safety benefits
- Project phasing over the long-term both nationally and across international borders to ensure improved journey time savings
- Appropriate processes, culture, systems and people to convert funding into effective assets.

However, to achieve this there is a need to mobilise and change the way which governments, the rail industry, regulatory offices and investors evaluate and finance major projects.

### Addressing the largest impact issues

The different stages of economic development, cultural differences and risk profile require specific scope and timing of improvements to ensure they are embedded in the countries' and regions' 'business as usual' philosophies. Once the need for change is accepted, priority can then be given to addressing the largest impact issues.

High on the agenda is making sure that the regulatory and institutional systems are proficient at providing fair and open competition. The right structure for the rail industry needs to be in place to transfer the right infrastructure capital costs to the appropriate stakeholder, as well as allocating revenue risk to those best placed to carry it over the long-term.

The effective delivery of projects needs to be in line with the business case as outlined from the commencement of investment which requires an improvement in management capability.

For rail to effectively compete against other transport modes, and secure a competitive advantage, projects should be designed to improve the rail system for passengers. Therefore customer needs should always be at the forefront.

### Increasing transparency, certainty and value for money

During a time when there is significant competition for scarce financial resource these improvements are vital. This will ultimately lead to an increase in Public Private Partnerships due to increased transparency on revenue streams and capital costs. It will provide a strong foundation to attract investors. Governments will be better placed to co-fund projects. The increased level of certainty, in particular around benefits over the short, medium and long-term, will enable rail to attract limited public funds based on a pure value for money assessment.

Regional representations such as the European Commission and the Gulf Cooperation Council are more likely to see the wider benefits of creating international transport and logistic integrated projects. Furthermore, this will take forward the TEN-T concept in developing world countries and regions.

### Improved confidence through clear objectives and strategies

To deliver these improvements requires commitment, strong credible leadership, industry foresight and appropriate skills. The outcome will be improved confidence by investors that the rail industry has both the capability and transparent business environment to provide stable and risk mitigated rates of return.

Robust business cases provide all stakeholders with a clear set of objectives and strategies aligned to delivering, operating and maintaining a rail system which meets passenger and freight performance expectations. Capital investment will be rationalised for the greatest social, economic and environmental benefit. It will initiate change management eliminating inefficiencies across the sector. As a result we will see the acceleration of high-benefit projects that will create increased value for national and cross regional economies.

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