TenBroeke Co

Transforming Infrastructure Delivery

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Motivating private companies to innovate rail infrastructure projects

The Government has created guidance on MPLs – market-led proposals – with the aim to encourage private sector companies (with private finance sources) to approach the Dept for Transport (DfT) with new ideas to enhance the rail infrastructure.

In principle, the private sector should be better at delivering value for money on infrastructure because it is driven by the need to achieve an ROI. It is more focused, with stronger management disciplines and greater experience in delivering outcomes that meet a consumer need and can then, over the life-time of the asset, deliver an acceptable return.

The rail industry, through the DfT, has its own particular ways of undermining this approach. And does so in two ways.

First, the principle of 'build, own, operate' means the developer cares about how the asset is built because they will have to live with it for many years to come. They feel responsibility because there is built-in accountability. Regrettably this principle has been broken and so we see a descent into the blame game with the loser being customers through poor service and higher charges.

Motivation is key. Let's face it, our attitude changes when we know we have to live with the decisions we make today for the next 20, 30 years. We would look to optimise operating costs instead of minimizing capital expense to increase profit. The construction costs become an investment in the asset in order to generate revenue.

Second, where the DfT's 'Rail market-led proposals' go awry is that if a company makes a proposal to the DfT, they say thank you very much, and put the idea out to open tender. It says, 'Outcomes of individual market engagement will not result in a direct award to a promoter. The aim will always be for the department to run a full, competitive procurement in line with the current procurement regulations.' Therefore, the originator of the idea has to then go through a contest to win the right to build its own proposal. Fair? I don't think so.

The promoter puts their proposal forward 'at risk'. That is standard practice. But surely, we can find a mechanism to incentivise the development of new ideas and reward the originator accordingly.

Rewarding inspiration and initiative

To address the first issue of 'build, own, operate', I suggest that the conditions for private organisations to invest without Government finance should include the right to operate the infrastructure asset they have invested in upgrading for 25 years or more. Not just the current 7 years.

The manager should be granted 'perpetual first right of renewal', i.e. the right, in law, to retain the asset if they are meeting the agreed performance targets. They are granted retention of the asset before it is taken into a complex and expensive public tender procurement process.

To overcome the second issue around reward for innovation and the need to meet competition regulations, if the originator of the idea does not succeed in winning the project, then the costs they have incurred in the development process through to proposal should be reimbursed.

We all know the weaknesses in the public finances, but if we want the private sector to increase its input and to gain the best of its working practices, we need to make the rules motivate new ideas.

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