

London & Continental Railways delivers high-speed rail link supported by financial expertise from IBM

Overview

■ Business challenge

To deliver one of the most significant railway projects in UK history, involving construction of a high-speed rail link from St Pancras station to the Channel Tunnel. London & Continental Railways (LCR) needed to organise and control the funding and risk transfer arrangements for this enormous public private partnership, which involved many powerful stakeholders.

■ Solution

IBM helped develop, maintain and run a long-term financial model that allowed LCR to address the financial challenges it faced. Over ten years the model was significantly changed to accommodate radical shifts in financial structure and risk transfer arrangements.

■ Key benefits

- Supported on time, within budget delivery
- Trusted information eliminated time spent debating its accuracy
- Swift response to challenges with quick, accurate analysis.



London St Pancras Station

The new £5.8billion high-speed rail link running from St Pancras station to the Channel Tunnel is one of the largest projects in UK railway history. It is also the first major rail project in the UK for over 100 years. Known as High Speed 1 (HS1) it provides a 68-mile link between St Pancras and Folkestone, enabling the UK to catch up with its speedier neighbours across the channel and shave around 35 minutes off the journey time to Paris.

London & Continental Railways (LCR) was selected by the Government back in 1996 to build and operate HS1 and to own and operate the UK arm of the Eurostar international train service, which runs a service from London to Paris and Brussels.

LCR needed to organise and keep control of the funding and risk transfer arrangements for this enormous public private partnership, which involved a complex web of relationships

between a large number of powerful stakeholders including government departments, the leading banks, the Rail Regulator and, at the start of the project Railtrack, but later on Network Rail.

“When one senior member of the Government team moved on he said he had always been exceptionally impressed with LCR’s rigour and professionalism. I think much of that is due to the robust support we received from IBM.”

– Mark Bayley, Finance Director at London & Continental Railways

Achieving value through business transformation

Business benefits

- Supported on time, within budget delivery
- Trusted information eliminated time spent debating its accuracy
- Swift response to challenges with quick, accurate analysis
- A common financial model adopted by all stakeholders in the project
- Flexibility to analyse various solutions
- Scalability. IBM provided extra resources at short notice to meet tight timescales.

“When making a business case to the Department for Transport or the Treasury, I wanted to be sure of the reliability of the financial information on which it was based. My personal credibility depended on it. The discipline and insight that IBM demonstrated when analysing different scenarios gave me that confidence.”

– Mark Bayley, Finance Director at London & Continental Railways

Challenging operating environment

Mark Bayley, Finance Director at London & Continental Railways says: “At the start of this long-term project we knew we would face many changes and complex situations. Every change would have a financial implication that must be assessed and analysed, so it was clear we needed world-class financial modelling that was flexible and robust enough to see us through the times ahead. We chose IBM to help us with this.”

By considering just two events that occurred during the ten-year construction phase, it is possible to get a flavour of the shifting environment in which LCR and IBM had to operate. Originally, HS1 was to be funded through a combination of debt and equity raised in an Initial Public Offering (IPO). Unfortunately the impact of low-cost airlines led to significantly lower than predicted revenues for Eurostar, leaving LCR with a serious funding shortfall. Railtrack stepped in to help and a complex set of risk sharing agreements was drawn up, with the modelling performed by IBM. In 2002, the demise of Railtrack meant further funding plans and risk transfer arrangements had to be put in place. Following each of these changes, IBM consultants had to help develop new, incredibly detailed and complex financial models.

Rigour and intelligence

For a total of ten years, highly skilled consultants from the IBM Business Dynamics Group, worked alongside LCR’s Finance Director and his team. They used their expertise in business modelling to develop and run the constantly changing financial model, helping to ensure that the financial parameters agreed with the UK Government remained achievable.

Bayley explains how he developed real confidence in the information coming from the financial model: “When making a business case to the Department for Transport or the Treasury, I wanted to be sure of the reliability of the financial information on which it was based. My personal credibility depended on it. The discipline and insight that IBM demonstrated when analysing different scenarios gave me that confidence.”

“When one senior member of the Government team moved on he said he had always been exceptionally impressed with LCR’s rigour and professionalism. I think much of that is due to the robust support we received from IBM.”

Wide acceptance

In multi-stakeholder environments it is common for each party to have its own financial model, which can create confusion. On this project, the LCR model was so widely accepted that all the stakeholders were happy to adopt it. This encouraged a team approach to issues and eliminated wasted time trying to reconcile differences between models.

Bayley says: “IBM consultants have been of tremendous value to our business. The quality of the modelling has been exceptional; it has never contained a material error and this is not down to luck; it is thanks to the expertise involved. The reliability of the model enabled us to concentrate on the financial implications of our business proposals without the distraction of material errors surfacing at the last hour.”

As HS1 progressed and IBM became a trusted part of the LCR team, consultants were asked to help support other areas of the business such as Eurostar operations, property development, contract negotiations with subcontractors, and development of the business case for the retail environment at St Pancras station.

A vibrant, new age of travel

Unusually for a large and complex construction project, HS1 completed both on time and within budget. Its benefits are significant and far-reaching. Not only has HS1 provided the country’s first high-speed railway, it has also resulted in around £10.5billion worth of regeneration focused on key strategic sites along its route. The area around St Pancras International station, known as King’s Cross Central, is just one site experiencing a new vibrancy.

A cornerstone of the project’s success is sound financial management and strong incentives to control construction costs supported by a robust financial model. Bayley says: “Over ten years our financing approach and plans have been subject to radical change. Each time IBM has been able to support the changes and help us move forward with alternative approaches that satisfied the Government.”

Reliable and flexible modelling has meant that LCR has never been “on the back foot” in its negotiations. IBM’s quick and accurate analysis of changing scenarios enabled proactive and agile responses in the face of any challenge. A number of possible solutions could be analysed, enabling a preferred and a fallback position to be developed. And the depth and breadth of expertise offered by IBM has ensured that LCR has always been able to call on extra resources or skills at short notice when timescales were tight.

As LCR moves from a construction to an operational phase, it is examining its restructuring options. IBM remains involved in helping model and assess the implications of the various scenarios.

For more information

Please contact your IBM representative or IBM Business Partner.

Visit us at:

ibm.com/gbs/uk

Key components

IBM Services

- IBM Global Business Services
– Strategy and Change, Business Dynamics Group

Transformation at a glance

London and Continental Railways (LCR) was chosen by the Government to deliver one of the most significant railway projects in UK history. With a cost of £5.8billion, it involved a public private partnership and a complex web of powerful stakeholders. LCR needed insight into, and robust control of, the financial aspects and risk transfer of the project in a complex working environment. For ten years, IBM worked as a trusted partner to LCR, developing, maintaining and running a financial model that is the core of the project’s financing. Over time the model was changed significantly to accommodate shifts in the financial structure of LCR and the risk transfer arrangements. Outputs of the model have been regularly presented to the Government, the banks, LCR’s advisors and other stakeholders in the project. Sound financial management supported by this robust financial model helped deliver this large, high profile project on time and within budget throughout the transformation programme.



IBM United Kingdom Limited

PO Box 41
North Harbour
Portsmouth
Hampshire
PO6 3AU

Tel: 0870 010 2503

ibm.com/services/uk

IBM Ireland Limited

Oldbrook House
24-32 Pembroke Road
Dublin 4

Tel: 1890 200 392

ibm.com/services/ie

IBM South Africa Limited

Private Bag X9907
Sandhurst
2146
South Africa

Tel: 0860 700 777

ibm.com/servicessolutions/za

The IBM home page can be found at **ibm.com**

IBM, the IBM logo and **ibm.com** are trademarks or registered trademarks of IBM Corporation in the United States, other countries, or both.

Other company, product and service names may be trademarks, or service marks of others.

References in this publication to IBM products, programs or services do not imply that IBM intends to make these available in all countries in which IBM operates. Any reference to an IBM product, program or service is not intended to imply that only IBM products, programs or services may be used. Any functionally equivalent product, program or service may be used instead.

This case study illustrates how one IBM customer uses IBM and/or Business Partner technologies/ services. Many factors have contributed to the results and benefits described. IBM does not guarantee comparable results. All information contained herein was provided by the featured customer and/or Business Partner. IBM does not attest to its accuracy.

This publication is for general guidance only. Information is subject to change without notice. Please contact your local IBM sales office or reseller for latest information on IBM products and services.

IBM does not provide legal, accounting or audit advice or represent or warrant that its products or services ensure compliance with laws. Clients are responsible for compliance with applicable securities laws and regulations, including national laws and regulations.

Front photograph: Eurostar St Pancras Station
Copyright LCR/Troika

© Copyright IBM Corporation 2008.
All Rights Reserved.

GBC03003-GBEN-00