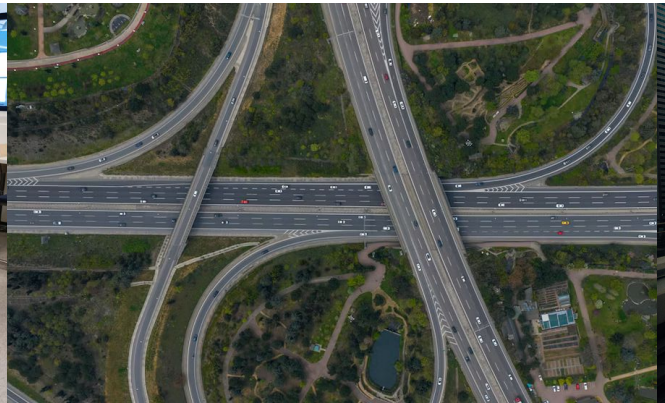






The private sector builds lots of public infrastructure







What are Private Finance Initiatives?

The private sector plays a central role in one or more of the core parts of an infrastructure delivery project

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Build	
Finance	
Operate	
Maintain	

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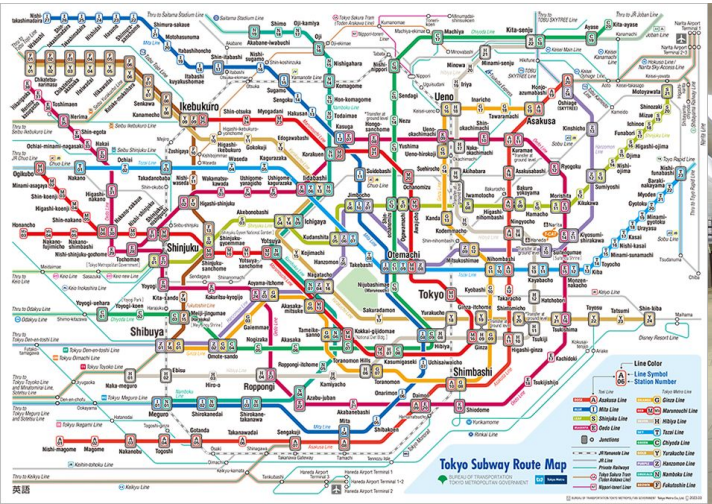
Design	Create the technical specification for the project
Build	Construct the asset - often subcontracted
Finance	Pay for it - usually equity/debt finance
Operate	Run the infrastructure after completion
Maintain	Carry out routine maintenance for the lifetime of the asset

Focus on heavy rail infrastructure

1. Backbone of commuter network
2. Massive impact
3. Much more complex than other modes









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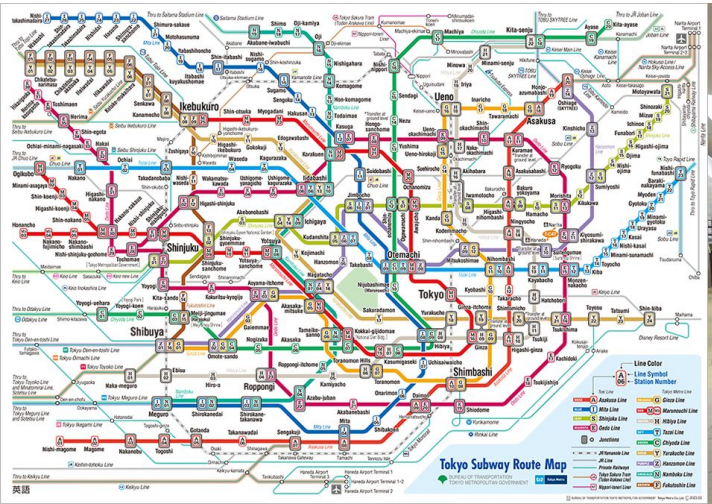
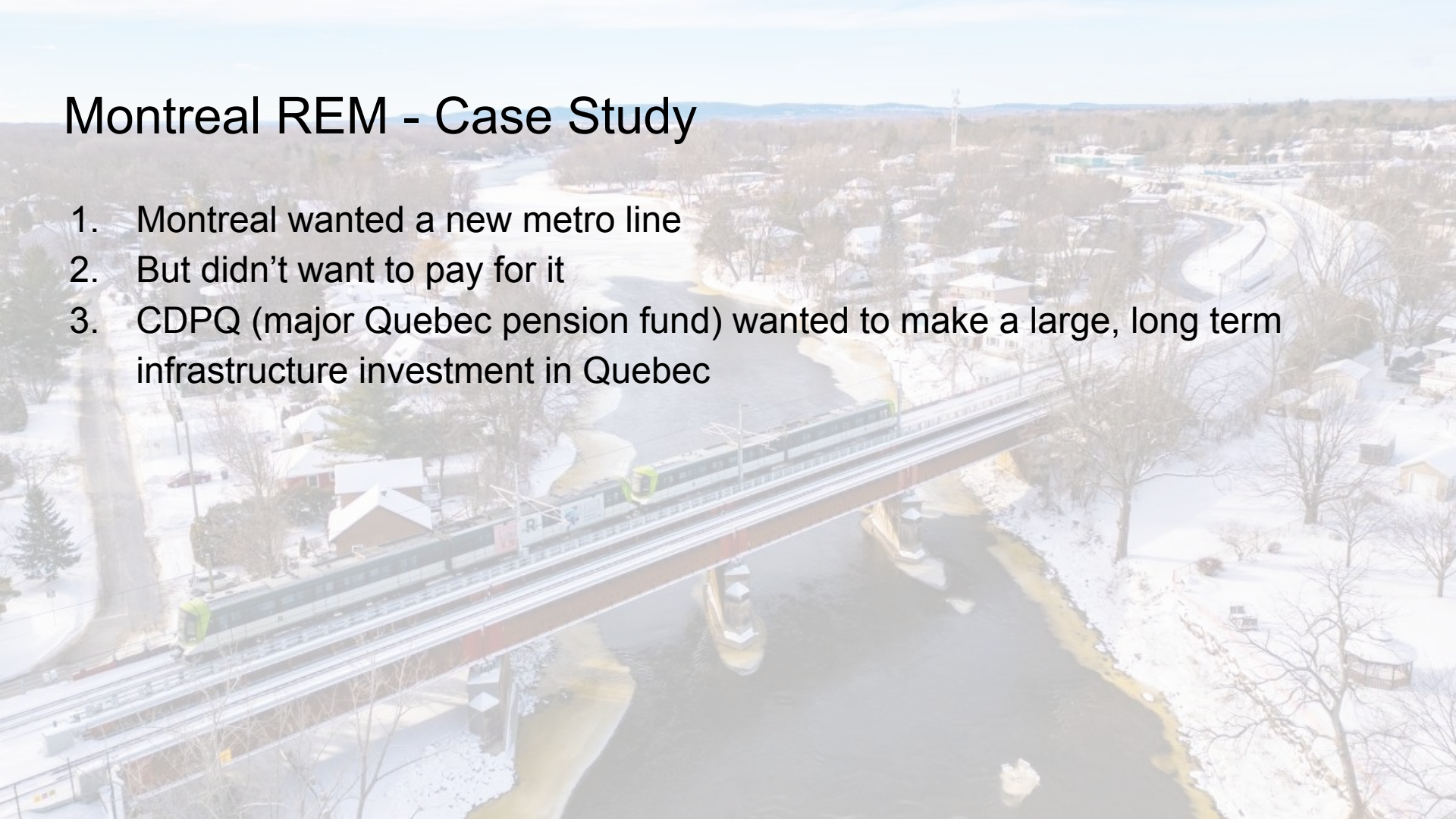






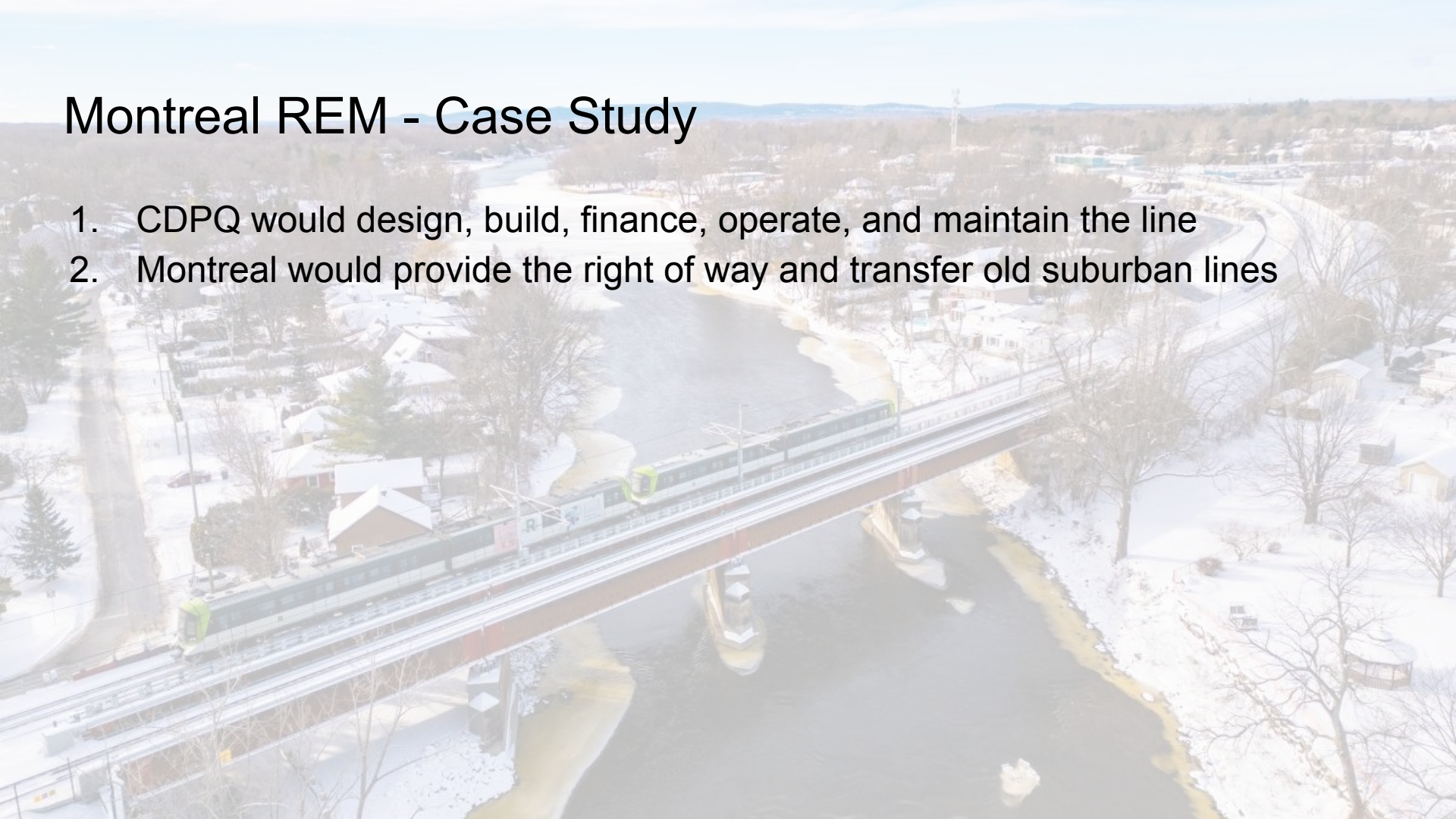
Montreal REM - Case Study

1. Montreal wanted a new metro line
2. But didn’t want to pay for it
3. CDPQ (major Quebec pension fund) wanted to make a large, long term infrastructure investment in Quebec



Montreal REM - Case Study

1. CDPQ would design, build, finance, operate, and maintain the line
2. Montreal would provide the right of way and transfer old suburban lines

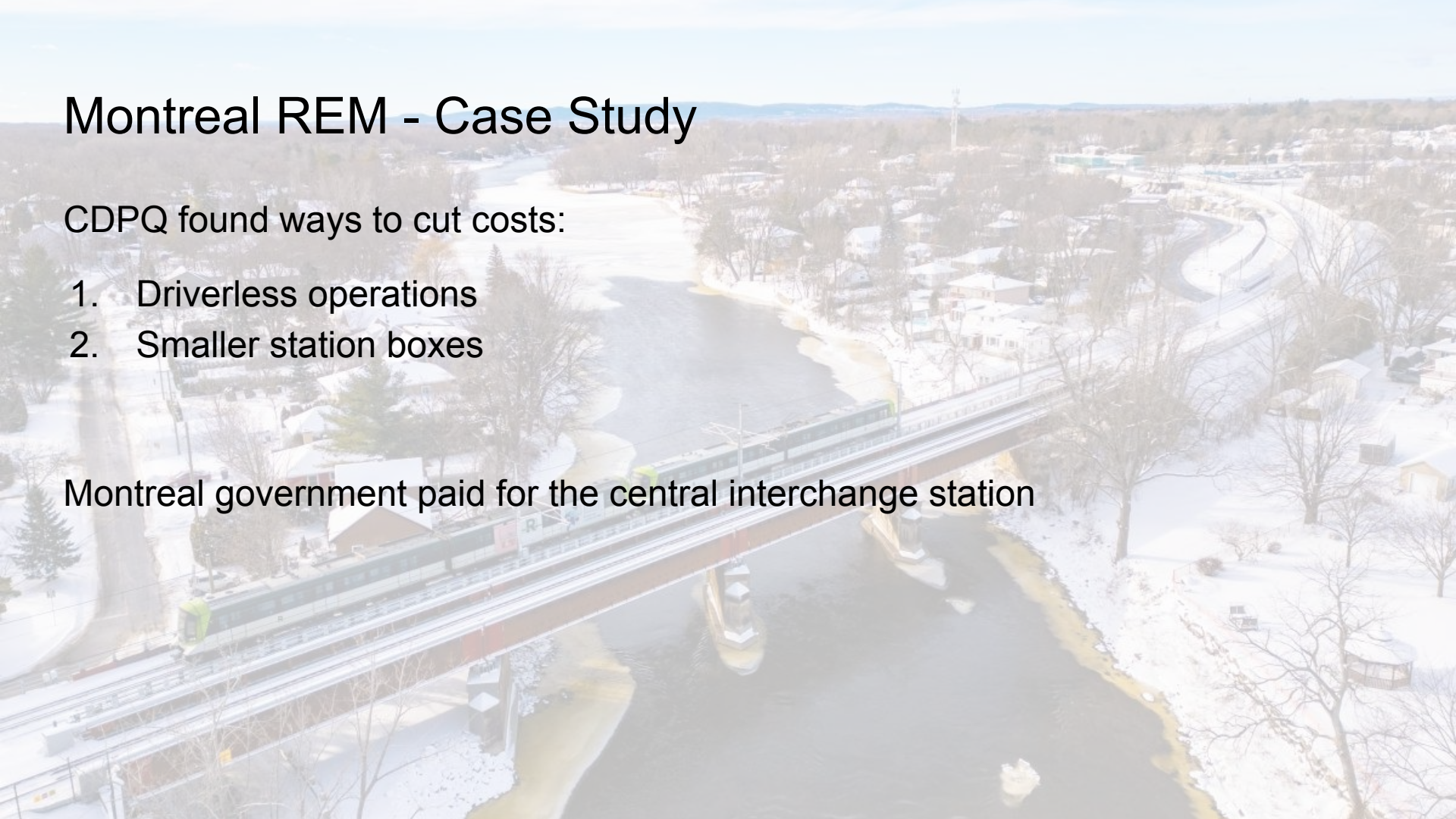


Montreal REM - Case Study

CDPQ found ways to cut costs:

1. Driverless operations
2. Smaller station boxes

Montreal government paid for the central interchange station



Montreal REM - Case Study

One of the more successful examples of PFI building a metro line

1. Delays and budget overruns were managed quite well
2. A single organisation was responsible for delivery
3. Contract incentivised co-ordinated development along the corridor

But it required the city giving away a lot of existing infrastructure for free

Pros of Private Finance

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2. Fiscal flexibility - buy now, pay later
3. It *can* actually get stuff built

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Alternatives

1. Land Value Capture
2. Tolls
3. Local government taxation
4. Tax increment financing
5. Ticket revenue
6. Central Government Grants

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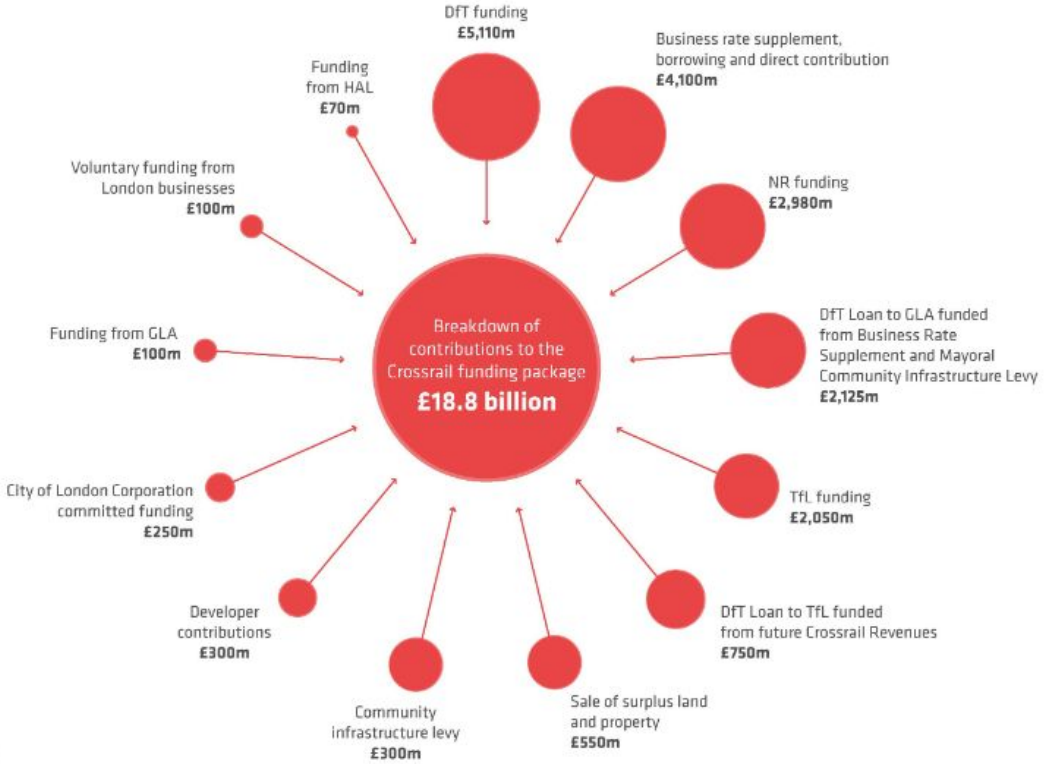
Case Study: Crossrail

Funding and financing



Key

- GLA = Greater London Authority
  DfT = Department for Transport
  TfL = Transport for London
  NR = Network Rail
  HAL = Heathrow Airport Limited
- Precise levels of funding from some sources, such as sale of surplus land and property may be subject to change.

Source: Transport for London (TfL),Crossrail Ltd.

A Better Way: Tax Hypothecation

Commit future tax revenue *which would not exist* without the new infrastructure to build the infrastructure

- We do this a little already
- Treasury doesn’t like it because it lowers their control
- Borrowing is the simplest way to draw on private capital

A Better Way: Tax Hypothecation

Where can we use it?

How will the project generate a revenue stream?







The Rule The Treasury Keeps on Forgetting

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Additional complexity exponentially compounds to delays and cost overruns

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