Redefining the models for private sector investment in infrastructure – The RAB Model

Professor Dieter Helm
Oxford University

UK Infrastructure Summit
February 9th 2011

Questions

- What is the problem?
- Why has the PFI / PPP model not delivered?
- How does the RAB model work?
- Which sectors could it be applied to?
- What might be the benefits?
- What are the next steps?

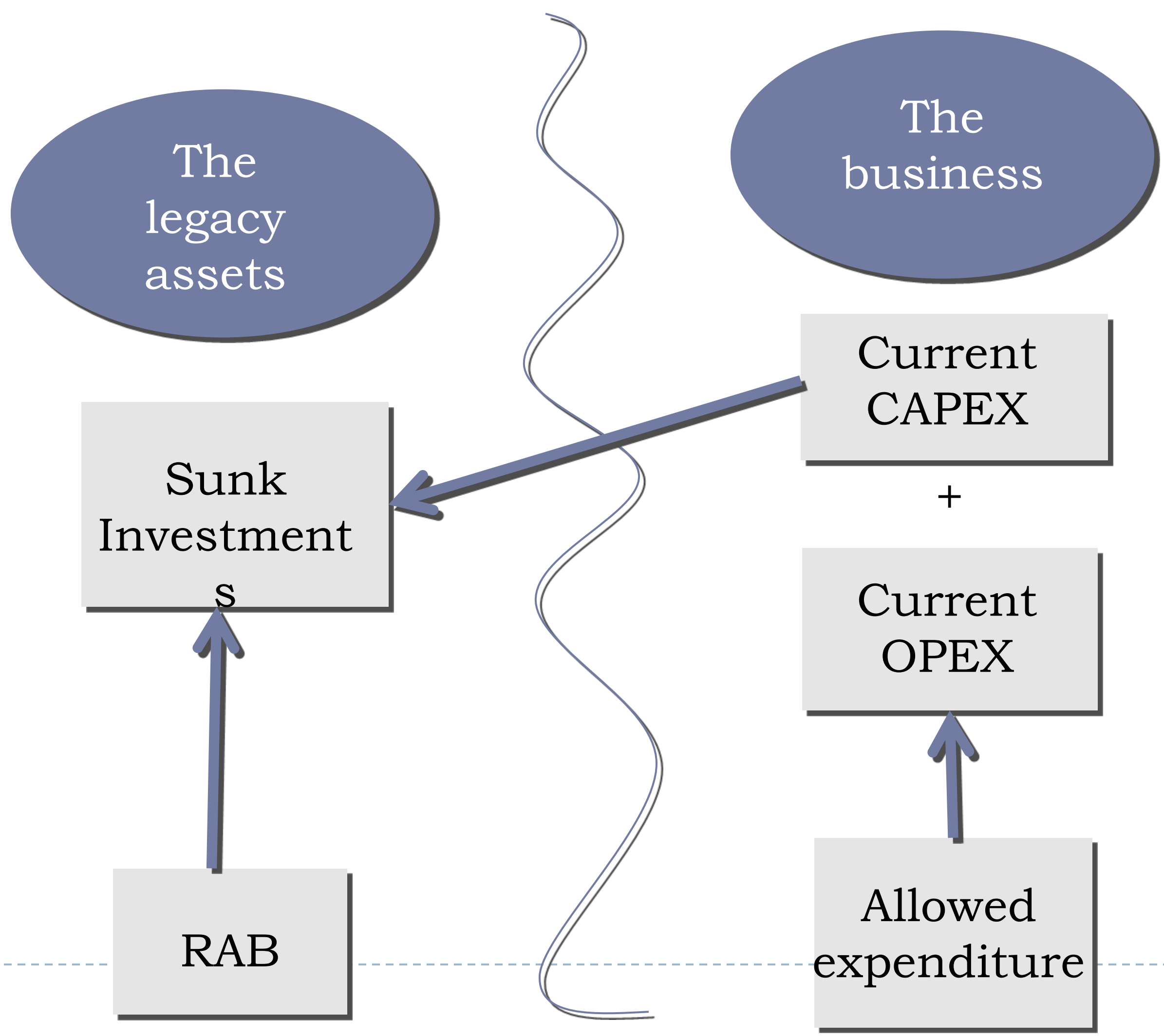
What is the problem?

- The time inconsistency problem
- Regulatory and political risk
- Impact on the cost of capital

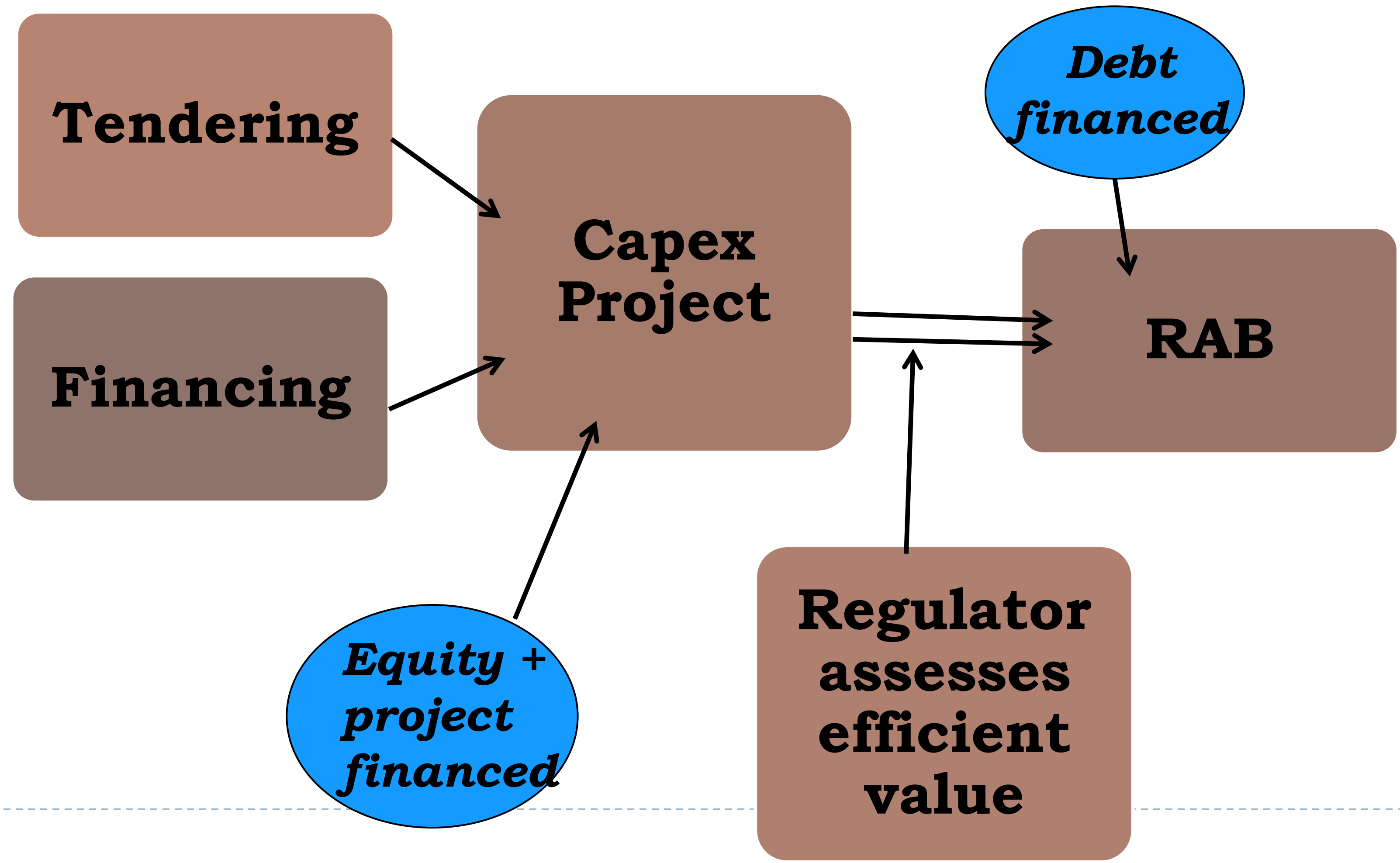
Why has the PFI / PPP model not delivered?

- The basic structure of PFI deals
- Combination of CAPEX and OPEX with sunk cost recovery
- The problem of bidding
- *Ex post* interventions
- Cost of capital impacts

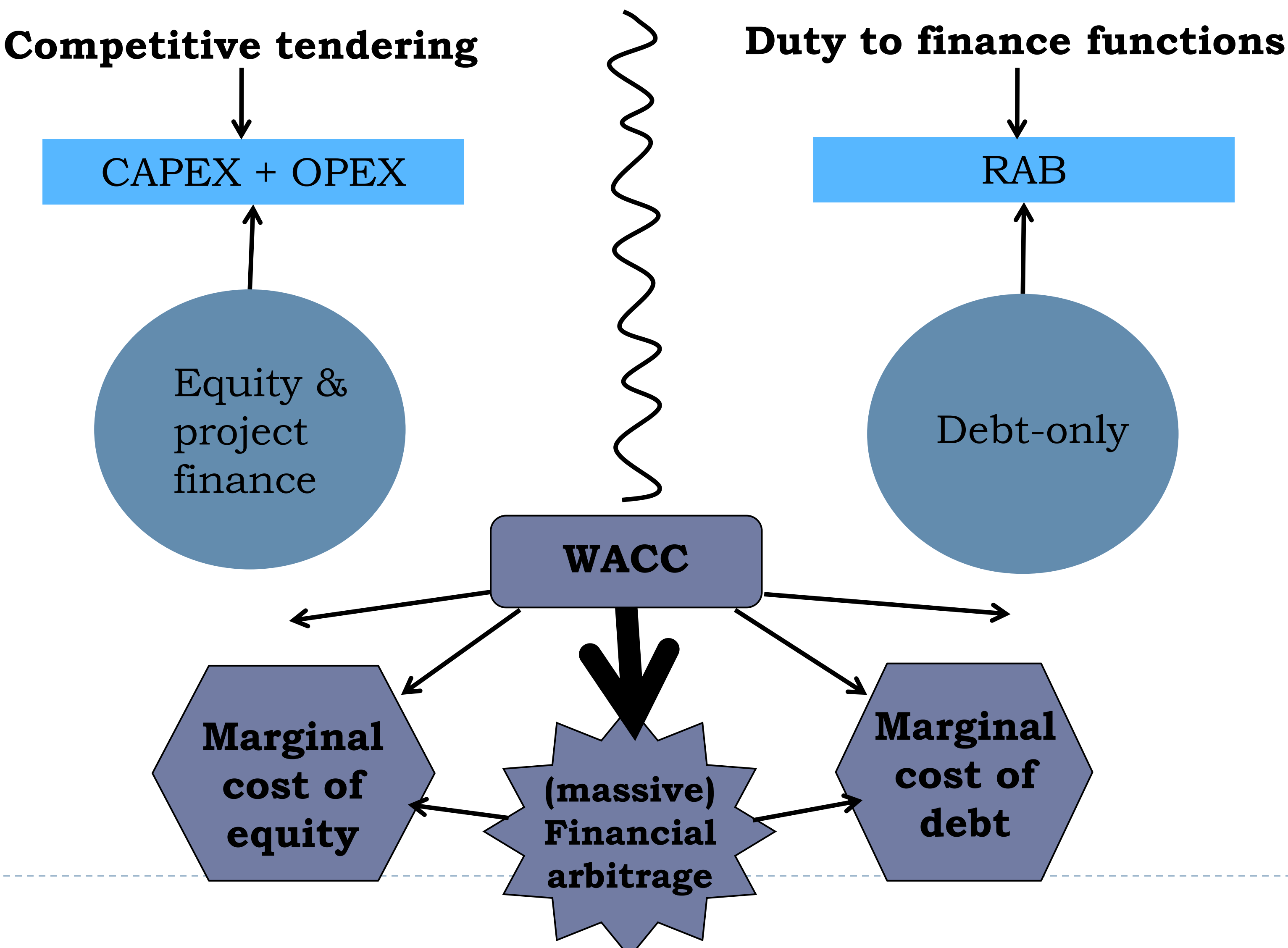
How does the RAB model work?



The CAPEX process



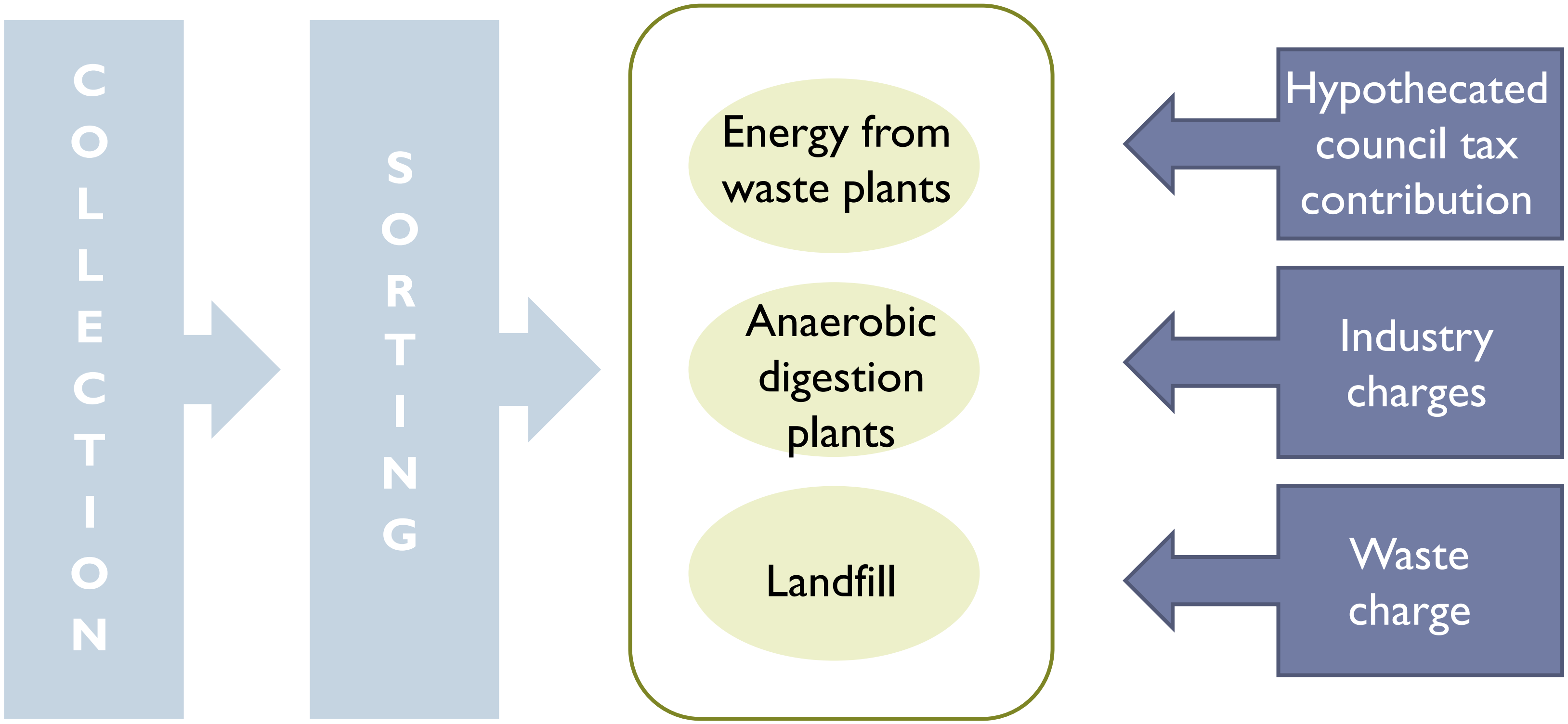
The split cost of capital



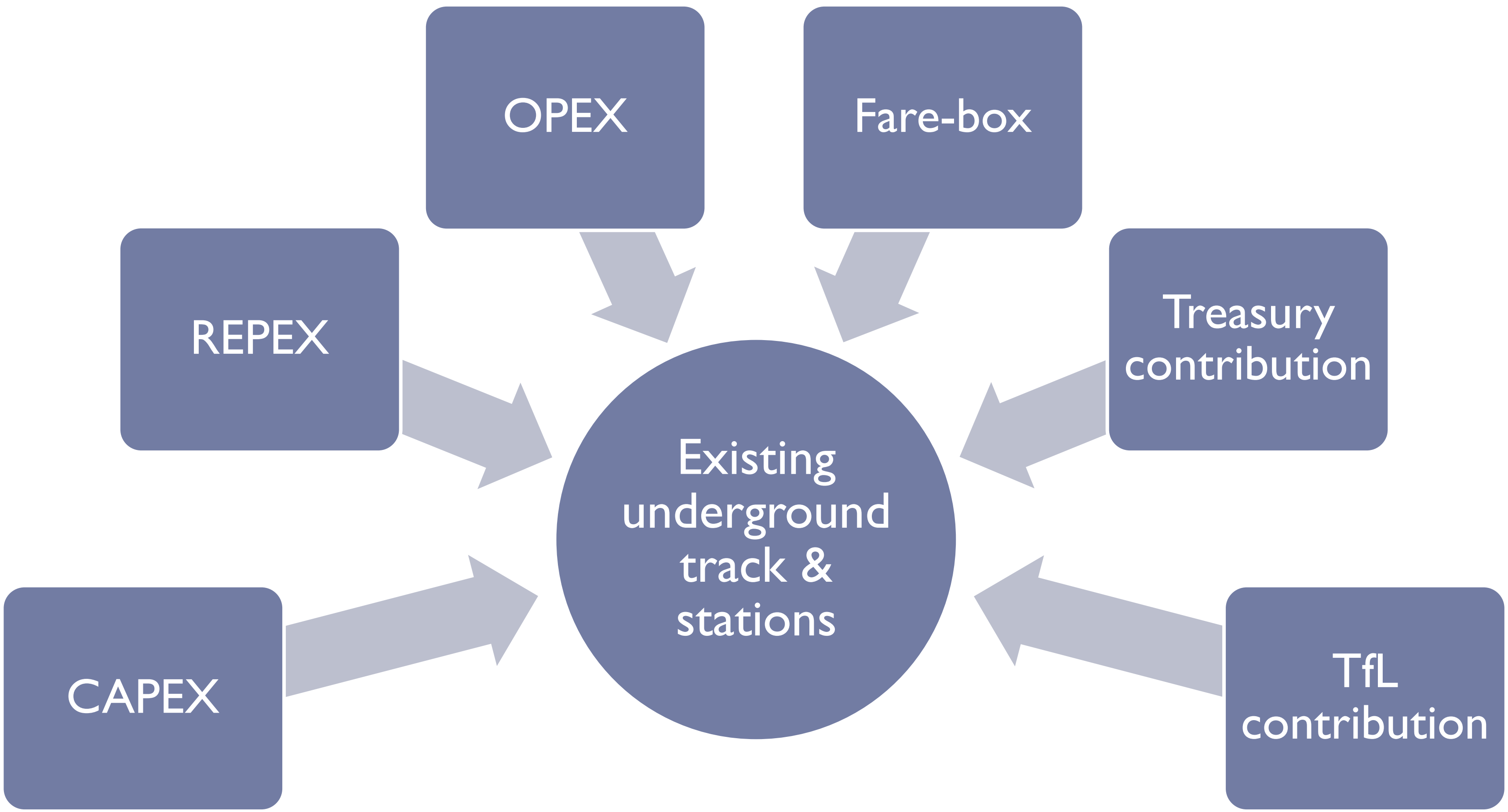
What sectors could it be applied to?

- Waste
- Roads
- London transport / london underground
- Flood
- Renewables

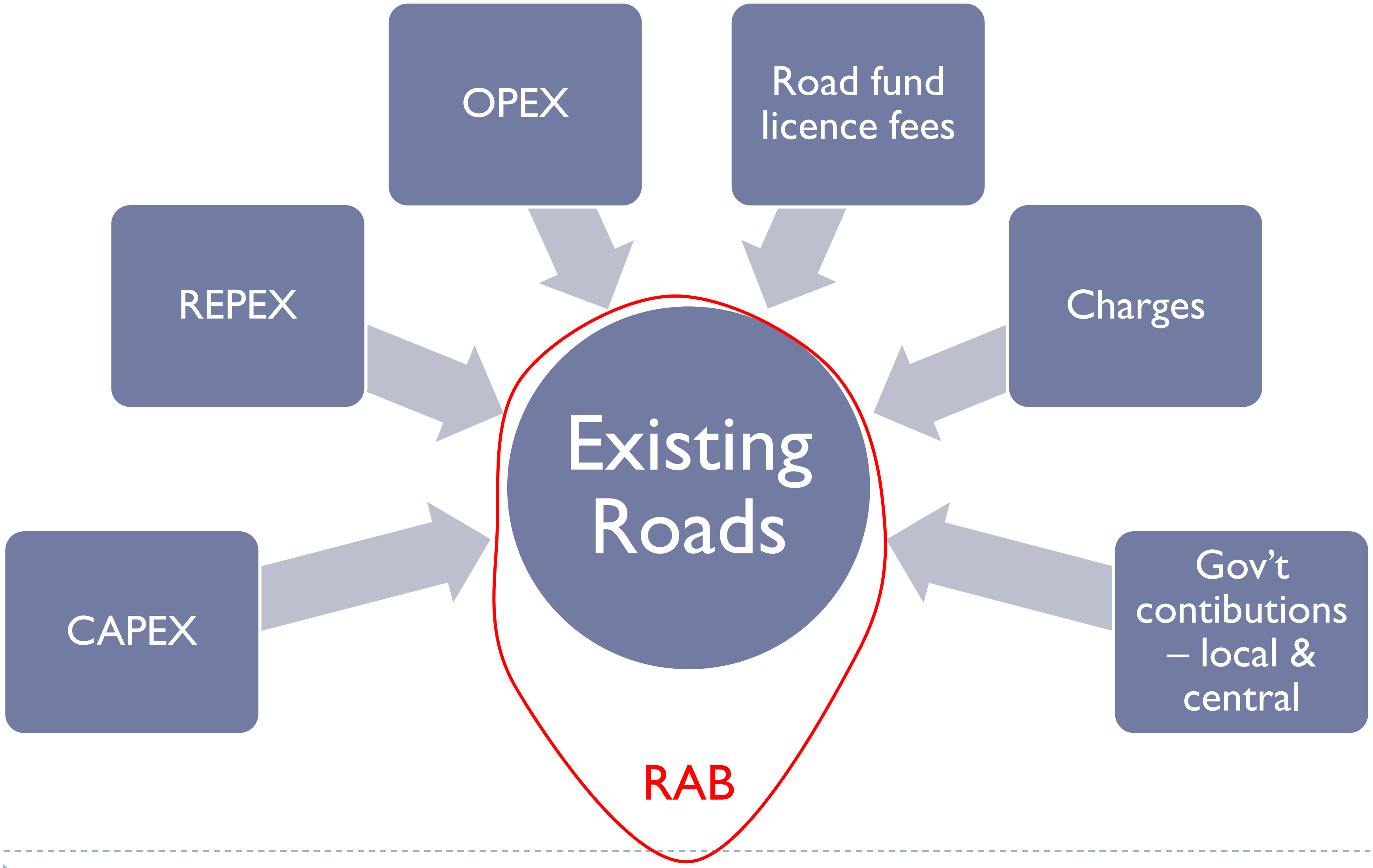
Waste model


COLLECTION
SORTING
Energy from waste plants
Anaerobic digestion plants
Landfill
Hypothecated council tax contribution
Industry charges
Waste charge

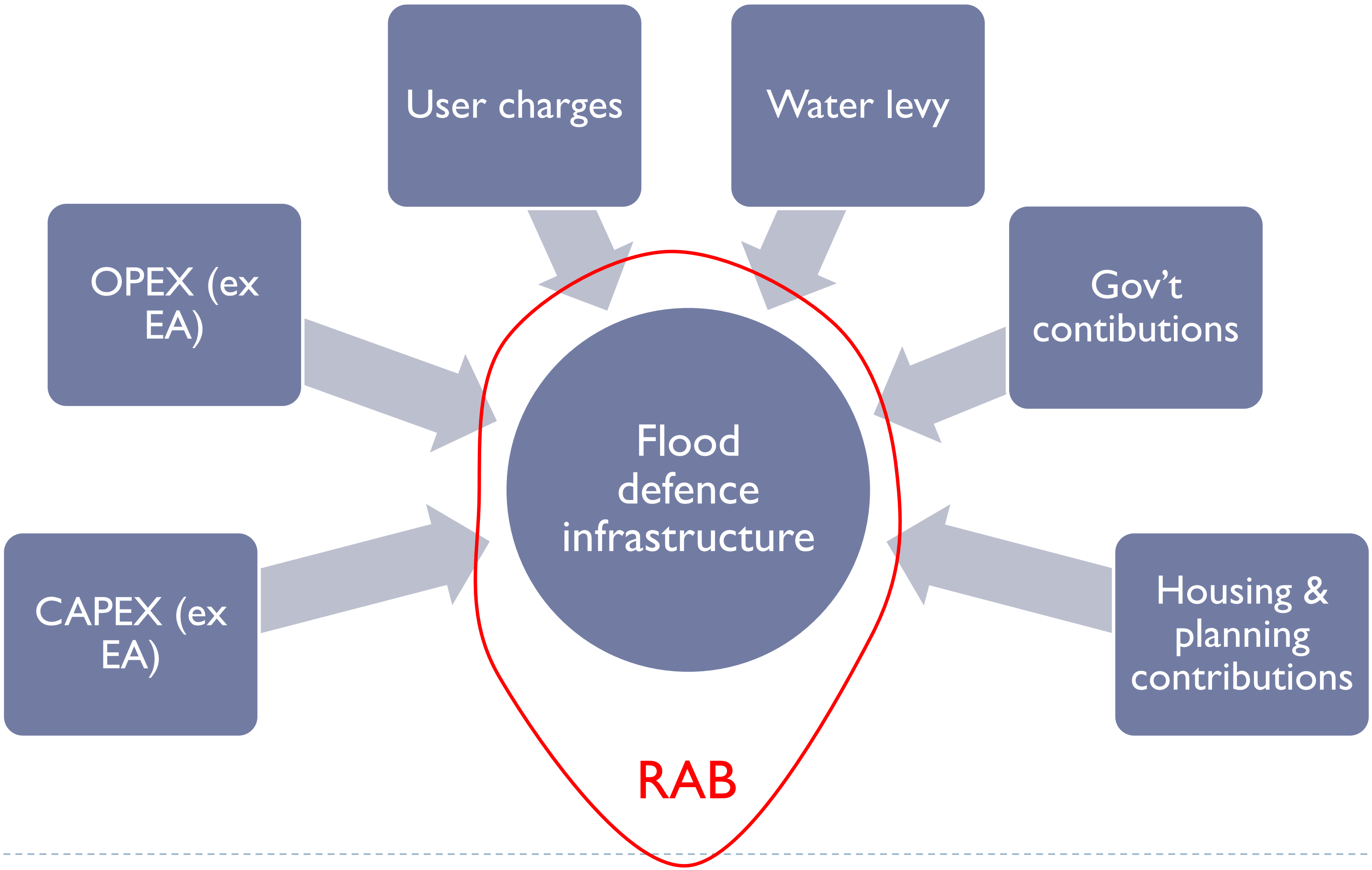
London underground / London transport model



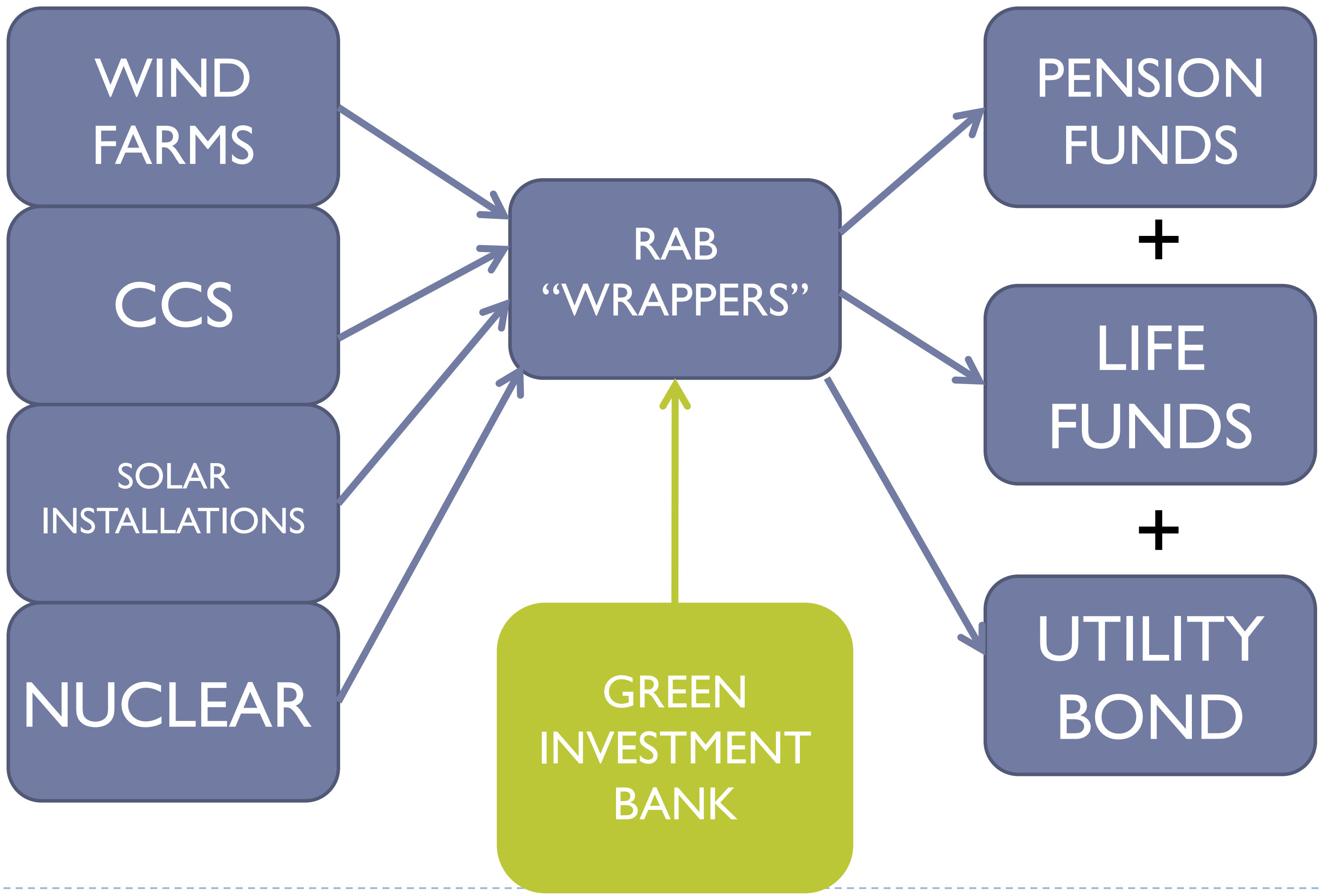
Roads model


OPEX
Road fund licence fees
REPEX
Charges
Existing Roads
CAPEX
Gov’t contibutions – local & central
RAB

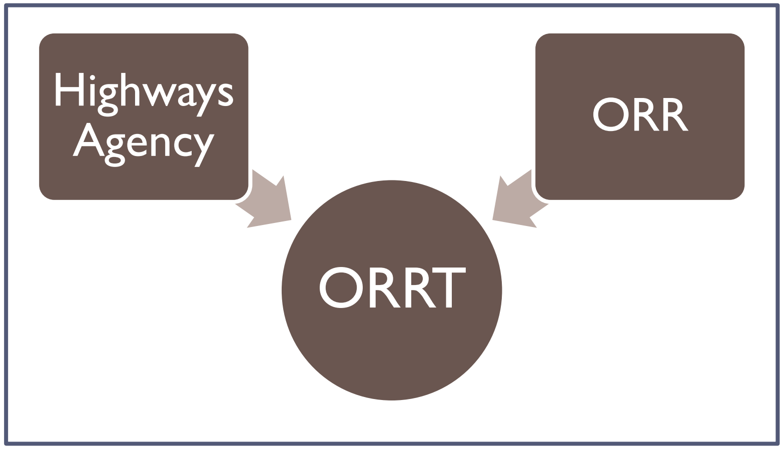
Floods model

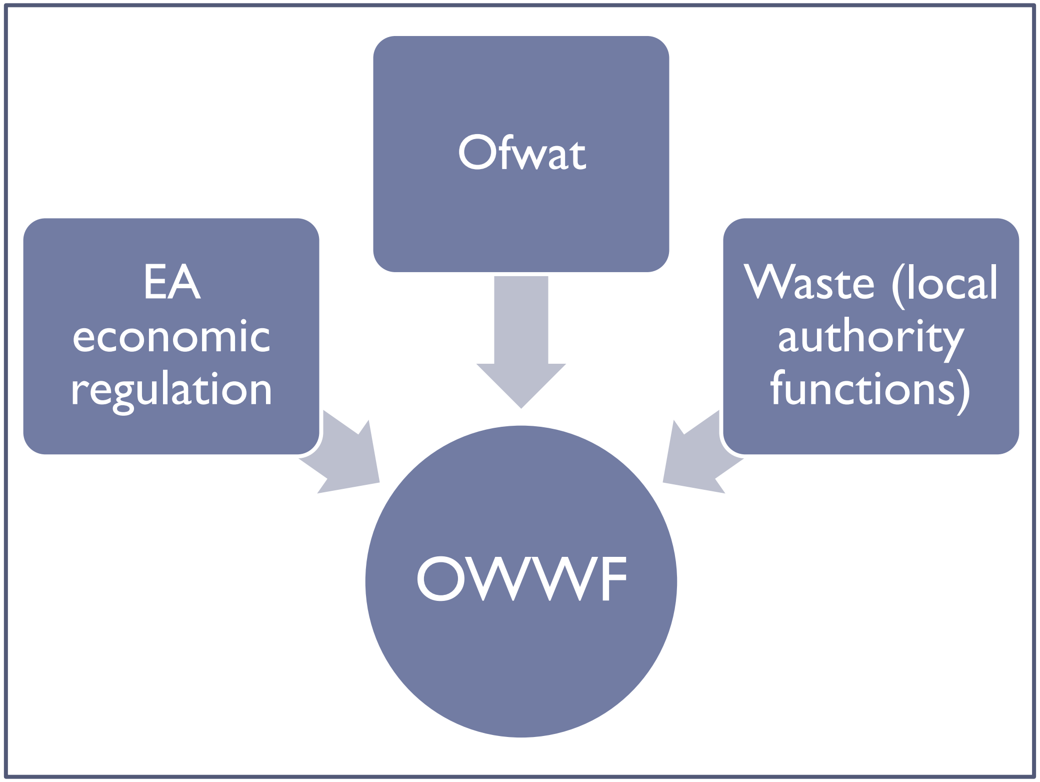


Renewables model



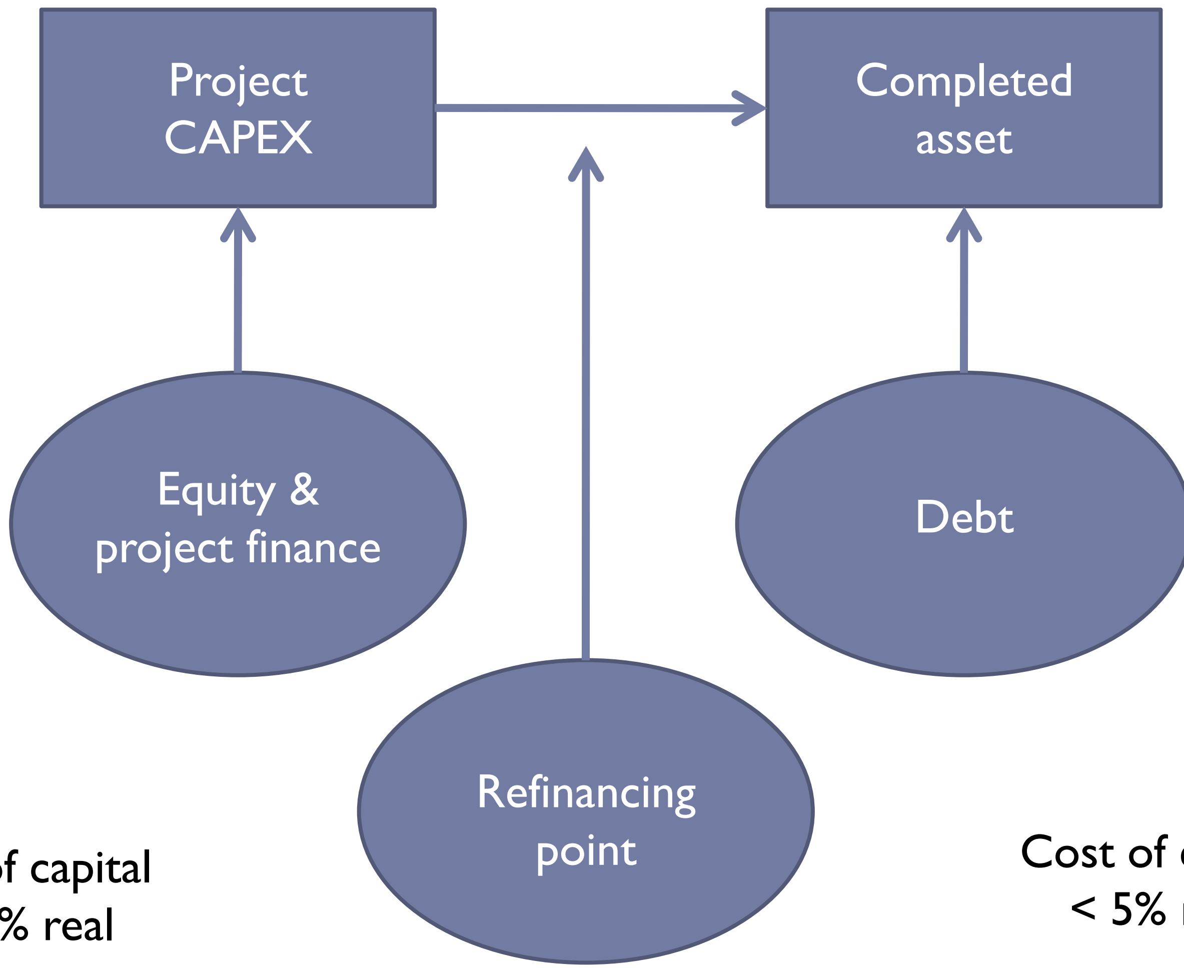
Regulatory consequences





G.I.B.
=
Renewables "Wrapper"

What might be the benefits?



Cost of capital
> 10% real

Cost of capital
< 5% real

Applied to £500bn CAPEX requirement

- 1% ↓ cost of capital ⇉ ↓ <u>£5 billion PER ANNUM</u>
- Assigns political and regulatory risk where best managed
- Creates major new low-risk investments

  for savings ↑

What are the next steps?

- NIP programme
- Case-by-case evolutionary approach

And....

- Buy back existing PFI....

For information:

- “Infrastructure and infrastructure finance: The role of the government and the private sector in the current world", EIB Papers ,vol. 15 (2) on *Infrastructure and infrastructure finance.*
- “Rethinking the Economic Borders of the State”, *Social Market Foundation*, November 2010.
- “The Case for a Carbon Tax” in *Greener, Cheaper* edited by Simon Less, Policy Exchange, July 27th 2010.
- Helm, D. R. and Hepburn, C. (eds), (2009), “The Economics and Politics of Climate Change”, OUP, October.
- “Infrastructure investment, the cost of capital, and regulation: an assessment”,*Oxford Review of Economic Policy*, Volume 25, Number 3, 2009, pp.307–326.
- “The Evolution of Infrastructure and Utility Ownership and its Implications”, *Oxford Review of Economic Policy*, Volume 25, Number 3, 2009, pp.411–434.
- “Utility regulation, the RAB and the cost of capital”, Competition Commission Spring Lecture 2009.
- “Infrastructure, investment and the economic crisis”, in *Delivering a 21st Century Infrastructure for Britain*, Dieter Helm, James Wardlaw, and Ben Caldecott, Policy Exchange, 2009.

available here: http://www.dieterhelm.co.uk/publications