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E (82)24

COPY NO 66

4 MARCH 1982

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PRIVATE FINANCE FOR TRUNK ROAD CONSTRUCTION

Memorandum by the Secretary of State for Transport

1. In his paper E(82)22, the Secretary of State for the Environment mentions (para 2) the proposals for private financing of some trunk road schemes which I have been discussing with the Chancellor of the Exchequer.

The Scheme

2. My Department would take a road scheme to the point where it was ready to go out to tender. We would then invite contractors to bid competitively to take on the scheme. Their bids would be on the basis of receiving a royalty per vehicle over, say, 15 years rather than a capital sum. It would be for the contractor to make his own arrangements to finance construction and possibly maintenance. Several major firms, and the industry in general, have expressed interest in such a scheme.

3. This is the most promising scheme we have come up with for private financing. It needs no legislation and could start quickly. Tolling is at best a longer term possibility. It would only be relevant to a few special schemes and would require complex legislation.

4. There are a number of worthwhile and popular road schemes which, with the promise of even limited additional funds, we could advance over the next few years. In other words, if the proposal went ahead, we could start a number of road schemes earlier than presently planned. There would be substantial benefits to industry, through better communications, which would contribute to higher prosperity.

5. There is very substantial spare capacity in the road construction industry; indeed in this sector I would endorse the fear expressed in E(82)22 about the damage being done to productive efficiency for the future. While the work done on road schemes is less labour intensive than, say, house improvement work, it could make a worthwhile contribution to employment.

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6. The scheme would provide an incentive to improved efficiency by the contractors, though I would not wish to over emphasise that. More important, I see it as transferring to the private sector the "market risk" that traffic will grow faster or slower than expected. What we pay will move up or down with the economy and the actual benefits experienced by users.

My proposed experiment

7. The cost of financing road construction in this way is likely to be rather higher in the long-term than that of conventional public finance if traffic grows as expected. This is because private sector finance is dearer than public and because of the additional risk which the contractor will be bearing. But until we are able to consider contractors' tenders for a particular scheme and compare them against tenders put forward on a conventional basis we cannot tell what the additional cost might be, and whether it would be worth incurring to gain the benefit of earlier improvements to our infrastructure and the quality of life in towns and villages. These benefits are real and worth paying something for.

8. I hope my colleagues will agree that it would be right for me to develop this scheme, in consultation with both the Treasury and the industry, and to test it by inviting competitive tenders for, initially one or two schemes later this year or next, on both the conventional and "royalty" bases. I should, however, only want to proceed on the clear understanding that the capital expenditure incurred by the private sector would not count as part of my trunk road programme for public expenditure purposes; the royalty payments would, of course, be public expenditure but would not be significant within the current PESC period.

9. An early announcement that we intend to have a practical trial along these lines would be widely welcomed, and enable us to get ahead with the necessary discussions with the industry and potential financial backers.

Conclusion

10. I invite my colleagues to agree that I should proceed on the basis set out at paragraph 8 above.

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4 March 1982

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