1 Key proposals

The working group considers that in order to construct a transport infrastructure project selected by the central government, a municipality or some other party (e.g. a private operator), a limited company may be set up. This company would be the construction contractor and owner of the project and could, if so desired, also maintain and own the project after its completion.

In practice, such project companies would primarily be used in connection with major infrastructure projects. All administrative phases of the project, including the design, permit and infrastructure planning processes, could be managed by the authorities. A project company associated with a specific project could already be established in an early stage before the administrative processes listed above have been concluded, thus allowing the company to contribute to the project's design and financing solutions.

The company model can also be used in the planning phase of potential projects: the company can be assigned the task of participating in the planning of a certain project and applying for permits. In this phase, its partnership structure and shareholder relations may be quite different from those of the potential project company ultimately established to implement the project. If the same company continued to be involved, its structure and shareholders' agreement would have to be modified when moving on to the implementation phase. Using a company already in initial-stage planning could have the advantage of giving the parties implementing and owning the transport infrastructure a chance to influence its properties from the beginning, for example from the perspectives of serviceability and cost-effectiveness.

The central government and municipalities would be natural choices for owners of the project company, as they would be capable of allocating to the project significant amounts of equity financing that is not expected to be paid back (so-called end payments). The central government and municipalities usually also have the greatest interest in implementing transport infrastructure projects, especially national ones, as they represent the largest number of potential beneficiaries.

If no end payment inputs from the central government and municipalities were needed in a project, it could also be implemented privately. The working group estimates that the number of such projects may, however, be limited in the Finnish conditions.

The essential question is identifying the different sources of end payments, which the company will not be expected to repay, for the project's construction and maintenance costs. In the working group's view, seven such sources of end payments can be identified:

- user fees
- EU funding (grants)
- increase in value through real estate development
- financing share of private parties benefiting from the project
- share invested in equity capital
- aid from municipalities
- aid from the central government.

If a substantial share of the funding can be obtained from the first four sources, the amount to be covered as transfers by the central government and municipalities, or the taxpayer, will remain smaller, the project will have better possibilities of being approved by the central government and municipalities, the number of projects that the central government can approve will go up, and these projects can be launched faster. While the fifth source, or the share of private investors, can also be seen in the same light, the contract terms that can be negotiated with the investor will determine whether or not this option will be desirable in terms of the central government's and the municipalities' liabilities. In any case, the individual circumstances of each project will decide the extent to which the different sources of financing can be used.

The working group finds that the role of cash flow from users could be increased in project funding, for example in a model where the project company would build a new fast rail link, put the access rights to the rail link out to tender and, by selecting suitable operators, maximise the income stream derived as contractual payments (e.g. at an acceptable risk level). This model would be based on normal market economy principles: the access rights for the infrastructure would be determined and then auctioned with a view to making a profit. To provide tenable justifications for pricing based exclusively on commercial terms and to protect citizens' freedom of mobility, however,

a requirement of also offering an alternative route should be imposed (e.g. an old railway line and operation at regulated prices on it and/or a well-functioning road connection). In that case, the commercially priced offer would have the nature of an additional service that could be used by customers willing to pay a higher price. The operators could optimise their service concepts regarding services offered both on the trains and at the stations. Additionally, it would be necessary to specifically ensure that regulations on fees would not hinder the use of this competition mechanism that is in keeping with today's world. If, at a closer inspection, any obstacles emerged, the regulations would have to be amended, or amendments to EU legislation should be lobbied for.

EU funding is available for Core Network Corridors, and if the Commission's proposal on extending this corridor to the north is implemented in the forthcoming EU funding period, assistance could also be applied for to finance such projects as fast rail links to the north from Helsinki. The section between Turku and Helsinki is currently part of the Core Network Corridor and thus eligible for funding. Among comparable countries, the level of EU funding allocated to Finnish transport has so far been moderate at best. If Finland had significant projects to offer, an effort could be made to change this situation. The long distances, difficult natural conditions and the backlog in rail network modernisation in Finland could also be used as arguments for significant amounts of EU grants for funding better rail links. In the new period, the EU funding rate could at best amount to more than 20% of the construction costs.

Property development could offer a third promising financing source. In this model the shareholders could, for example, transfer unbuilt/unused property as assets in kind to the project company. Housing and commercial development would then be zoned for these areas, such as a large shopping centre and a housing estate, or other functions that would increase the property value. Hubs of this type could be built at the ends of the transport infrastructure and, depending on the circumstances, also in several places along it. If the project company owned the properties to be developed, it could fund the building costs of the transport infrastructure directly from the profits obtained from property sales (and possibly also rental income, unless this would be associated with competition problems in certain situations). In a solution aiming for transport infrastructure financing, an effort could be made to minimise the tax consequences by special legislative arrangements if the project company shareholders comprised the central government and municipalities. While the properties to be transferred to the project company would not necessarily have to be located in the vicinity of the transport infrastructure, they would need to have significant development potential if the areas were suitably zoned. In this model, benefits associated with public ownership of property would be used to maximum effect to finance the construction of a certain transport infrastructure.

In addition to the central government and municipalities, a third party could be an end payment provider for a transport infrastructure project, mainly in two alternative scenarios:

- A private party benefiting significantly from the project could be willing to participate in its financing. In some circumstances, for example, a large company could be willing to pay some of the costs if this investment were crucial for the infrastructure project going ahead.

- Another possibility, which might come into play more often, is finding an investor willing to invest in the company's equity capital against the expected return. The investor's shareholding in the company and thus in the finished transport infrastructure would have to be put in proportion to the amounts invested by each of the parties on equity capital terms. An agreement on the dividend policy might have to be reached at some level between the shareholders. As part of the project at large, public sector shareholders might also consider giving up their dividends in the project company, for example if they would, in practice, end up funding such dividends themselves (e.g. the central government in the role of a residual financier to ensure that the company turns over a distributable profit). Case-by-case consideration is needed to determine whether a scenario can be found where it is worthwhile for the central government and the municipality to accept a situation where an investor's required return on equity exceeds the costs of the foregone financing alternative, which in this case are debt servicing costs, in order to attract to the company the investor's special expertise and efficiency fostering ownership and to speed up the project. The higher the investor's required rate of return, the more sense it would make for the residual financiers of the project company (e.g. the central government) to take out a loan and, rather than paying dividends, spend the same amount on debt servicing costs, in which case the infrastructure will also remain the property of the payer. Ultimately, decisions on whether or not third-party investments on equity capital terms are acceptable for all parties should be based on careful case-by-case consideration.

The share of project costs that cannot be obtained from the other sources cited above must be paid by the municipalities and, ultimately, the central government. Depending on the project, municipalities could have a varying interest in participating in its costs with direct funding if the project brought significant benefits for the residents and the municipality, for example as increased property value and tax revenue. As part of the establishment phase and also operation of a project company, the municipalities and the central government could negotiate and agree upon the municipalities' preparedness to pay part of the transport infrastructure's costs as transfers into the company's equity capital.

Any shortfall would ultimately have to be paid by the central government. The central government has paid the costs of numerous transport infrastructure projects and, in this respect, nothing would change. The project company would serve as a technical framework through which the central government (and also municipalities) would operate in order to implement infrastructure projects and to channel their financing.

While the shareholding relations of the project company would basically be negotiable, they would presumably reflect estimates of the end payment shares. Should the project company need higher inputs in its equity capital from the shareholders than expected, unless otherwise agreed, the distribution of the inputs would in practice correspond to the shareholdings, in which case it may also become desirable to adjust the shareholding relations as a consequence. It would be a good idea for the shareholders to agree in advance on the principles of doing so in these situations.

At least during the construction period, the project company will need temporary financing, as user fees will be accumulated over the long term, and obtaining EU funding and property development benefits may also take a long time. The working group considers that if the company model were used to finance major infrastructure projects, the costs of any borrowing should be minimised, unless other benefits can be obtained to balance out for the higher costs, for example through the investor's expertise or the incentive effects of their involvement. If the sole aim is low financing costs, the central government and municipalities would be a natural choice as the company’s shareholders, who would invest in the company’s equity capital without a revenue requirement. The central government and municipalities could also guarantee the loans taken out by a company owned by them, at least in proportion to their shareholdings. Even in this case, loans taken out by the company will not be as cost-effective a form of financing as budget funding, which is why the shareholders could also lend money to the company directly.

Decisions on investment project implementation should be made as part of the overall analysis of central government finances and the national economy and the 12-year transport system plan adapted to it. This is why the working group does not express an opinion on individual projects. Once the working group has submitted its report, the central government should assess, first of all, if implementing a significant transport infrastructure project (e.g. a fast rail link) is desirable; if yes, it is necessary to consider which of the possible project alternatives should be prepared further and negotiated on between the parties, and if the project company model or some other model should be selected to implement it. The most natural setting for making such decisions is the government programme.

If a decision is made to move forward using the project company model, the impact assessments and design input data of potential projects should be prepared in cooperation between the Ministry of Transport and Communications (including the Finnish Transport Infrastructure Agency), ownership steering of the Prime Minister's Office and the Ministry of Finance; initial negotiations with the other shareholders and financiers of the potential project company would have to be conducted; and, underpinned by a compilation of extensive background information, a proposal on the projects to be brought forward and the principles to be used would have to be submitted to the government for approval. After this, binding negotiations on the project company's shareholding structure and shareholder agreement as well as any other necessary principles should be conducted, and the project company should be established, the required reservations in central government funding should be made (e.g. framework), the necessary administrative permits and plan modifications should be applied for, and applications for as great an amount of EU funding as possible should be submitted for the project. These phases can and should, as far as possible, be implemented simultaneously and with overlaps. As the working group did not examine any specific infrastructure projects, the aspects related to the process are presented as general remarks, and detail can be added to their precise contents in each individual case based on its characteristics.