Scottish Futures Trust (SFT) submission of 5 June 2023

PE2004/C: Abolish the use of Public Private Partnerships in Scotland

SFT has worked with partners to develop a range of delivery routes for public infrastructure, including public and privately funded and financed structures. This paper responds to the Committee's request for our views on the above petition.

<u>Definition of PPPs</u>

Public Private Partnerships ('PPP') include many types of long-term arrangements between the public and private sector.

The detail suggests the petition's focus is on a certain form of PPP, namely

> *PPPs for the design, build, **private financing,** and maintenance of **publicly funded** assets under long-term contracts between a public authority and a private sector partner*.

We use this definition of PPP throughout. We also use the terms "funding" and "financing" throughout. All infrastructure requires **funding** - ultimate payment for the asset by tax-payers (via public sector budgets) or private consumers, either as the infrastructure is built or as it is used. **Financing** represents borrowing from public or private sources to pay for construction that cannot be afforded as the asset is built, and must be repaid from one of the sources of funding as the asset is used.

In Scotland this type of PPP contract has been used to deliver **'additionality'** – where this investment in assets is 'in addition to' the capital budget available to Scottish Government (SG). No capital budget is needed in the years that the asset is built, but resource budgets are used whilst the asset is being used.

The total amount paid for the asset over 25-30 years is significantly higher than its capital cost because it includes the cost of the finance and maintaining the asset to a specified condition, as well as its initial design and build.

Following changes in European accounting rules, the recent **privately financed PPPs** used by SG to deliver additionality known as the Non-Profit Distributing programme and hub DBFM (Design, Build, Finance, Maintain) were discontinued in 2015 and 2019 respectively. These arrangements were adopted following the global financial crisis and before the Scotland Acts gave Scottish Ministers limited borrowing powers.

Conditions for the model proposed in the petition

The petition recommends a new model based on public finance through prudential borrowing. Prudential borrowing is the regime under which Local Authorities may borrow to finance capital expenditure. It is not available to Scottish Ministers or their sponsored bodies.[1] We understand that to work for Scottish Ministers or sponsored bodies, the petitioner's suggestion requires a renegotiation of the Fiscal Framework. We make no further comment on that aspect and set out below our understanding of current arrangements for additionality for SG and Local Government relative to the petition.

Scottish Government infrastructure

SG asked SFT in 2019 to explore options to continue to deliver additionality of investment within current powers, technical rules and using private finance. SFT published its Options Appraisal recommending a PPP model based on the Welsh Government's Mutual Investment Model (MIM). SFT set out the relative costs of public and private finance and noted that "should greater borrowing powers be made available to the Scottish Government, this would provide a lower cost financing option to deliver additionality" as public financing is generally cheaper than private financing where the private financiers take some project-specific risks.

SG has included the Mutual Investment Model as an infrastructure investment approach available to central government bodies who cannot borrow since 2019. It is currently being explored, but there are no MIM projects in procurement / delivery.

Local Government infrastructure

[1] Borrowing - SPFM

For Local Government, which has access to public borrowing, since 2019 SG does not support the type of PPP that the petitioner is calling to abolish.

SFT, in conjunction with Scottish and Local Government, have collaborated designed and successfully delivered a number of publicly financed models to deliver additional infrastructure investment in Scotland. These include:

- **Outcomes Based Funding** model for the Learning Estate Investment Programme[2]
- **Growth Accelerator** – e.g., Dundee Waterfront, Stornoway Deep Water terminal, St James Quarter[3]
- **Housing models** such as National Housing Trust[4]

Conclusion

Significant investment in infrastructure is required to address challenges faced by society. Various approaches are likely to be required as current budgets may not be sufficient for investment needs.

In considering infrastructure investment SFT's understanding is:

a) All infrastructure investment must be paid for (funded), generally by taxpayers or consumers either from current resources as it is built, or future resources as it is used.
b) Any "financed" investment will be more expensive than one paid for from current resources as there is a return to be paid, generally in the form of interest, to the provider of finance.
c) Financing of investment provides additionality of capacity to invest now, over and above current capital budgets, to be paid for over the longer-term as an asset is used.
d) Public financing – whether borrowing by Scottish Ministers or Local Authorities - will generally have a lower cost of finance than private financing of an asset where the private financier takes an element of project-specific risk.
e) Public financing by Local Authorities is governed by the prudential borrowing code and not specifically capped in quantum, whereas borrowing by Scottish Ministers is capped in the Fiscal Framework.
f) SG does not support privately financed PPPs by Local Authorities where public borrowing is available.

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[2] Learning Estate Investment Programme
[3] Growth Accelerator
[4] Housing - NHT

g) SFT has worked with Scottish and Local Government to develop and successfully deliver publicly financed approaches to deliver additional infrastructure investment in the Local Authority sector which operates under the prudential borrowing regime.
h) MIM is an available option for private financing to deliver additionality of infrastructure investment for SG and its bodies which are subject to Fiscal Framework borrowing limits.
i) SG would require a detailed business case on a case-by-case basis to determine the value for money and deliverability of any such MIM investment, taking into account the likely cost of finance and value delivered by the additionality.

We would be happy to discuss this in more detail with the Committee.