



# STSG: Funding Scottish Transport

Overview of policies,  
opportunities and  
practise

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2 October 2008

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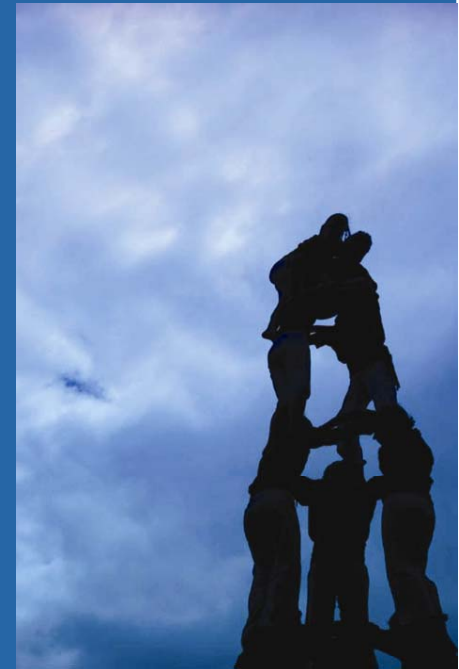
# Contents

## 1. Policy framework

## 2. SFT

- Vision
- Structure
- Opportunities

## 3. Reaction



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# Investment Framework

## Policy Context:

- Scottish Government Economic Strategy – strong focus on infrastructure
- Wealthier, Fairer, smarter, healthier, Safer, stronger and greener Scotland
- Scottish SR07 – tight settlement, but growth in infrastructure investment
- Infrastructure Investment Plan 2008
- IFRS

# Investment framework

## Infrastructure Investment Plan Key Points:

- £14 bn over 3 years
- £35 bn over 10 years
- 30% of this is Transport investment
- Delivery – D&B; partnership; NPD
- Funding – public (75%) and private (25%)

# The Vision for SFT

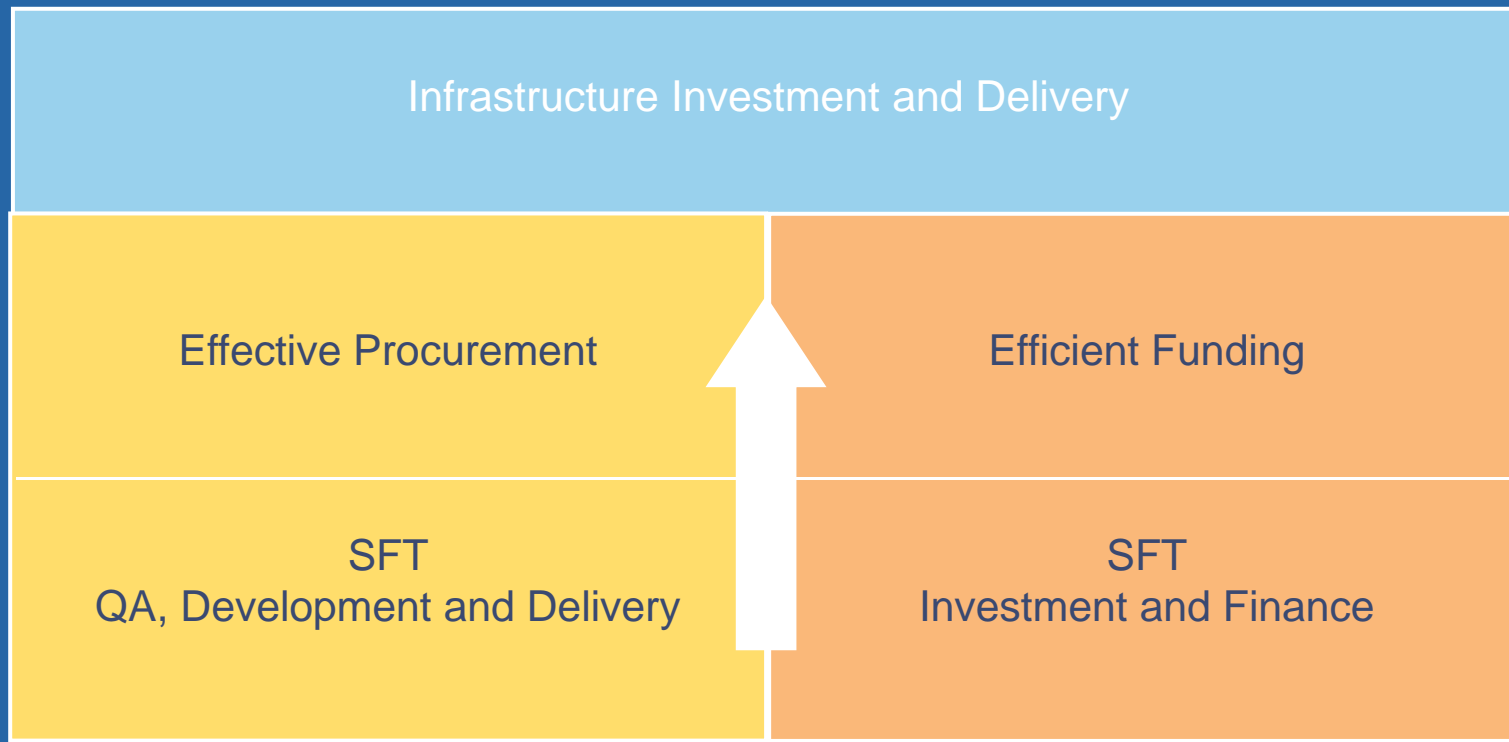
A cross cutting public sector initiative to deliver efficient, sustainable and good quality infrastructure investment, through improved planning, development, delivery and funding solutions.



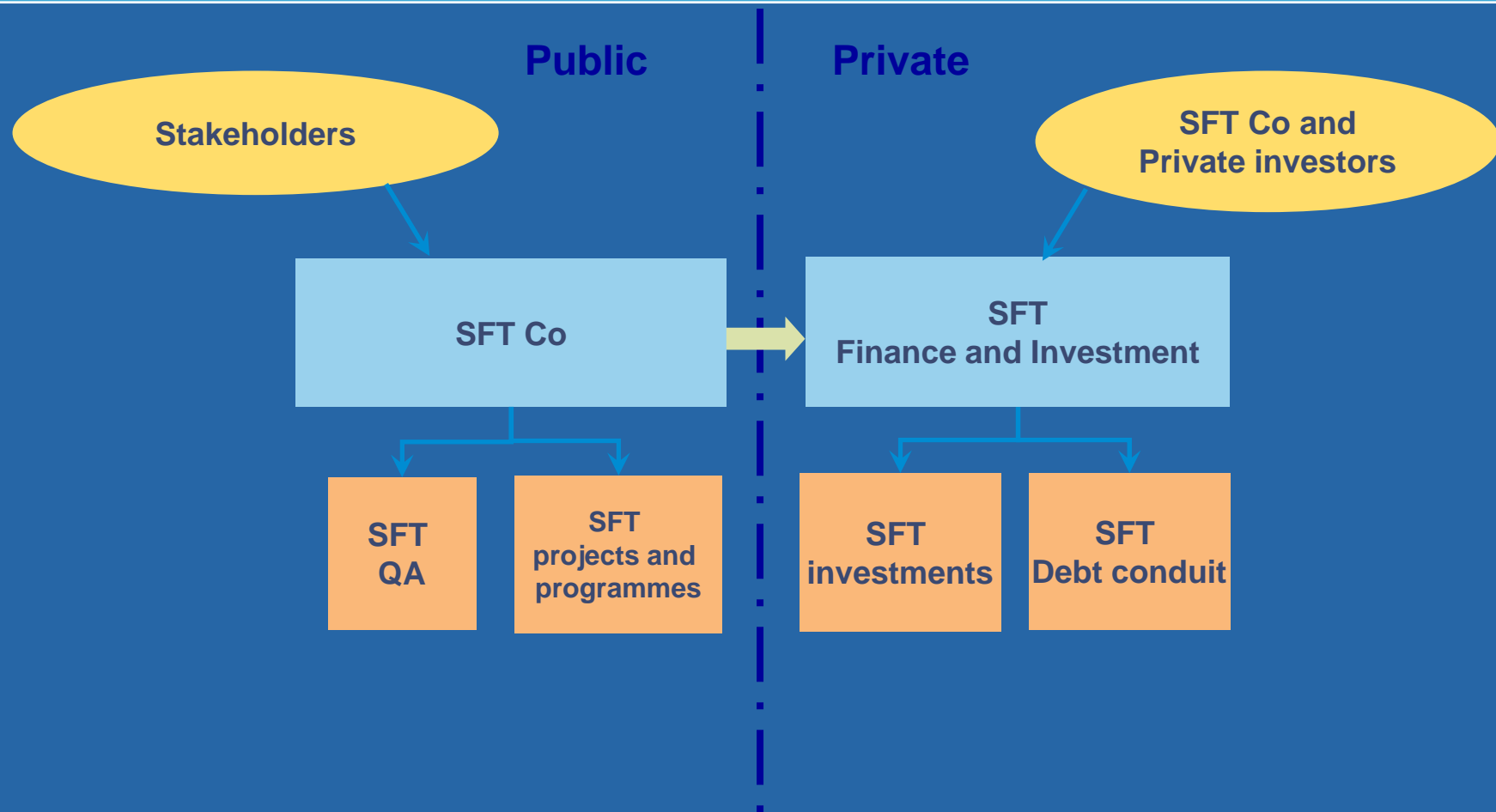
## SFT – Key Points

- Scotland's economic growth needs high quality support for delivery and funding
- Scope for more collaboration in way public sector prepares and handles major infrastructure
- Broad public sector governance envisaged
- Scope for efficiency savings of £100 -150m pa
- Important to build market capacity
- NPD at heart of SFT and partnerships
- Dialogue on SFT role and activities will continue

# SFT – Areas for Activity



# SFT – Organisation





# SFT – Time Line

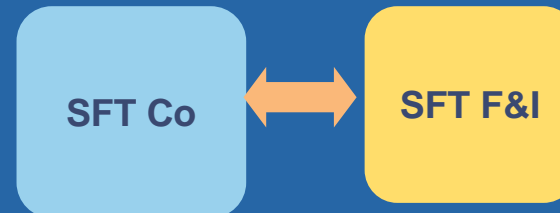


Summer 2008



SFT set up, carries out business planning for SFT F&I, and commences early activities.

2009



Information Memorandum launched for SFT F&I

# SFT – Will Deliver....(From Business Case Document)

Concept	
Asset provision by alternative entities	Financing additionality
Innovation in rail infrastructure delivery	
Finance aggregator for SG funded private bodies	
Finance conduit / framework funder (aggregated & competed senior debt)	
Efficiency measures in existing PPP deals	Financing efficiency
Underpinned Financing of new NPD projects	
Social housing - funding change catalyst / aggregator	
Funding vehicle for asset backed regeneration	
Promoting / introducing model for tax incremental financing (TIF)	
Risk capital investment in infrastructure	Delivery activities
Programme development & procurement - Schools, waste, hub etc.	
Asset efficiency / value realisation (inc surplus assets)	
Supporting on Balance Sheet NPD	
Advice / infrastructure planning / diligence functions	

# SFT – applicability to transport

## Concept

### Innovation in rail infrastructure delivery

- focuses on the role that SFT could play in supporting the delivery of rail projects through an NPD (“Non-Profit Distributing”) structure, to maximise value.

## Possible interface with Transport

- Potential link to the ongoing development of Borders Railway, and other rail projects going forward

### Finance conduit / framework funder (aggregated & competed senior debt)

- SFT arranges finance for projects or programmes to deliver greater efficiencies from planned investment.
- This could include facilitation of Local Authorities grouping together for a Bond issue.
- adopt a due diligence role to mitigate risk.
- benefits in lower cost of finance from the “bulk funding” of aggregated projects.

- Potential to aggregate a range of projects that could be attractive to a particular segment of the market
- If a structure included Local Authorities, to facilitate a grouped Local Authority financing in the form of a bond

### Efficiency measures in existing PPP deals

- leverage value from existing PPP projects co-ordinating contract improvements and potentially re-financings.
- Any such approach would need to address the private sector interests as owner of the entity delivering the PPP project as well as those of the public sector.

- A number of existing PPP deals in the transport (road) sector exist to which this could apply, in addition to those proposed such as Borders Rail, M80, M8 and AWP

# SFT – applicability to transport

## Concept

### Underpinned Financing of new NPD projects

- underpinning by the SG of a proportion of senior debt
- enable the initial senior debt to be secured on attractive terms,
- regard to risks retained through underpinning obligations

### Risk capital investment in infrastructure

- SFT as an investor (or co-investor) of risk capital
- includes establishment of an SFT JV investment vehicle between public sector and private sector investors

### Supporting on Balance Sheet NPD

- leading role in continuing a programme of NPD projects
- adding value through standardisation, due diligence and potentially combined with the finance conduit function.

### Advice / infrastructure planning / diligence functions

- offers a solid platform of skills and co-ordination to support SG's range of project, programme and financing activities.
- principle objectives would therefore be: a) to ensure consistency in advice to Ministers; b) to guidance and standardisation c) to develop innovative delivery models; d) to apply QA rigorously e) to drive efficiency and remove duplication; and f) to allow representation of all market interests.

## Possible interface with Transport

- If an on balance sheet financing structure is used (eg on balance sheet NPD), cost of finance could be reduced and hence value for money enhanced

- If a project finance (NPD) structure is adopted then the SFT could be used as a vehicle to bring in private sector risk capital (subordinated debt).

- If an NPD structure is adopted then SFT would be likely to have an oversight / policy role on the adoption and development of NPD principles

- Major Projects Review – SG governance and oversight functions may pass to SFT
- Infrastructure Investment Planning – SFT may take on a coordination role of capital budgeting across SG and hence for transport projects fitting into the budget programme
- Market Management –Where there are synergies and similarities in terms of market interest, bidding resource etc

# Reaction

- Everybody – Where is the deal flow coming from and when?
- Councils – Where is the money?
- Investors – Is it still worth being in Scotland?
- Contractors – Not another different structure to learn / bid?



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