CPPR Briefing note

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INFRASTRUCTURE & BORROWING - EMERGING ISSUES

This briefing note sets out to explore in some detail the major projects and programmes of spend that make up the headline £60 billion of investment funding that was announced last week and to understand where and how the investment is to be delivered.

It also looks at the importance of understanding the underpinning fiscal rule that limits future revenue commitments to related capital investments and that is set to drive current and future capital investment.

Executive Summary

The Infrastructure Plan

- The Scottish Government's updated Infrastructure Plan confirms not only its favoured projects but also its intent to utilise whatever financial routes are available to secure Scotland's economic and social infrastructure. With the traditional grant-funding route now severely constrained, the Scottish Government is more than ever dependent on private sector finance to help it deliver. However, continued uncertainty in the UK debt and capital markets only adds to their challenge.

- The Government's headline figure of up to £60 billion of investment covers the period from 2016 to 2030 and is based on an assumption of £3-4 billion a year total capital spend. This excludes the investment being secured over the 2011 Spending Review period to 2015.

- This £60 billion figure includes an allowance for maintenance spend but the plan does not make it clear just how much will be used to maintain Scotland's existing public assets. Maintenance can be costly with the plan indicating it could be up to £1.8 billion a year, although some of this maintenance activity will be covered by rents and charges as well as through the existing PFI/PPP arrangements.

- The spending totals associated with the main projects in the new plan are difficult to analyse as:

    - Not all relate to government spend e.g. investment in the energy grid which will be undertaken by the power companies (£6-8 billion)
    - Many of the funding sources are currently unknown

    - Some important projects are dependent on the co-operation of other funders eg the high speed rail link (£8-9 billion)
    - As a result we can have most confidence in the future of those projects being funded through DEL capital

- Priorities are not shown in the plan but can be implied from the accompanying press release. However, many of these are not DEL capital funded which raises the question, will funding sources be altered if problems arise?

- The plan covers the next 20-years and so it is inevitable the capital values ascribed to a large number of the projects will be high level and subject to revision.

The Fiscal Rule

- The new fiscal rule limits the annual revenue resources to be used to secure non-grant funded investment spent on capital to 5% of total DEL, or just over £1.4 billion by 2014-15.

- Currently we know that by 2015 previous PPP/PFI projects will account for around £1 billion of this and the new Scottish Government commitment to another £250 million NPD and RAB supported activities, leaving around £180 million before the fiscal rule limit is reached.

- This "spare" capacity seems small in comparison to the tens of billions of future projects that may be funded in a way that contribute to this fiscal rule limit.

- Many questions remain over the profile of such future payments and over how this might fit in with the fiscal rule.

- Again, more detail is needed in order to fully comprehend the implications of this new rule for future funding limits and sources. Furthermore, greater technical detail also needs to be forthcoming. For example, is this an annual cap never to be breached irrespective of circumstances?

Two general points also apply to both the investment plan and to the fiscal rule. The first is that a monitoring arrangement needs to be set up to keep a close eye on how 'to plan' things are proceeding. The second is that greater clarity is needed over how both fare in terms of providing the best fillip to improving economic growth. Little in the way of monitoring has been outlined so far and the new investment initiatives are stated as being of economic benefit without the supporting evidence required to show how and when this will arise.

Moving Forward

While last week's report is an important step forward in our understanding of future investment plans, more detail is needed around four key areas in order to maximise its potential usefulness:

First, how much of the projected £3-4 billion funding requirement is actually for the Scottish Government to fund. That means providing an estimate that excludes all contributions from third parties such as the energy companies and housing tenants.

Second, the Scottish Government needs to signal how much of this annual global figure is then to be allocated to (a) maintenance activities, (b) DEL capital supported investments and, (c) other investments such as NPD and RAB supported projects. A profile of this allocation should also be available year-on-year over the full planning period.

Third, we then need greater clarity around what this will mean for individual projects. The issue of commerciality and the potential for the release of such information to undermine negotiations may mean project-by-project data will have to be provided once all parties to them have legally committed to their implementation in full.

Finally, to provide the necessary assurances that Scotland's public finances are being prudently managed, the Scottish Government needs to provide the detailed profile, year-on-year, that illustrates how its investment intentions are, and will remain, within the fiscal rule.

Introduction

The Scottish Government's updated Infrastructure Plan confirms not only its favoured projects but also its intent to utilise whatever financial routes are available to secure Scotland's economic and social infrastructure. The 2005 and 2008 versions of the plan were compiled during a time when grant funding was expected to remain high and even rise. With that route now severely constrained, the Scottish Government is more than ever dependent on private sector finance to help it deliver such plans. Continued uncertainty in the UK debt and capital markets only adds to their challenge.

Both the 2011 Scottish Spending Review and the recently published Infrastructure Investment Plan[1] confirm this strong desire to secure all possible sources of funding in order to help maintain its infrastructure ambitions. However, with annual capital grants (DEL capital) set to half in real terms between 2009-10 (the peak year) and 2013-14 (the current low point in the cycle), other sources[2] of funding are needed to help deliver such ambitions.

All such alternative sources are forms of borrowing which, unlike DEL capital, have to be repaid. The repayments for some will come from user charges (ie, non-domestic rates for TIF and housing rents for NHT). For RAB and NPD, as well as for some of the additional local government borrowings funding, repayment will come in part or wholly from future Scottish resource DEL. So, securing more investment today has consequences for future Scottish Government budgets. This is on top of the future funding required to pay for the PFI and PPP-funded investments secured by previous Scottish Administrations.

This briefing sets out to explore in some detail the major projects and programmes that make up the headline £60 billion of investment funding that was announced last week and to understand where and how this investment is to be delivered.

The briefing also looks at the importance of understanding the underpinning fiscal rule that limits future revenue commitments that will be required to repay the borrowings used to deliver the current and future capital investment plans.

PART ONE

The Infrastructure plan

Projected project pipeline

The Scottish Government's Infrastructure Investment Plan (IIP) indicates the breadth and extent of its ambitions for developing Scotland's key economic and social infrastructure. In launching the new plan, the Cabinet Secretary, emphasised that it details "plans for up to £60 billion of spending right up until 2030" and that the plan "includes 54 major infrastructure projects and 33 programmes"[3].

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[1] Scottish Government Infrastructure Investment Plan, 2011, see http://www.scotland.gov.uk/Publications/2011/12/05141922/0
[2] See Glossary for definitions.
[3] See press release, http://www.scotland.gov.uk/News/Releases/2011/12/06104509

Scottish government officials have confirmed that the “up to £60 billion” figure actually applies to the 15 years after the current spending review period, ie, after 2015-16. This results in a projected annual average spend of £3-4 billion[4] over this 15 year period. As the funding is in cash terms it also implies that this annual figure will actually be declining in real terms over the period[5].

Data issues

It is not made clear from the plan whether figures are in real prices (ie, 2011 prices) or are on a money-of-the-day basis.

This adds to the Scottish Government’s general health warning on data quality when aggregating the various project values.

Since the Scottish Government has confirmed the £60 billion headline figure is in money-of-the-day, this briefing assumes all others will be too unless otherwise stated.

The plan highlights uncertainty remains where prioritization decisions have not yet been made and information is being provided only for those projects estimated to be in excess of £20 million.

It is also not clear if the values presented are total capital values or are estimates solely of the Scottish Government’s contribution.

No assessment of the annual allocation of funding is provided, thus limiting the value of this plan for on-going monitoring purposes.

The accompanying tables to this report are drawn from the various Annexes in the IIP. The values used in this briefing and the allocations of each project to a particular funding category are CPPR’s best guess based on this data.

While the bottom of the £3-4 billion range may well be achievable in the long run, ie, into the period post 2016, it is impossible to say at present how achievable the top of this range might be. Furthermore it is unclear how such a figure relates to previous equivalent spending arrangements since data for aggregate DEL and non-DEL capital are not available.

Table 1 outlines the overall investment totals derived from the various Annexes in the IIP. However, the information in this table is of limited use when trying to understand the Scottish Government’s actual investment spending plans over the next 20 years (as distinct from the projected capital spend anticipated to be undertaken in Scotland), for the following reasons:

On maintenance costs (Annex A):

- The status of the maintenance spend is unclear. It could be argued that such spending should have a priority over new build should funds become even more scarce. It is essential that Scotland’s trunk and local roads, its water infrastructure,

[4] This estimate appears to be based on an analysis of probable funding available based on £2.1-2.7 billion a year of DEL capital, (ie, rising in real terms over the 20 year period from an initial £2.1 billion) to which is added £0.3-2 billion a year of non DEL funded capital investment. Hence the implied real terms fall in total spend over time comes from the non DEL element

[5] Adding the £9.4 billion (cash terms) DEL capital allocated for this spending review period would take the total to almost £70 billion.

its many schools, hospitals, FE & HE buildings, its prisons estate and its court buildings etc, are adequately maintained. If the annual maintenance estimate provided in Annex A is multiplied over the 20-year planning horizon, this alone consumes £35 billion of support.

- Substantial amounts of maintenance expenditure will actually be paid for via charges, for example, housing rents and water charges as well as via existing PFI/PPP arrangements. It is not clear how much should be netted out to adjust for this.

- Finally, some of the maintenance charges are likely to be paid for via DEL resource and not DEL capital.

Table 1: Number and value of projects in IIIP (cash terms)

	New Infrastructure OR Maintenance	No. of projects & programmes	£ million[6] (low est)	£ million (high est)
Annex A	M	10	1,796 pa	1,796 pa
Spending over 20 years[7]			*35,920*	*35,920*
Annex B (not included in Annex C)	NI	17	274	276
Annex C	NI	68	31,136	39,027
TOTAL				
- Inc Maintenance (over 20 years)		95	67,330	75,223
- Ex Maintenance		85	31,410	39,303

Source: Scottish Government Infrastructure Plan, 2011

On projects (Annex C):

- Some projects are expected to be funded via a mix of funding types. For example, the majority of the large capital spend on Scottish Water comes from charges with a minority paid for via DEL capital.

- In other cases, typically new projects, the plan does not state what the split between DEL and other funding sources is expected to be.

- Some privately funded projects are only connected to government indirectly, via influencing decisions. In particular, the large prospective spend on upgrading the energy grid is estimated to involve an investment of between £6 billion and £8 billion. No one would disagree that this is a key part of Scotland’s key economic infrastructure. However, the Scottish Government’s is neither committed to paying for the capital expense nor any annual installments relating to such capital expenditures.

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[6] As highlighted in the box above, the price basis is of the maintenance value in the IIP is not clear. In this instance we are assuming, as before, the aggregate figure is a money-of-the-day estimate.
[7] This 20 year maintenance value is based on a simple 20 times the annual figure provided in Annex A. No adjustment has been made for any inflationary pressures arising over that period.

Funding sources

The availability of sufficient funding, both public and private, remains a key uncertainty. The Scottish Government provides a projection for capital DEL over the period and this is set to grow at just under 2% a year, in real terms (see Figure 2, page 10 of the IIP). Whether this will be the case is impossible to say at present. It could be higher or lower. Although, the Scottish Government could ensure this rate of increase on the capital side by guaranteeing that any potential shortfall is found from moving funds from the resource budget into the capital budget.

On the private funding side, things are probably even less certain, with funds availability and willingness to invest in such projects uncertain, even in the short term.

The £30-40 billion from Annex C is split between different sectors and different funding sources (see Table 2 and the Appendix for more detail).

Table 2: Projected investments and proposed funding sources[8] (in cash terms)

Department	No projects	£ million (lower est)?	£ million (upper est)?	% total funding (lower est)
DEL Capital	39	8,736	9,001	28%
RAB	6	2,294	3,304	7%
NPD	13	2,836	3,001	9%
Private	3	6,050	8,050	19%
To Be Confirmed	7	11,221	15,671	37%
TOTAL	68	31,136	39,027	

Source: Scottish Government Infrastructure Plan, 2011

- DEL capital remains a very important source of funding even though over the 4 spending review periods it is projected to account for only between a quarter and a third of the total funding required.

- Over 85% of this projected DEL capital is set to be spent by 2019 (ie, the end of the 2nd spending review period).

- All the NPD-supported investments, amounting to £2.8-3 billion, are currently projected to be completed by the end of 2019.

- Three RAB projects amounting to £1.5-£1.6 billion are projected to be completed by the end of the current spending review period (ie, by March 2015).

- While the 'To Be Confirmed' funding source is large (accounting for around 40% of the total) it seems unlikely that this will convert into DEL capital funding at some later date and is likely to be one of the non-DEL alternatives.

[8] The number of projects identified reflects the headings used in the Scottish Government's infrastructure investment plan Annex C. There may be a number of discrete projects covered by the project or programme title. The funding estimates may also be under-estimates as projects and programmes are further developed.

- Two hospital projects (amounting to almost £200 million) and some of the Schools for the future project and Scottish Water are, in effect, sunk funding, ie the funding has already been spent and, nine such projects have yet to have any estimated value identified.

While Table 2 is a useful overview, it is seriously affected by a few projects whose status is exceptional.

- For example, the largest project, the high speed rail link (£8-9 billion), is at the end of the timeline, is dependent on agreement with the UK government and has an unknown funding source.

- The second biggest project, the energy grid upgrade (£6-8 billion), is currently expected to be undertaken by the two relevant energy companies without any financial contribution or payment from the Scottish Government.

- Equally the Scottish Water investment (£2.5 billion to 2015) is already partly spent and is also funded in large part via charges rather than just government funding.

Adjusting the total for these three projects reduces it by around £16-20 billion, almost half the total shown in Annex C, with a much bigger share (a half rather than a quarter) being funded from DEL capital.

Priorities

Given the straitened times that this plan has been produced in it is crucial, if clarity over investment plans is to be gained, that a degree of prioritisation is outlined. The IIP does not explicitly prioritise the proposed projects, or state the relative priority of new build over maintenance spend.

One possible signal as to what the Government's top priorities might be are those mentioned in the press release that accompanied the plan.

This highlighted the following projects:

Roadways:	A9 and A96 dualling Replacement Forth crossing
Railways:	Scottish rail upgrades Hi-speed rail link with England
Digital:	Next generation broadband
Health:	Southern General Hospital Edinburgh Sick Kids hospital
Education:	School upgrades New colleges for Glasgow, Inverness and Kilmarnock
Housing:	30,000 new homes

It seems reasonable to assume that those to be funded by DEL (resource and/or and capital) are the most secure, eg, the Southern General; the replacement Forth Crossing;

some of the new homes; and the school upgrades.

Next, in terms of security, is probably the Scottish rail upgrades which are largely RAB funded. Key to this will be ensuring Network Rail is working to the same construction timetable as the Scottish Government.

The 3 new colleges and the Sick Childrens hospital are dependent on NPD funding. Some are at advanced stages of procurement so again, should be secure.

The broadband upgrade is supported by DEL capital but the majority of the funding is dependent on the private sector and so is less certain.

Finally, three of the biggest projects - the high speed rail link and the two road duallings - are under the ‘to be confirmed’ funding category.

Of course, it could be that if non-DEL funding sources became problematic in the future then some or all of these top priorities would be moved over to DEL funding to secure them. The timing of their commencement may then, however, need to be extended.

Issues to be considered

The 20-year+ plan signals those projects the Scottish Government is seeking to endorse and so, by default, those it is not. What the plan does not provide is any basis for monitoring performance. For example, the plan is silent on what annual spending is scheduled, project-by-project. This is essential for assessing whether projects are being delivered on-time and on-budget. Such detail should be available internally and so, once projects reach financial close, could be made public to aid the Parliament undertake effective budget scrutiny and monitoring of Scotland’s increasingly scarce public spending. **It is worth noting that this type of monitoring data has been an area of debate within the Parliaments for many years, and not just under this Administration**.

Between them, Transport (39%), Water (18%), Health (14%) and Education (12%) are projected to consume over 80% of the proposed DEL capital, RAB and NPD funding. As funding becomes more scarce, the need grows for the Parliament to understand the basis upon which such sector and project funding allocations have and will be made, ie, are we spending the scarce resources on the right projects? Are these the best projects to be undertaken for the Scottish economy both in terms of sustainable economic growth as well as jobs?

PART TWO

The fiscal rule

Using non-grant sources to fund infrastructure means future DEL resource will be needed not only to pay interest charges but also to repay any associated debt[9]. The Cabinet Secretary reaffirmed the Scottish Government's limit on how much will be top-sliced from future DEL resource.

> *We will cap our future revenue commitments related to capital investment to a maximum of 5% of our expected future annual [Total] DEL budget. These revenue commitments will include existing PFI commitments we have inherited, future debt repayments once we have borrowing powers, and payments made under both the Non-Profit Distributing model [NPD]* and Network Rail's Regulatory Asset Base *[RAB][10].*

Why we need to have a fiscal rule?

The total Scottish DEL budget comprises a capital (DEL capital) and a resource (DEL resource) element.

DEL capital is in effect a public sector grant used to fund investment projects undertaken by the government (and those agents that receive DEL capital support from the Scottish Government).

Where infrastructure is funded via non-DEL capital routes (eg, via private finance in the form of PFI, PPP, NPD funding), the Scottish Government still has to make annual payments to cover interest costs and repay the underlying associated borrowings. These payments come out of the DEL resource budget.

These DEL resource payments relate to a legal obligation to repay and so are effectively top-sliced off the resource DEL budget.

Hence, the Scottish Government's fiscal rule, while relating to capital projects, in practice, is being applied to an element of the non-capital (ie, resource) DEL budget.

It may aid readers to think of the Scottish DEL budget as consisting of three elements rather than two:

- a capital element
- a resource element
- a resource element that relates to (re)payment of non-grant funded capital spend.

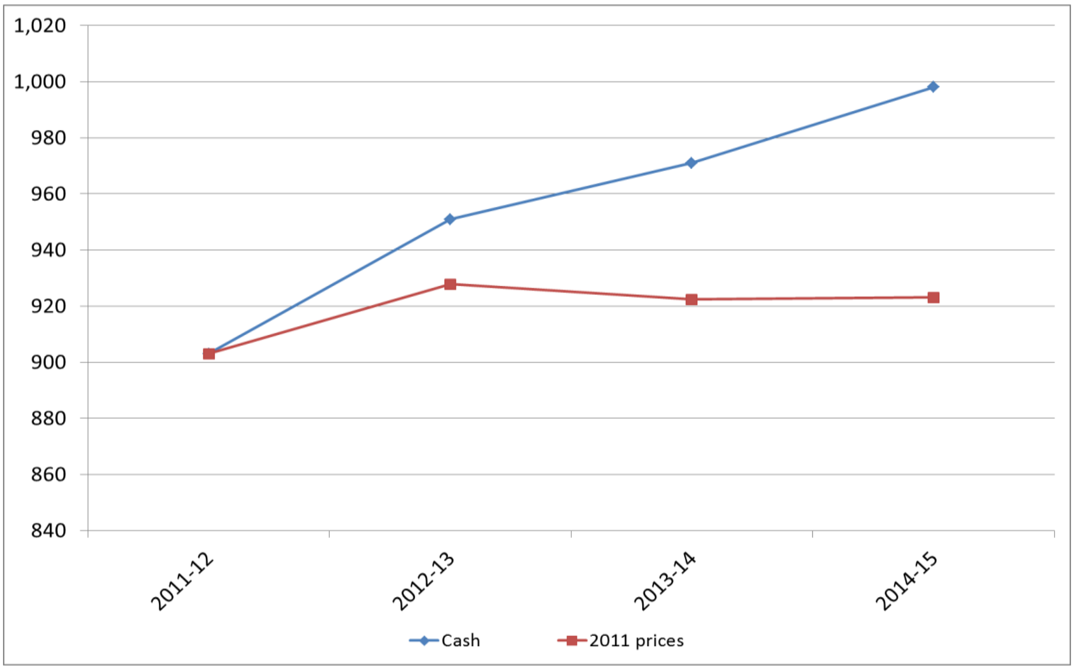
[9] These costs may also include transaction fees (eg, bank, legal, technical and credit rating agency fees) as well as annual maintenance costs if on-going asset maintenance is also a part of the NPD arrangements.
[10] Scottish Government Infrastructure Investment Plan, 2011, page 11.

The implications of such a rule needs greater analysis as ring-fencing future Governments' budgets inevitably limits their ability to accommodate future policy changes. Looking at what is already in the pipeline may help identify just what further analysis is needed.

Current PFI and PPP payments

The draft budget shows that the current payments for historic project-specific borrowings (ie, PFI and PPP payments) are projected to reach just under £1 billion in cash terms (around £920 million in 2011 prices[11]) by 2014-15 (see Figure 1).

Figure 1: Current PPP payments, £ million



Source: Scottish Government Draft Budget 2012-13; ONS

As Table 3 illustrates, this means more of the DEL resource budget is being utilised to pay for the various new public infrastructure (such as schools, hospitals, prisons and water treatment facilities) secured in the last 10 years. By 2014-15, these payments, as a percentage of total Scottish DEL, are set to rise to almost 3.5% of DEL resource.

Table 3: Scottish Government PPP payments as share of DEL

	2011-12	2012-13	2013-14	2014-15
% Total DEL	3.22	3.37	3.43	3.49

Source: Scottish Government Draft Budget 2012-13

[11] Real 2011 prices have been based on the GDP Deflator as the relevant deflator rather than either RPI or CPI.

In the 2011-12 Draft Budget the Scottish Government signaled that it would "*hypothecate an additional 1% of the resource DEL, which will be top-sliced to fund new NPD projects*[12]". It anticipated this will secure "*at least £250 million of revenue support which will be used to fund up to £2.5 billion of capital expenditure*"[13].

Adding this £250 million NPD and RAB supported investment programme to the 2014-15 PFI/PPP level of payments would mean that by the end of this spending review period, around 4.4%[14] of total DEL being ring-fenced in this manner

Total DEL 2015-16 and beyond

The share of total DEL being ring-fenced is not only dependent on the numerator (ie, the annual NPD/PPP payments) but also the denominator (total DEL). Since devolution, total DEL has tended to rise annually in cash terms. Although, in two years, ie, between 2010-11 & 2011-12 and 2012-13 & 2013-14, total cash DEL did fall. Whilst the UK economy continues to experience low GDP growth rates which also depresses the levels of tax income available for spending on public services, the likelihood of the Scottish Government being able to rely on fast rising cash (let alone real) terms increases in total DEL for at least the early years of the next spending review period (ie, 2015-16+) seem low. At present the Scottish Government is using an illustrative figure of 2% real terms increase per year for its Total DEL budget, up to 2030.

PPP payments 2015-16 and beyond

The current PPP payments may well keep rising beyond 2015-16, as escalation clauses[15] inherent in many if not all of the associated legal contracts are applied. If the increases in Scottish total DEL do not match or exceed the increases in the current PPP payments then the percentage of total DEL being used to fund current infrastructure will rise towards the cap of 5%, thereby limiting what else can be secured by way of additional borrowings.

Additional borrowing capacity

To understand the capacity within the current Scottish budget arrangements to fund further debt needs careful assessment.

The Scottish Government's cap on what is to be ring-fenced to fund borrowings is set at 5% of total DEL. By 2014-15 this amounts to £1,430 million. Of this, £998 million is already being used to fund the current PPP programme. The emerging NPD-

[12] See the Scottish Government, Draft Budget 2011-12, p42.
[13] Note that this £250 million is unrelated to the £250 million a year transfer from resource to capital budgets (up to £750 million) also introduced at the time of the Spending Review.
[14] The share of total DEL is 4.36% if the £250 million ring-fenced amount remains flat in cash terms by 2014-15 or 4.43% if it is increased by inflation (of 2.5% per annum).
[15] The cost of maintaining the PFI/PPP assets rests with the various services providers. However since contracts are for a period of years ie, not necessarily set annually, there is usually a mechanism that permits some or all of the associated cost inflation to be factored into the unitary charge paid to the provider by the responsible public authority. This means PFI/PPP payments may well rise faster than any underlying rise in total DEL received by the Scottish Government. This then has the potential to erode the value spare of total DEL that can be used to fund additional new investment.

supported programme of investments will consume a further £250 million. This leaves around £180 million annually to support any other infrastructure secured via additional borrowing, be that RAB, bond or debt procured (see Table 4).

Table 4: Projected borrowing capacity @ 2014-15, £ million, (cash)

	NPD payments @ £250m
Payment capped @ 5% Total DEL	1,430
Current PPP payments	998
Projected NPD-payments	250
'Spare' total DEL	182

Source: Scottish Government Draft Budget 2012-13; ONS

How much more borrowing this will secure will depend on a number of factors most notably (but not exclusively) would be:

- the interest charged on debt drawn
- the number of years over which the debt can be repaid
- the amount of the associated annual payment (NPD/RAB charge) used to fund any on-going maintenance of assets secured

Based on the government assumption that £250 million of revenue support can fund up to £2.5 billion of capital expenditure, then this might suggest that the remaining £180 million odd of 'spare' capacity could fund a further £1.8 billion of capital expenditure. However, this is a spot estimate based on unknown assumptions used by the Scottish Government. In fact there are a series of significant variables that can affect how much investment this sum might support.

Table 5 illustrates how the two key variables (interest rates and repayment period) influence how much additional infrastructure the current Scottish block might potentially support.

Table 5: Projected additional borrowing 2015-16+ £ billion, (cash)

Spare Total DEL at 2014-15			**£180 million pa**	
Repayment period (years)		**10**	**20**	**30**
Interest rate (pa)	**2.5%**	1.45	2.40	3.10
	3.5%	1.35	2.15	2.65
	4.5%	1.25	1.90	2.35

Source: CPPR own calculations

The additional borrowings that could be supported from this 'spare' DEL resource ranges between £1.3 billion (paying interest at 4.5% pa and repaying over 10 years) and £3.1 billion (paying interest at 2.5% pa over 30 years). The Government's implied assumption (of up to £1.8 billion) is towards the bottom of this range.

This range begs the question as to whether the rule might actually constrain the ability to seek funding for the non-DEL capital projects set out in the plan, at least within the assumed time horizon.

The total project funding required post 2015 amounts to around £60 billion. While some of this will not require access to Government borrowing, for example the power grid upgrade, this still leaves a large potential investment figure that needs to be squeezed into a small window of available funding leeway.

For this reason it is imperative that the Government provides evidence to show how it is monitoring its adherence to its own fiscal rule.

<u>Increased borrowing powers</u>

All of the above discussion ignores the potential impact that increased borrowing powers, at either the level proposed in the Scotland Bill or at double that level as proposed by the Scottish Government.

<u>Overview of the position with regards to the fiscal rule</u>

Due to the inherent uncertainties associated with a large infrastructure plan spanning 20 years, it is difficult to be precise over what the IIP implies for reaching the limit of the new fiscal rule.

At first glance, adding the existing PPP/PFI commitments to the current £250 million NPD commitments, it would appear that the 'spare' capacity for extra resource payments in relation to new capital projects is limited and yet the new plan outlines a number of large and expensive future projects.

The major uncertainties around this are:

- how fast the denominator of the fiscal rule, Total DEL budget, grows
- how quickly existing PPP/PFI payments fall away after 2015
- how much this is offset by inflation related increases in existing PPP/PFI payments that are not currently included
- how expensive new capital projects turn out to be (ie, the interest rate to be paid on the debt)
- how quickly the new projects are set to be paid off
- how many new projects are actually undertaken

This simple rudimentary analysis raises some interesting questions:

- Having a clear and transparent 'fiscal rule' to determine the level of total DEL to be used to support investment that involves future revenue obligations (eg, NPD, RAB, bonds and debt) is essential. It helps our understanding of the extent to which infrastructure investment undertaken now should be paid for not only by current tax payers but also by future generations. It also helps us understand just how budget flexibility in future years may or may not be constrained, as payments for PPP/PFI/NPD/RAB/debt and bonds will be top-sliced off the total revenue budget for as long as these obligations remain.

- Given its importance, is there a need for more detailed assessment of what the cap should be? What is the basis for the current 5% cap and is it an annual cap irrespective of circumstances? Is there data available to monitor performance against the cap and will this regularly published and independently verified?

- The current PPP payments (and most likely some or all of the future NPD payments) will include a contribution towards on-going maintenance for the assets secured. Assets need to be maintained and contractualising such payments means this is done even when budgets are being cut. Information on the share of PPP/NPD payments being used to fund maintenance is not publicly available. Should the fiscal rule be split into a cap with and without maintenance spend?

- Given the above uncertainties, is there now a need for more detail to be provided on how much additional borrowing can be supported for existing total DEL based on realistic assumptions on, inter alia, interest rates, debt term and maintenance payments? Should this then be outlined on an annual basis to test the validity of the planned timings inherent in the Government’s infrastructure spending plans?

Conclusions

Having a 20 year plan that outlines the Government's long-term investment intentions for Scotland's key social and economic infrastructure is extremely helpful. It allows effective planning around those projects and programmes that have been selected. It also lets those who have not been favoured know that if their investment is to be developed, funds other than those from the Scottish Government will be needed, at least in the current spending review period.

The fiscal rule is also helpful as it shows that whilst the Scottish Government is seeking to use all funds possible to deliver its ambitious plan, it will only increase Scotland's future borrowing obligations in a measured and prudent manner.

What is still needed, however, is more detail around four key areas.

First how much of the projected £3-4billion funding requirement is actually for the Scottish Government to fund. That means providing an estimate that excludes all contributions from third parties such as the energy companies and housing tenants.

Secondly, the Scottish Government needs to signal how much of this annual global figure is then to be allocated to (a) maintenance activities, (b) DEL capital supported investments and, (c) other investments such as NPD and RAB supported projects.

Thirdly, we then need greater clarity around what this will mean for individual projects. The issue of commerciality and the potential for the release of such information to undermine negotiations may mean project-by-project data will have to be provided once deals reach financial.

Finally, to provide the necessary assurances that Scotland's public finances are being prudently managed, the Scottish Government needs to provide the detailed profile, year-on-year, that illustrates how its investment intentions are and will remain within the fiscal rule.

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Appendix (I)
Projected Project Pipeline

DEPT	PROJECT		£m	£m	Dates	Funding Source?	Funding Source?
H	NHS Fife Maternity Services		170	170	2011	DEL Capital	
H	NHS D&G Acute Mental Health		27	27	2011	DEL Capital	
H	NHS Lanarkshire Aidrie Community HC		27	27	2012	DEL Capital	
H	NHS Lothian Royal Victoria		44	44	2012	DEL Capital	
H	NHS GG South Glasgow Lab Facilities		842	842	2012-2015	DEL Capital	
H	NHS Grampian Emergency Care Centre		109	109	2012-2013	DEL Capital	
E	Glasgow School of Art		50	50	2011-2014	DEL Capital	
J	Scottish Crime Campus		82	82	2013-2014	DEL Capital	
J	Parliament House Redevelopment		15	15	2014-2015	DEL Capital	
J	HMP Grampian		91	91	2011-2014	DEL Capital	
T	Clyde Fastlink		40	40	2011-2014	DEL Capital	Others
T	Intelligent Transport System		80	80	2015	DEL Capital	DEL Resource
E	Technology Innovation Centre		89	89	2012-2013	DEL Capital	private
C	V&A Dundee		45	45	2015	DEL Capital	private
C	Glasgow 2014 concert halls & theatre improvements		24	24	2014	DEL Capital	private
S	Glasgow 2014 Commonwealth Games infrastructure		75	75	2012-2014	DEL Capital	private
T	Forth Crossing		1,400	1,600	2011-2016	DEL Capital	
En	Renewable Energy inc District Heating		200	200	2012-2015	DEL Capital	
J	HMP Inverclyde		tbd	tbd	tbd	DEL Capital	
J	HMP Stirling		tbd	tbd	tbd	DEL Capital	
T	Glasgow Subway Modernisation		288	288	2011-2019	DEL Capital	Others
Ho	NHT		630	630	2015	DEL Capital	private
Ho	Fuel proverty & energy efficiency programme		196	196	2012-2015	DEL Capital	private
T	Ferry & Harbour projects		400	400	2011-2022	DEL Capital	Lease payments
T	Low Carbon Transport		tbd	tbd	to 2022	DEL Capital	
T	Maintaining Accessibility for all		tbd	tbd	ongoing	DEL Capital	
D	Next Generation BB		144	144	2012-2016	DEL Capital	
En	National Renewables IF		210	210	2012-2015	DEL Capital	
T	Stornoway - Ullapool Ferry		45	45	2011-2013	DEL Capital	Lease payments
W	Scottish Water Investment		2,500	2,500	2010-2015	DEL Capital	charges
Re	Regeneration Fund		150	150	2011-2022	DEL Capital	private
J	HMP Glasgow		tbd	tbd	tbd	DEL Capital	
J	HMP Highland		tbd	tbd	tbd	DEL Capital	
J	Criminal Courts Complex		14	20	tbd	DEL Capital	
T	A82 Improvements		200	250	2017+	DEL Capital	
C	National cultural storage, repairs & maintenance		40	40	2021	DEL Capital	
J	Emergency Services Future Comms - Airwaves		500	500	2016-2020	DEL Capital	
J	Scottish Court Replacement		10	20	tbd	DEL Capital	
T	Targeted Trunk Road Improvements		tbd	tbd	2017+	DEL Capital	
			8,736	9,001			
H	NHS Tayside Unlicensed Medicines		21	21	2013-2015	NPD	EC HUB
E	Scotland Schools for the Future		1,250	1,250	2010-2018	NPD	DEL Resource
T	A90 AWPR		295	395	tbd	NPD	
T	A90 Balmedie - Tipperty		53	63	tbd	NPD	
T	M8, M73, M74 Improvements		280	335	2016-17	NPD	
H	NHS Ayrshire & Arran Mental Health		75	75	2016	NPD	
H	NHS D&G RI Redvelopment		230	230	tbd	NPD	
H	NHS Lothian Royal Hospital for Sick Children		225	225	tbd	NPD	
H	NHS Orkney - Balfour Hospital etc		70	70	tbd	NPD	
H	Scottish National Blood Transfusion Service		35	35	tbd	NPD	
E	City of Glasgow College		200	200	2013-2016	NPD	
E	Inverness College		52	52	2013-2015	NPD	
E	Kilmarnock College		50	50	2013-2015	NPD	
			2,836	3,001			

Appendix (I cont)
Projected Project Pipeline (II)

DEPT	PROJECT	£m	£m	Dates	Funding Source?	Funding Source?
T	Borders Rail	235	295	2012-2014	RAB	
T	Paisley Corridor Rail	209	209	2012	RAB	
T	EGIP	1,100	1,100	2014-2015	RAB	
T	Highland Mainline	250	600	to 2025	RAB	DEL Capital
T	Aberdeen - Inverness rail improvements	250	500	2015+	RAB	DEL Capital
T	Aberdeen - Central Belt rail improvements	250	600	2019+	RAB	DEL Capital
		2,294	3,304			
Ho	Warm Homes Fund	50	50	2012-2016	private	SFF
En	Grid Upgrades	6,000	8,000	2012-2022	private	
En	Development of CC & Storage	tbd	tbd	tbd	private	
		6,050	8,050			
H	NHS Lothian Reprovision of Royal Edinburgh	135	135	tbd	tbc	
H	NHS Ayrshire & Arran Building for Better Care	36	36	tbd	tbc	
T	A9 Dualling	1,500	3,000	2017+	tbc	
T	Targetted Bypass Schemes	tbd	tbd	tbd	tbc	
T	High Speed Rail	8,000	9,000	2033	tbc	
T	A96 Dualling	250	500	2017+	tbc	
T	Glasgow Terminal Stations	1,300	3,000	2019+	tbc	
		11,221	15,671			
	TOTAL	**31,136**	**39,027**			
Sectors						
C	Culture					
D	Digital					
E	Eduction					
En	Energy					
H	Health					
Ho	Housing					
J	Justice					
Re	Regeneration					
S	Sport					
T	Transport					
W	Water					

Glossary of funding sources

Non-profit distributing (NPD) arrangements

A model that helps secure private sector equity and debt to fund infrastructure projects. Interest is paid the on outstanding debt and the debt is repaid over a longer time horizon than standard bank debt (typically 20-30 years). Equity holders will receive a capped rate of return.

Regulatory asset-based (RAB) financing

A financing arrangement the Scottish Government can enter into with Network Rail. Projects in Scotland that meet Network Rail’s investment criteria can be added to their asset base for which their Rail Regulator allows it to earn a pre-determine rate of return. This is what the Scottish Government then pays Network Rail to secure the rail infrastructure.

Tax incremental financing (TIF)

An approach where local authorities invest in necessary infrastructure to open up locations for new businesses to locate and which will then allow then to raise additional rates income.

National housing trust (NHT) arrangements

A scheme to secure new additional affordable intermediate rental properties across Scotland. Social housing providers agree to procure homes built by private developers. Local authorities will provide low cost (PWLB) loans to cover 65-75% of the purchase price and a 30-35% equity stake will be retained.