

# Y Pwyllgor Cyllid

## FIN(3) 17-08 (p4) Adroddiad ar yr ymweliadau rapporteur â Glas Cymru, Kommuninvest a Shaw Healthcare

**Dyddiad:** Dydd Iau 4 Rhagfyr 2008

**Amser:** 1.30 - 3.30pm

**Lleoliad:** Ystafell Bwyllgora 3

### Diben y Papur

1. I'r pwyllgor ystyried yr adroddiad ar yr ymweliadau rapporteur a wnaed fel rhan o Ymchwiliad y Pwyllgor Cyllid i Bartneriaethau Cyhoeddus-Preifat

### Cefndir

2. Cytunodd y Pwyllgor Cyllid i ffurfio grwpiau rapporteur i ymweld â modelau amgen o bartneriaethau cyhoeddus-preifat a allai fod o ddiddordeb i'r pwyllgor yn ystod cyfnod dau o'u Hymchwiliad i Bartneriaethau Cyhoeddus-Preifat

### Camau i'w cymryd

- 3.1 Mae adroddiad ar ymweliad y rapporteur â Glas Cymru i'w weld fel Atodiad A
- 3.2 Mae adroddiad ar ymweliad y rapporteur â Kommuninvest i'w weld yn Atodiad B
- 3.3 Mae adroddiad ar ymweliad y rapporteur â Chyngor Dinas Orebro i'w weld yn Atodiad C
- 3.4 Mae adroddiad ar ymweliad y rapporteur â Shaw Healthcare i'w weld yn Atodiad D - i ddilyn

## Atodiad A

### Y Pwyllgor Cyllid

#### Ymweliad Grŵp Rapporteur â Glas Cymru

**Dyddiad:** 12 Tachwedd 2008

**Amser:** 12.00 - 13.30pm

**Lleoliad:** Gwaith Trin Dŵr Gwastraff Caerdydd

#### Aelodau'r Cynulliad yn bresennol

Angela Burns (Cadeirydd)

Alun Davies

Jenny Randerson

#### Swyddogion yn bresennol

John Grimes, Clerc

Abigail Phillips, Dirprwy Clerc

#### Eraill yn bresennol

Chris Jones, Cyfarwyddwr Cyllid Glas Cymru

Neil Webb, Trysorydd Glas Cymru

#### Ymchwiliad i Bartneriaethau Cyhoeddus-Preifat: Glas Cymru

1. Cwmni preifat cyfyngedig drwy warant yw Glas Cymru. Fe'i ffurfiwyd yn 2001 ac mae'n berchen ar Ddŵr Cymru, gwasanaeth cyhoeddus hanfodol sy'n cyflenwi dŵr yfed a gwasanaethau carthffosiaeth i 3 miliwn o gwsmeriaid preifat a chwsmeriaid busnes yng Nghymru.

2. Mae Glas Cymru yn wahanol i Fyrddau Dŵr eraill gan nad oes ganddo gyfranddalwyr neu strwythur cyfranddalwyr. Yn hytrach, mae gan y cwmni Aelodau sy'n ymgymryd â rôl cyfranddalwyr, ond cânt eu penodi ar sail pro bono. Nid oes gan yr Aelodau fudd ariannol yn y cwmni a chaiff yr holl elw ei fuddsoddi ymhellach i greu dididend i gwsmeriaid. Talwyd y dididend cyntaf o £12 miliwn i gwsmeriaid yn 2003. Ym mis Ebrill 2008, talwyd dididend o £27 miliwn i gwsmeriaid.

3. Penodir Aelodau ar sail eu diddordebau a'u cefndir. Nid ydynt yn eistedd ar y bwrdd i gynrychioli cyrff neu grwpiau eraill, dim ond buddiannau'r cwmni.
4. Mae Glas Cymru, cwmni un pwrpas, yn dilyn yr un model corfforaethol â nifer o Gymdeithasau Tai. Teimlai Glas Cymru fod cefndir y Cyfarwyddwyr yn y sector preifat yn rhoi hygredded i'r cwmni.
5. Prynwyd Dŵr Cymru yn 2001 drwy ddefnyddio arian marchnadoedd cyfalaf preifat. Er i'r Llywodraeth roi cefnogaeth wleidyddol i Glas Cymru ni roddwyd unrhyw gymorth ariannol i'r fenter.
6. Mae'r Swyddfa Gwasanaethau Dŵr (Ofwat) yn gweithredu fel corff cyfryngol rhwng y Llywodraeth a Glas Cymru, gan bennu uchafswm y tâl y gellir eu codi ar gwsmeriaid. Mae'r trefniant hwn yn diogelu cwsmeriaid ac yn cadw'r Llywodraeth hyd braich oddi wrth y cwmni.
7. Telir llog ar fuddsoddiadau'r buddsoddwyr o'r sector preifat. Mae hyn yn creu pecyn atyniadol iawn i fuddsoddwyr - gwasanaeth cyhoeddus hanfodol gyda llif refeniw wedi'i warantu gan 3 miliwn o gwsmeriaid a'r hyblygrwydd i redeg y cwmni â min ag awch y sector preifat.
8. Mae statws Dŵr Cymru fel gwasanaeth cyhoeddus rheoledig yn bwysig o ran ei hyfywedd fel busnes. Mae'n golygu y gellir cael tîm rheoli newydd os nad yw rheolwyr presennol y cwmni'n ddigon effeithiol, gan wneud hynny heb effeithio ar hyfywedd y busnes. Mae'r rheoliadau a'r cyfyngiadau sy'n gymwys i wasanaeth cyhoeddus rheoledig yn golygu bod yn rhaid rhedeg y busnes o fewn ffiniau sydd wedi'u diogelu a fydd, i bob pwrpas, yn diogelu'r buddsoddwyr yn ogystal â'r cwsmeriaid.
9. Teimlai Glas Cymru fod yr un canlyniadau'n bosibl gyda phrosiectau'n ymwneud â thai, cartrefi gofal a'r seilwaith trafniadaeth, sydd â llif refeniw pendant. Fodd bynnag ni fyddai proses newydd nad yw wedi profi'i hun yn llwyddiannus neu brosiect heb lif refeniw pendant yn cyd-fynd â'r model busnes hwn.
10. Gan nad oes unrhyw elw'n cael ei gymryd o'r cwmni, mae Dŵr Cymru wedi medru codi £27 miliwn yn llai ar ei gwsmeriaid na'r uchafswm a bennwyd gan Ofwat. Defnyddir unrhyw gynnydd mewn prisiau i ariannu buddsoddiadau pellach. O ganlyniad, nid yw'r cyhoedd yn canfod unrhyw bwysau ar brisiau.
11. Teimlai Glas Cymru na fyddai ansefydlogrwydd presennol marchnadoedd ariannol yn effeithio ar allu'r cwmni i ddenu buddsoddiadau mewnol, ond bod cost cyfalaf yn golygu na fyddai'n ddarbodus benthycg rhagor gan y marchnadoedd preifat ar hyn o bryd.
12. Gan mai cwmni dielw ydyw, a bod y Bwrdd yn gweithio er budd y cwmni yn hytrach nag er mwyn gwneud elw, mae'n bosibl i'r cwmni gynllunio mwy ar gyfer yr hirdymor.
13. Dim ond 2-4 o bobl oedd ynghlwm wrth y gwaith o sefydlu'r cwmni yn 2000. Dywedodd Glas Cymru bod deinameg y tîm yn ystod y dyddiau cynnar hynny wedi cael effaith wirioneddol ar lwyddiant y prosiect.
14. Yn 2001, cyhoeddodd fondiau i godi'r £1.9 biliwn roedd ei angen i brynu Dŵr Cymru. Nid oedd yn siŵr a fyddai'r sector preifat yn cefnogi'r model, ond roedd y ffaith y byddai ganddynt incwm sicr i dalu'r dyledion yn rhoi hyder i'r buddsoddwyr.
15. Mae'r Cyfarwyddwr Cyllid yn gweld Glas Cymru fel enghraifft dda o strwythur hanfodol ar gyfer gwasanaeth hanfodol sy'n troi at y sector preifat am gefnogaeth ariannol heb drosglwyddo'r awenau'n gyfan gwbl i'r sector sy'n canolbwyntio ar wneud elw. Credant fod angen defnyddio'r sector preifat i greu partneriaethau cadarnhaol gan wneud hynny â'u llygaid ar agor.
16. Nid yw'n bosibl defnyddio Glas Cymru fel model y gall pawb ei efelychu ond mae'n bosibl dysgu gwersi o'r modd y mae'n gweithredu.
17. Ni ddylid derbyn na thalu premiwm trosglwyddo risg oni bai bod y risg yn cael ei drosglwyddo'n wirioneddol. Busnes risg isel yw Dŵr Cymru ac mae'n dathlu hynny gyda'i fuddsoddwyr yn hytrach na'n talu premiwm diangen.
18. Teimlai Glas Cymru y gellid priodoli ei lwyddiant, yn rhannol, i'r ffaith bod eu busnes yn cael ei reoli gan y sector preifat yn hytrach na'r Llywodraeth. Dylai'r Llywodraeth bennu canlyniadau clir a rhoi'r awenau yn nwylo'r busnes a chaniatáu i bobl gyflawni. Teimlai'r Cyfarwyddwr Cyllid na ddylid trosglwyddo rheolaeth i'r sector breifat yn llwyr ond y dylid caniatáu i'r sector gyhoeddus fanteiso ar gyllid preifat a min ac awch byd busnes. Dylid cyfeirio elw yn ôl i'r busnes.
19. Mae Glas Cymru yn cydnabod bod angen buddsoddiad sylweddol i wella unrhyw wasanaeth. Drwy gyhoeddi bondiau 50 mlynedd, roedd modd i'r cwmni sicrhau'r cyllid angenrheidiol i wella'r gwasanaeth heb i hynny gostio fawr mwy nag y byddai'r Llywodraeth wedi medru'i sicrhau. Nid oedd y Llywodraeth yn gallu fforddio'r buddsoddiad ar y pryd. Heb y buddsoddiad, ni fyddai wedi bod yn bosibl creu safle trin dŵr gwastraff yn Nhremorfa ble, cynt, roedd carthion heb eu trin yn cael eu pwmpio'n syth i Fôr Hafren. Mae gan Glas Cymru gynlluniau i fuddsoddi'n sylweddol i ariannu newid sylfaenol yn y modd y caiff dŵr ffo a gwaith draenio'n ei reoli.
20. Mae Glas Cymru yn awr yn trefnu benthyciad gan Fanc Buddsoddi Ewrop i ariannu buddsoddiad pellach. Maent yn teimlo y gallai meysydd gwasanaeth eraill yng Nghymru fanteisio ar gymorth gan Fanc Buddsoddi Ewrop ond oherwydd natur gymhleth y broses a thuedd y banc hwnnw i weithio gyda phrosiectau mawr, byddai'n ddefnyddiol cael corff a allai weithio fel cyswllt rhyngddynt.
21. Eglurodd Glas Cymru fod y sector preifat yn cael ei gymell i sicrhau arbedion effeithlonrwydd er mwyn gwneud elw i gyfranddalwyr. Mae Glas Cymru yn gwneud hynny hefyd ond mae'r elw a wneir yn cael ei gyfeirio'n ôl at y cwmni i'w fuddsoddi eto ac at y cwsmeriaid ar ffurf dididendau. Drwy hynny, mae'n gallu osgoi'r canfyddiad anffodus a ffurfiwyd ar sail adroddiadau bod y sector preifat yn gwneud elw gormodol pan ffurfir Partneriaeth Cyhoeddus-Preifat.

22. Roeddynt hefyd yn dadlau y gall gwario i drwsio ac i wella pethau dros dro gostio'n ddud. Drwy fuddsoddi, mae modd chwalu'r rhwystrau a datblygu gwasanaethau.

23. Llwyddodd model Glas Cymru i sicrhau newidiadau heb greu'r problemau staffio a nodwyd gan y Pwyllgor Cyllid mewn man arall. Mae swyddi ar y safle dŵr gwastraff yn ddiogel gan fod y busnes yn wasanaeth hanfodol. Yn y gorffennol, roedd y diffyg buddsoddiad yn golygu nad oedd y safle na'r swyddi'n bod. Mae natur statig y safle hefyd yn golygu nad oes modd trosglwyddo swyddi i ardaloedd eraill i arbed arian ac mae'r gweithwyr wedi'u diogelu.

**Gwasanaeth y Pwyllgorau**  
**Tachwedd 2008**

## Atodiad B

### Finance Committee

#### Rapporteur Group visit to Kommuninvest

**Date: 20 November 2008**

**Location: Kommuninvest, Örebro, Sweden**

#### Assembly Members in attendance

Mohammad Asghar  
Alun Davies  
Nick Ramsay  
Joyce Watson

#### Officials in attendance

Abigail Phillips, Deputy Clerk

#### Others in attendance

Maria Viimne, Deputy CEO, Kommuninvest  
Ulf Jivmark, Head of Legal and Documentation, Kommuninvest  
Göran Matteson, Head of Analysis and Secretary of Kommuninvest Cooperative Society Board  
Kristen Frödin, Senior Lending Officer, Kommuninvest

## Inquiry into Public Private Partnerships: Kommuninvest, the Swedish Local Government Funding Agency

### Background

1. Sweden has a population of 9.2 million with an average of 22.2 inhabitants per Km<sup>2</sup>. The Kingdom is democratically governed through a central government, responsible for the judicial system, police, defence and higher education and through local authorities which are made up of county councils and smaller municipalities. The councils and municipalities each have responsibility for care of the elderly and children, education, transport, dental and medical care.
2. Swedish local authorities (both municipalities and county councils) are constitutionally equal to the Swedish central government as both can levy taxes. Involvement in local democracy is high with typically a 70 - 75% turnout for municipality elections.
3. The Median size of a municipality is 15,000 inhabitants, the average size is 33,000. Municipalities must legally be of a size that is workable and county councils have the power to force municipalities to merge in order to satisfy this requirement. As merging does not solve problems of rurality and does not improve financing this power is not generally used. However, it is felt that the power acts as an incentive for co-operative working between the municipalities.
4. The local authorities and central government share responsibility for public sector services. Each has pre-defined areas of responsibility. To fund the public services, both the local authorities and the central government claim a proportion of income taxes appropriate to the proportion of services they provide. The state government collects direct taxes centrally and claims 30% of the revenue. Local authorities are then allocated 70% of the revenue. Income tax makes up 32% of the total direct taxes, of which local authorities takes a 92% share and the state 8%.
5. The local government's share from direct taxes makes up 71% of local government revenues. A further 15% of local government income comes from state grants, 6% from charges and 8% from other miscellaneous sources.
6. An equalisation system operates in Sweden. The scheme has two main components: revenue equalisation (tax based) and expenditure

equalisation. The system provides equal conditions among local authorities through transfers from the state and within the local government sector itself to ensure, for example, that rural areas with higher costs but lower revenue are not disadvantaged.

7. The Local Government Act stipulates that local authorities must maintain balanced budgets. If a deficit occurs, measures must be taken to cover the shortfall within 3 years. The same Act stipulates that local authorities cannot conduct speculative business.

8. Local authorities typically create arms length companies to provide housing and utilities and to deliver capital investment projects. The local authority would usually hold 90% plus of the shares. Companies of this sort would be guaranteed by the local authority, who hold taxation powers, and any profits made on the shareholders financial interest would be returned to the company and ultimately to the local authority.

9. In recent years, Sweden has consistently had unemployment rates that are lower than the Eurozone average and government debt levels at lower than Eurozone average. Swedish inflation is on par with the rest of the Eurozone area.

### **Kommuninvest, the Swedish Local Government Debt Office**

10. Kommuninvest was established in 1986 by 10 municipalities and county councils in the Orebro area in order to create a more efficient way of sourcing funding for local government capital projects. A formal agreement was made between the 10 local authorities and a limited company was formed. Kommuninvest now has 290 member local authorities.

11. Kommuninvest raised \$6-7 billion this year through the issue of bonds and carried out approximately 300 loan transactions with local authorities. 70% of the investment in Kommuninvest bonds was secured from foreign markets.

12. The purpose of establishing Kommuninvest was to increase the buying power of the local governments. It was recognised that local authorities were obtaining loans for capital investment from commercial banks at an interest rate approximately 2% higher than the state was able to secure. It was felt that local authorities with powers of taxation posed no higher a lending risk than the state but the banks were able to dictate terms as there was a limited lending market.

13. Kommuninvest secures investment from various financial markets, mainly through the issue of bonds. The members of Kommuninvest are then able to access that funding via low cost loans.

14. Due to its status as a limited company, Kommuninvest Members were required to deposit collateral in non interest accounts. As this was not ideal, Kommuninvest took steps to become a credit company, retaining its direct ownership. The company was then supervised by the Swedish financial services authority but required no collateral from its Members to guarantee lending activity.

15. The company's status developed and Kommuninvest became a credit company owned by a co-operative society in order to facilitate easier growth in Member numbers. It is now known as a Credit Market Company owned by a co-operative society.

16. Kommuninvest has considered seeking permission to become a bank in its own right, but this request was withdrawn to allow them to consider another option that presented itself. Kommuninvest are still considering this new possible option of becoming a municipal financial federation. Although details regarding the future status of the company are unclear at this stage, Kommuninvest is confident that they will survive the current economic climate and continue to grow. Such confidence is, in part, derived from their survival of the previous banking crisis in the 1990's.

17. Kommuninvest employs 43 full time staff with a mixed background in the public and private sector. The size of the company is designed to be large enough to have the necessary expertise and capacity to manage the work load, but small enough to keep the work focused and resist pressure to branch out into areas best covered by commercial banks.

18. There has been little support from the state or from the commercial banks, for Kommuninvest and there are no explicit guarantees between the central government and local authorities that underwrite loans. However, the central government ultimately holds responsibility for local authorities and is therefore implicated in the process.

### **Membership of Kommuninvest**

19. Before Kommuninvest was established, local authorities would typically issue bonds to raise finance or would borrow from commercial banks. All 290 Municipalities and 20 county Councils in Sweden managed their finances in this way acting independently of each other.

20. Local authorities are able to become Members of Kommuninvest provided their budget is balanced, they are able to pay a sum upfront and they are willing to sign a guarantee. The guarantee states that the Member local authorities 'jointly and severally guarantee as for a liability of their own, all obligations, liabilities and commitments presently and subsequently undertaken by Kommuninvest'. This guarantee jointly commits all members to provide unlimited cover to all Kommuninvest liabilities and underpins Kommuninvest's low risk status.

21. Members become shareholders with the share size dependent on the number of inhabitants in their authority. Although share size is proportional, each member authority holds just one vote. There are currently 226 Members of Kommuninvest representing 80% of all municipalities and 35% of county councils. Kommuninvest predicts that the membership numbers will continue their steady rise and that they will achieve full membership by 2015. Kommuninvest feels that full membership will secure the survival and competitiveness of the company thereby achieving better terms and conditions and better efficiency overall.

22. Once Members have joined, they are able to apply for loans that vary in terms from 5 to 20 years. Average lending levels are 25 million SEK (£2.05 million) with the smallest loan to date amounting to £80,000 and the largest £100 million. The loans are typically used for capital infrastructure investment although loans can legitimately be used for anything within the local authorities remit. Current borrowing rates are typically 5.2%.

23. Loans are provided with 0% risk weighting as Kommuninvest is one of only two Swedish organisations that have the highest possible credit rating. The other is the Kingdom of Sweden itself.

24. Kommuninvest is generally approached as just one possible financier when local governments are seeking funding yet the company holds a 45.7% share of all Members borrowing. Its outstanding loan portfolio stood at USD 12.2bn in 2007 and is expected to reach USD 27bn in 2015.

25. As well as offering competitive rates for loans, members of Kommuninvest are able to access expert financial advice on prudent management of their resources. Members who declare a budget deficit are required to resolve the situation within 3 years or face possible expulsion from the co-operative. Members' rights to borrow can be suspended if its budgets show a deficit.

26. As a company owned by the public sector, Kommuninvest said that its purpose is unlike that of a commercial bank. It acts as spokesperson for local governments and works for the public sector with local authorities as its shareholders. It operates as a member-only not-for-profit organisation that supplies local governments with long term financial solutions. Kommuninvest further claims that the mixed background of its staff from both the public and private sectors places it in an ideal position to act as a link between the two sectors working for the public sector to secure private sector investment.

27. Municipalities often create companies to provide housing or utilities. Provided these companies have the local government as their majority share holder, they too can borrow from Kommuninvest. The company's liabilities to Kommuninvest would be underwritten by the guarantee the local government made to Kommuninvest at membership.

28. Kommuninvest said that there is greater competition between banks now than there was before the company was established. Local Authorities now have greater choice in loan provider and prices have been driven down through competition.

## **Investment in Kommuninvest**

29. The local government taxation power and the inexplicit links between local government and central government offers investors two layers of guarantees for their investments.

30. Investment is sought from a wide range of financial markets with stability and prudence in mind. Kommuninvest focus on diversifying sources in order to strengthen their resilience to market fluctuations. The company has high activity in Japanese, Swedish and Danish markets and new markets are currently being evaluated. The liquidity risk is minimised by market diversification. The security of Kommuninvest's position is attractive to investors, especially in volatile economic climates.

31. Investment terms last between 1 month and 30 years and Kommuninvest are flexible in the products they offer. The average maturity is 14 months.

32. Kommuninvest accepts no exposure to sub-prime, ABS or CDO investments. This prudent approach to investment offers protection to their investors, Members and to the company. Kommuninvest has never sustained a credit loss.

33. Kommuninvest also markets investment in the company as investment in Sweden. They feel it is important to give investors the sense that what they are doing is good for the people of Sweden as well as a sound financial investment.

## **Committee Service November 2008**

# **Atodiad C**

## **Finance Committee**

### **Rapporteur Group visit to Örebro City Council**

**Date: 20 November 2008**

**Location: City Hall, Örebro, Sweden**

### **Assembly Members in attendance**

Mohammad Asghar  
Alun Davies  
Nick Ramsay  
Joyce Watson

### **Officials in attendance**

Abigail Phillips, Deputy Clerk

### **Others in attendance**

Anders Olsson, Chief Financial Manager, City of Örebro

## **Inquiry into Public Private Partnerships: Örebro City Council**

### **Background**

1. Örebro has a population of over 130,000 living in an area 13801 km<sup>2</sup>. The city has a student population of 14,500. 12,000 companies operate in the area but 30% of people of working age are employed by the city council.
2. Örebro City Council councillors work for the council on a part time, paid basis with many holding other part time positions in the area. The City Executive Committee oversees the councils operations. Working under that committee are 22 other committees split for the most part into three programme areas.
3. Örebro City Council owns 6 companies set up to facilitate efficient service provision. Some companies, like those established to provide housing and industrial buildings, are expected to remain under council control. However, companies like that set up in Örebro to provide a commercially operating adventure pool and camping facility for the city, are expected to be sold to the private sector in due course. Any profits from the sale of that company would be returned through the council as shareholders to the city.
4. One such company was set up to provide broadband services to public buildings, schools and other institutions. Having created the necessary infrastructure, the city now offers broadband services to private companies and individuals at a competitive price. It is envisioned that this company will remain under the control of the council.
5. Companies are set up in this way in order to separate the different functions of the council. It is felt that the companies provide a focus of purpose and clear financial accountability. Housing companies owned by the local authorities are not permitted to make a profit but other companies are.

### **Financing issues**

6. The total budget of Örebro City Council is 5.5 billion SEK (£445m). The council currently has a 400 million SEK (£32.5m) outstanding loan portfolio.
7. The amount of loans outstanding is not shown on revenue balance sheets, only the interest paid is included. There are currently no national standards of accounting in Sweden although the International Financial Reporting Standards will apply to the country from the start of the next financial year.
8. Örebro City Council was one of the founding authorities of Kommuninvest. It hoped to increase its buying power as before the establishment of Kommuninvest local governments were paying more than housing companies and central government for loans.
9. Before Kommuninvest, Örebro City Council had 2 banks that they could approach for loans. Now they can expect tenders from 6 lenders, including Kommuninvest, when they are seeking finance.
10. Örebro City Council can issue bonds independently of Kommuninvest but could not do so on a scale that could compete with Kommuninvest so choose not to.
11. Although loans to Örebro City Council are ultimately guaranteed by their tax raising powers, the central government retains the power to restrict any increases in tax. In reality, it is recognised that although the power of taxation remains to be the best guarantee to lenders, borrowing should be kept at a prudent level to avoid any increase in taxes for repayment purposes.

**Committee Service**  
**November 2008**

## **Atodiad D**