Y Pwyllgor Cyllid

Lleoliad:
Ystafell Bwyllgora 2 - y Senedd

Dyddiad:
Dydd Mercher, 30 Mai 2012

Amser:
09:00

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

I gael rhagor o wybodaeth, cysylltwch â:

Tom Jackson
Clerc y Pwyllgor
02920898409
FinanceCommittee@wales.gov.uk

Agenda

Sesiwn friffio breifat (9.00 - 9.10)

1. Cyflwyniad, ymddiheuriadau a dirprwyon (9:30 - 9:35)

2. Effeithiolrwydd Cyllid Strwythurol Ewropeaidd yng Nghymru (9:35 - 10:30)

Alun Davies, y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd
Jonathan Price, Prif Economegydd
Damien O'Brien, Prif Weithredwr, WEFO

3. Papurau i'w nodi (Tudalennau 1 - 4)

FIN(4) 09-12 - Papur 1 - tystiolaeth ychwanegol am gyllid datganoledig ddarparwyd gan y Scottish Futures Trust -

4. Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y canlynol:

Eitemau 5 a 6.

5. Trafod y dystiolaeth - Effeithiolrwydd Cyllid Strwythurol Ewropeaidd yng Nghymru (10:30 - 10:45)

Egwyl (10:45 - 10:55)

6. Cyllid datganoledig: pwerau benthyg a dulliau arloesol o ddefnyddio arian cyfalaf - tystiolaeth allweddol a themâu sy'n dod i'r amlwg (10:55 - 12:10) (Tudalennau 5 - 39)

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21 May 2012

SCOTTISH FUTURES TRUST

Jocelyn Davies
National Assembly for Wales
Finance Committee
Cardiff Bay
Cardiff
CF99 1NA

Dear Jocelyn

It was a pleasure to give evidence to your committee and I am glad you found some of the remarks useful. I have attempted to answer your follow up questions below:

1. What does this 5 per cent cap equate to in cash terms on an annual basis?

The 5% cap was introduced in the Scottish Government Infrastructure Investment Plan 2011

Calculated using CSR2010 figures as 5% of total DEL the cap is interpreted to represent (in cash terms)

12-13	13-14	14-15
£1.415bn	1.414bn	1.425bn

2. Could you provide details of what is covered by this cap in relation to the £3bn additional capital – is this only applicable to NPD, or are other models included?

3. Are historical commitments, such as earlier PFI schemes, also included within this cap?

Historical commitments of existing PFI and NPD projects as well as existing Regulated Asset Base (RAB) commitments are included. Looking forward, the £2.5bn NPD programme and future RAB commitments are included. As the NHT and TIF schemes will not call on Scottish Government budgets they are not included in the figures.

4. At this point, what level are future revenue commitments at in relation to the cap, and what implications does this have for future investment?

The total future revenue commitment across all investment areas is coordinated by Scottish Government and not SFT. This question would be best directed to them.

Borrowing and guarantees

5. Can you provide further explanation of how the Scottish Government guarantees backing local authority borrowing operate in practice? For example, who actually provides the guarantee; who pays in the event of any default? Also, how is this guarantee reflected in the budget and/or financial statements of the Scottish Government?

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The guarantee is provided by Scottish Ministers with its value reflected in budget and accounts on a probability call multiplied by value if called basis. If the guarantee was called the cash would come from Scottish Government.

6. Can you explain how this differs from supported borrowing, and therefore is not counted against the Scottish block in the eyes of HM Treasury?

Scottish Government has not committed revenue to support the repayments of local authority debt, which will be paid from rental incomes and revenues from the sale of units.

Pension funds
7. What discussions has the SFT had with local authorities about the use of their pension funds to support NPD?

SFT has had high level discussion with local authority pension funds who must invest in the interests of their personnel. Currently funds tend to invest in infrastructure through specific 3rd party infrastructure funds as part of an alternative asset class. Further discussions are possible as SFT work on evolved financing structures for NPD and hub DBFM projects.

Tax Increment Financing
8. In the TIF pilots being undertaken in Scotland, who has financed the initial investment and how is the increased NDR revenue being shared between the Scottish Government and the local authorities?

Three TIF pilots have been approved in principle though none has got to see investment made. The structure says the local authority borrowing (most likely from the PWLB to finance infrastructure future increment in NDR within the TIF area "red-line" boundary would be retained by the local authority for a 25 year period to repay the debt owed not of a pre-agreed percentage allowance for displacement which would go to the Scottish Government central NDR 'pot'. If the debt is repaid before 25 years is up, the sharing regime is amended to allocate more NDR back to the central pot whilst allowing the local authority to retain a smaller share for further investment.

9. In your opinion, will TIF represent a viable alternative to existing models? If so, to what extent?

In my opinion TIF will represent a viable alternative for a limited range of infrastructure investment proposals where the investment in "underlying infrastructure" unlocks private sector development of a commercial setup that would not have gone ahead but for the public sector investment in infrastructure. Robust business cases will be required for all proposals and it is anticipated that use of the model will remain limited.

Securitisation
10. Are you considering use of securitisation as a method for funding infrastructure investment?

11. If securitisation is being considered, how would it be ensured that affordability and value for money were considered in this model, as technically it lies outwith the Prudential Code?

Securitisation is essentially the pooling of a group of assets so that investors can invest in the group with diversified risk rather than single assets. The assets could be physical (e.g. group of buildings) or financial (e.g. a series of future revenue streams). Securitisation has been adopted in the infrastructure environment for some time, including borrowing aggregation of housing associations

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through the housing finance corporation and in banks re-packaging and bundling PPP project debt and selling as securities.

TIF and local Asset Backed Vehicles can both be seen as securitisations (of future NDR streams, and building assets respectively). Given this diversity of structures under a single heading SFT would consider each combination of financing tool and funding stream on a case by case basis for value for money and affordability rather than under the single umbrella term of securitisation. The treatment of any form of securitisation or other form of borrowing under the prudential code is a matter for individual local authorities, again on a case by case basis.

I hope these comments are again useful and would be happy to follow up in any detailed points should you require.

Yours sincerely

Peter Reekie
Director of Finance

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Yn rhinwedd paragraff(au) vi o Reol Sefydlog 17.42

Mae cyfyngiadau ar y ddogfen hon