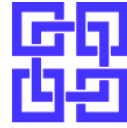


Caledonian Economics

# The PPP model in infrastructure – lessons from Scotland

Latvian Association of Local and Regional Governments

**17<sup>th</sup> May 2016**



# Caledonian Economics

Martin Finnigan

Michael Walker

## Seminar structure

1. Introduction
2. What is PPP and why is it used by governments?
3. The evolution of PPP in a small nation
4. Case Study: “hub – the state of the art”
5. Financial issues in PPP

# Introduction



Alford Community Campus,  
Aberdeenshire, Open November 2015



Lundavra Primary,  
Highland,  
October 2015



Vale of Leven Academy,  
West Dunbartonshire,  
opened 2009

An aerial photograph of a school complex with a large, modern, curved building, surrounded by green fields, trees, and residential housing.

# Caledonian Economics - about us

PPP Specialists since 1998

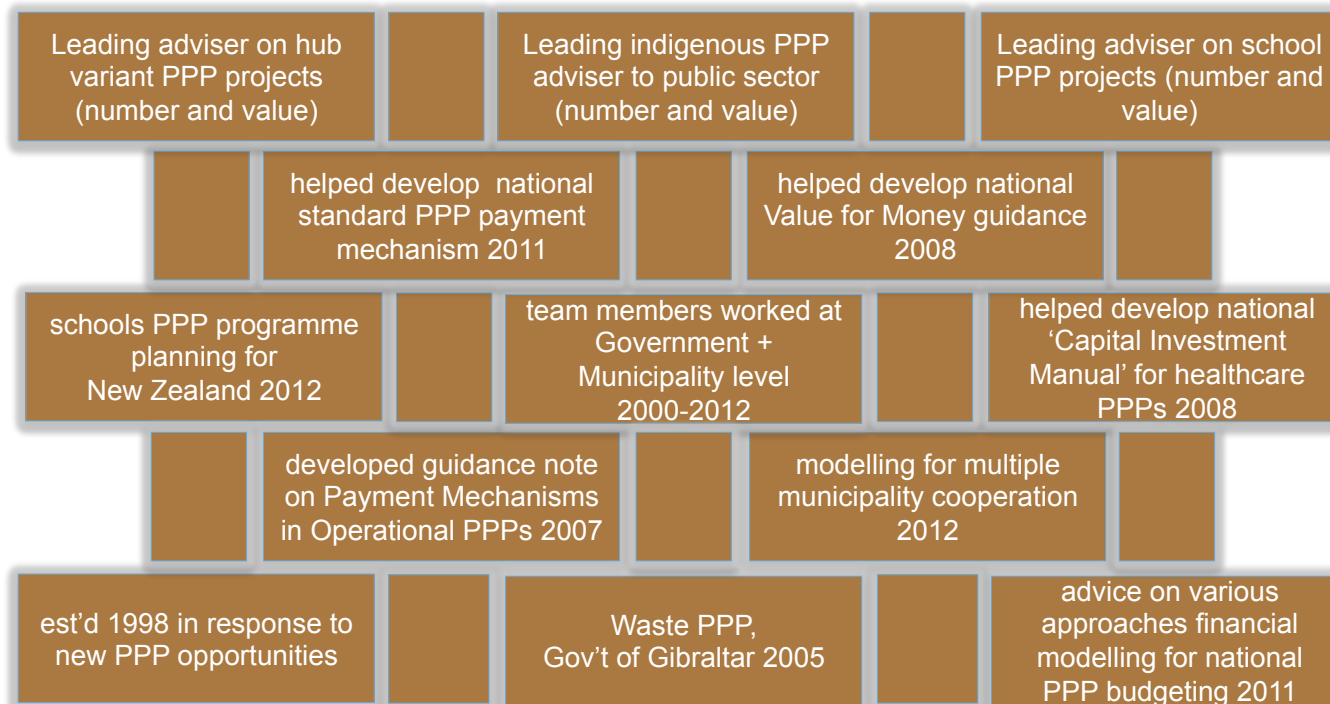
Public sector advisors

Advise central government, municipalities, health boards in Scotland and internationally





Strategic and transactional advice

Feasibility, planning and implementation

## CalEc's role in Building and implementing National PPP Policy since 2000



## Section 1 – Summary and Questions

-  Can you all hear us clearly?
-  Can you read the slides clearly?
-  Would you like anything translated to Latvian?
-  Would you like to know any more about us?
-  We will email the slides to everyone after the seminar

## 2) What is PPP and why is it used by governments?



Ben Wyvis Primary School, Highland, opened 2012



Whitehills Primary, Forfar, opened 2008



Cults Academy, Aberdeen, 2009



# What is PPP and why is it used by governments? (1)



Used by every UK government since 1990s

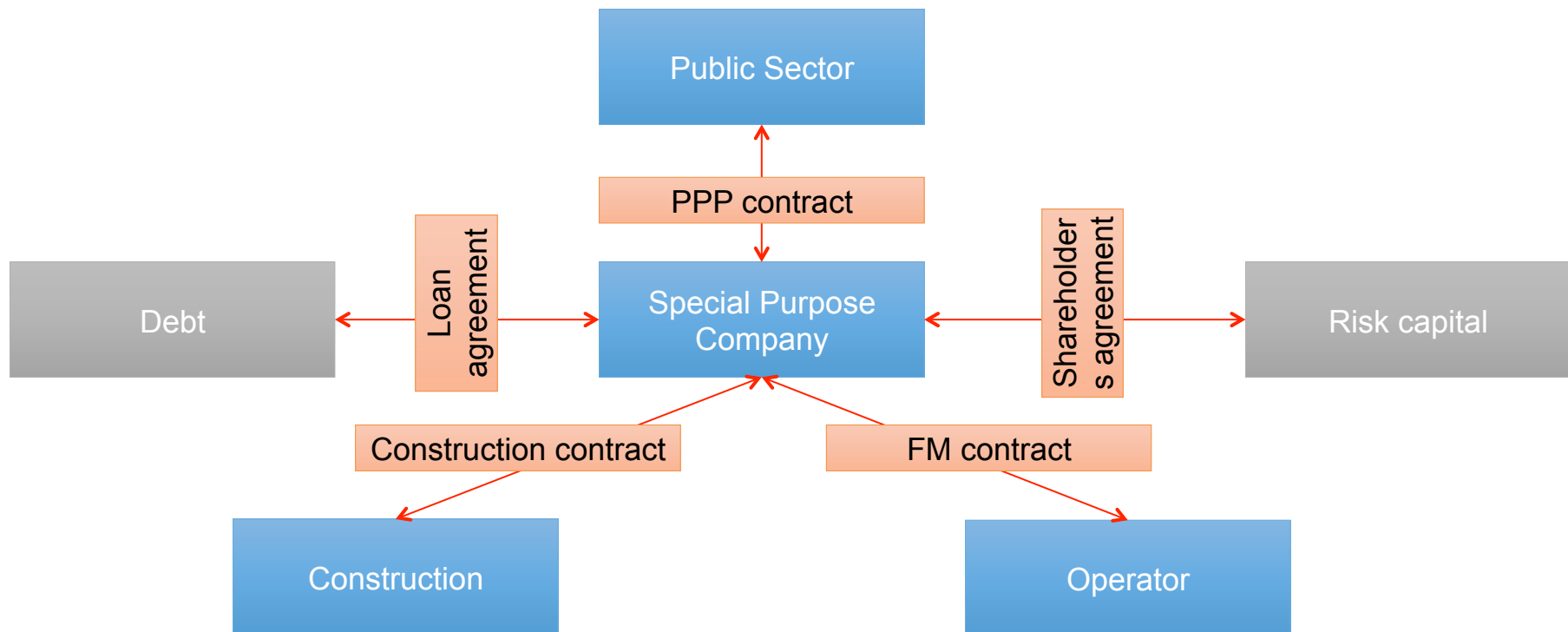
Use of private sector capacity to deliver public infrastructure

Partnership working

Project financing

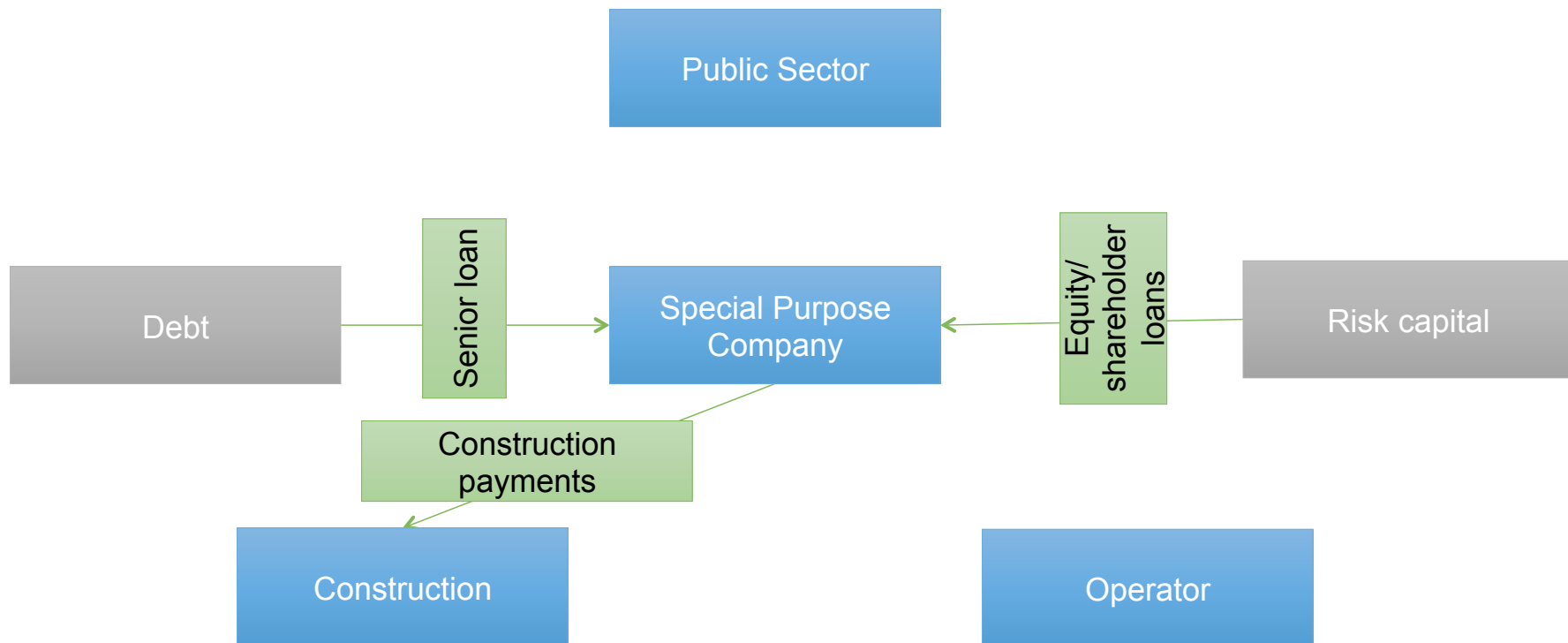
## What is PPP and why is it used by governments? (2)

### *Contractual structure*



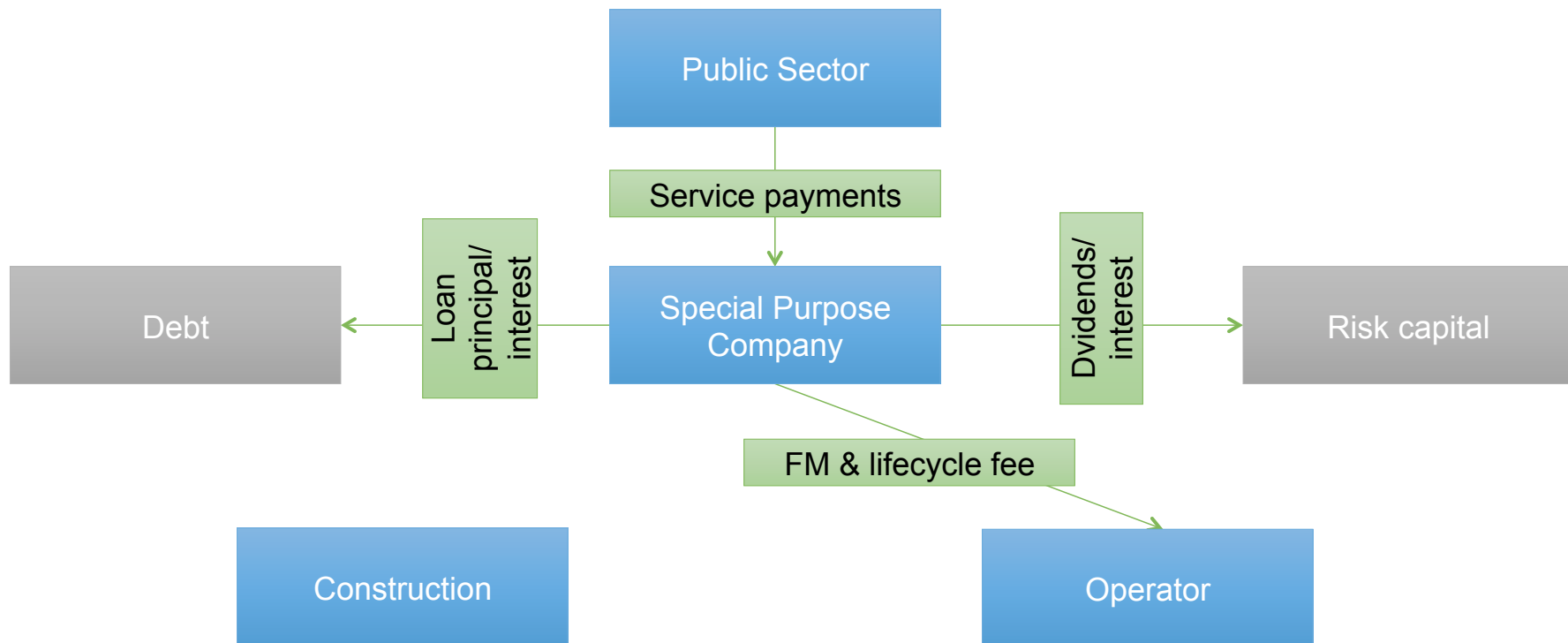
## What is PPP and why is it used by governments? (3)

### *Cashflows during construction*



## What is PPP and why is it used by governments? (4)

### *Cashflows during operations*



# What is PPP and why is it used by governments? (5)



Access to private finance – “additionality”

Risk transfer

Economies of scale

Access to private sector skills and expertise

Whole life costing and maintenance

## Section 2 – Summary and Discussion



PPP has many critics, and many fans!

Benefits are clear – it delivers more, faster. But is it better value? *What do you think?*

PPP structures are complex.

- *Would you like us to repeat any of these slides?*

What are the big capital investment needs in Latvia?

- *schools, health centres, hospitals, waste?*

### 3) The evolution of PPP in a small nation



#### Scottish National Blood Transfusion Service – National Centre PPP

We were financial advisers to the public sector on a £36M PPP to provide a new national facility for processing blood and human tissues for transfusion, transplant and medical uses.

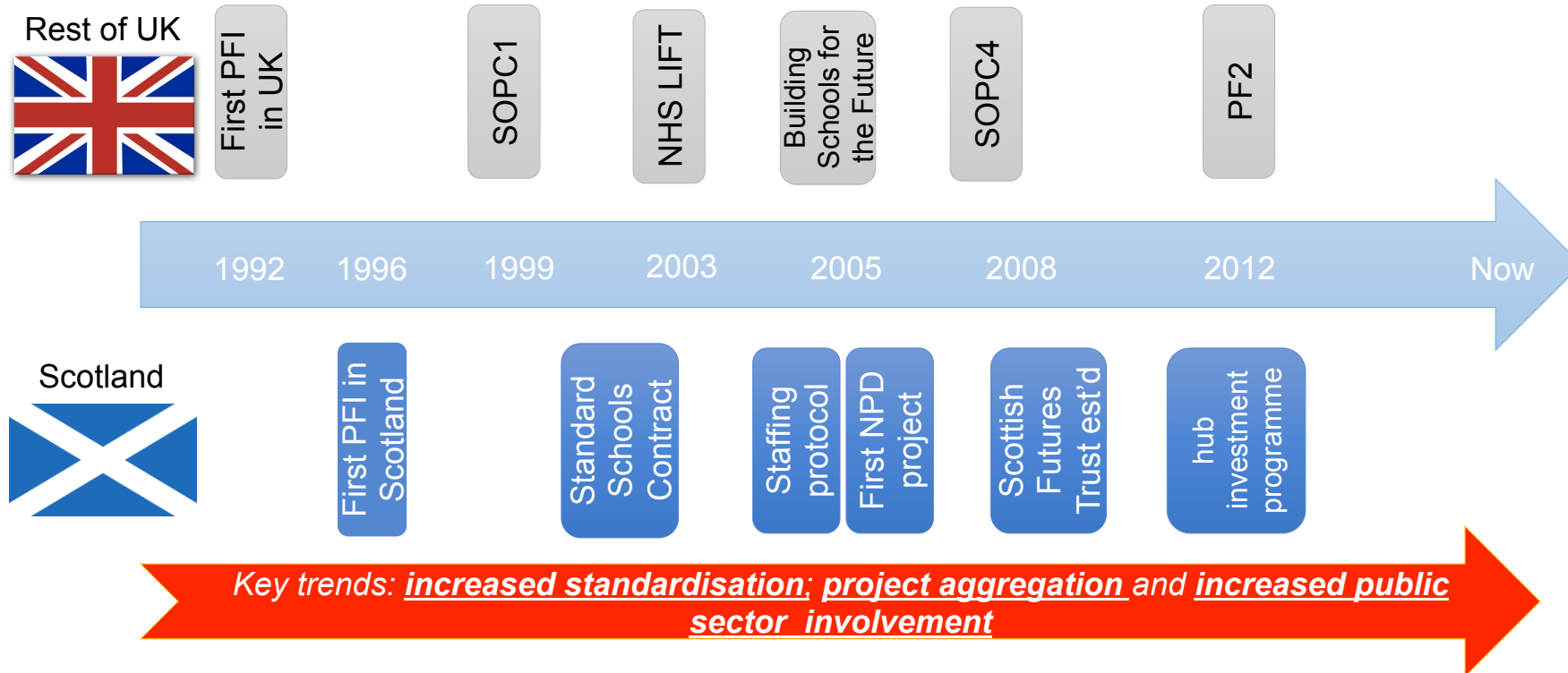
Images link to youtube videos or click:

[https://www.youtube.com/watch?v=wnt92n\\_gTr4](https://www.youtube.com/watch?v=wnt92n_gTr4)

<https://www.youtube.com/watch?v=371VdAfTWQk>

# The evolution of PPP (1)

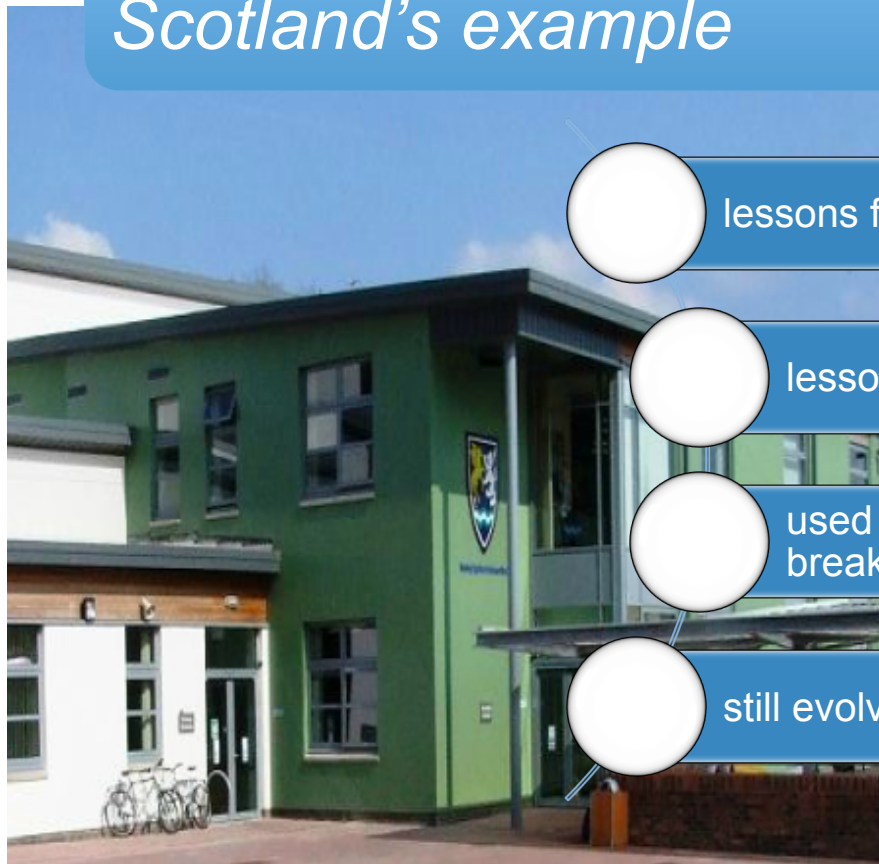
## *Key milestones*





## The evolution of PPP (2)

### *Scotland's example*



lessons from early transport, health, education projects

lessons enabled development of distinctly Scottish PPP

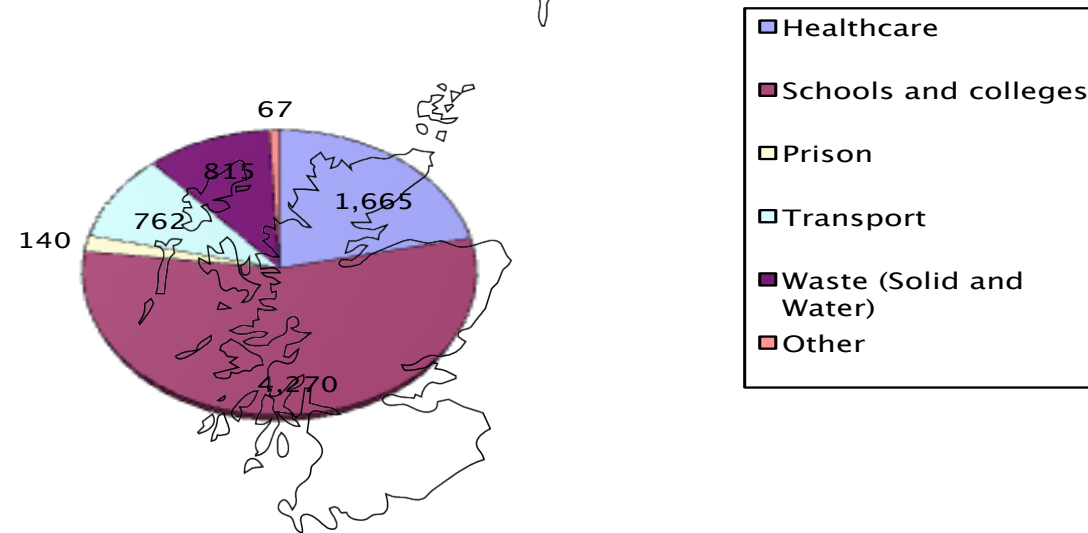
used extensively, ~€8 billion capex so far (see chart for breakdown)

still evolving for smaller projects, another €3bn in programme

## The evolution of PPP (3)

### *Scale of investment in Scotland*

**Capital Value of signed PPP deals by July 2015, €millions**  
(total €7,719 millions)



## Section 3 – Summary and Discussion



Would you like us to repeat or expand anything in this section?

In Scotland PPP is evolving to work for smaller projects?  
*Do you think this is relevant in Latvia, if so why?*

In our experience, a national PPP programme should start with a group of 'pathfinder' projects.  
*Are there obvious pathfinder candidates?*

*Would you like to comment on the seminar so far?*

#### 4) Case study – the “hub” model of PPP



Alford Community Campus,  
Aberdeenshire, Open November 2015

## Case Study: the hub PPP programme (1)



In 2010 Scotland established five regional “hubCos”

10+ public sector participants per hubco

1 largely urban; 2 largely rural; and 2 mixed

Each hubCo is a public-private joint venture

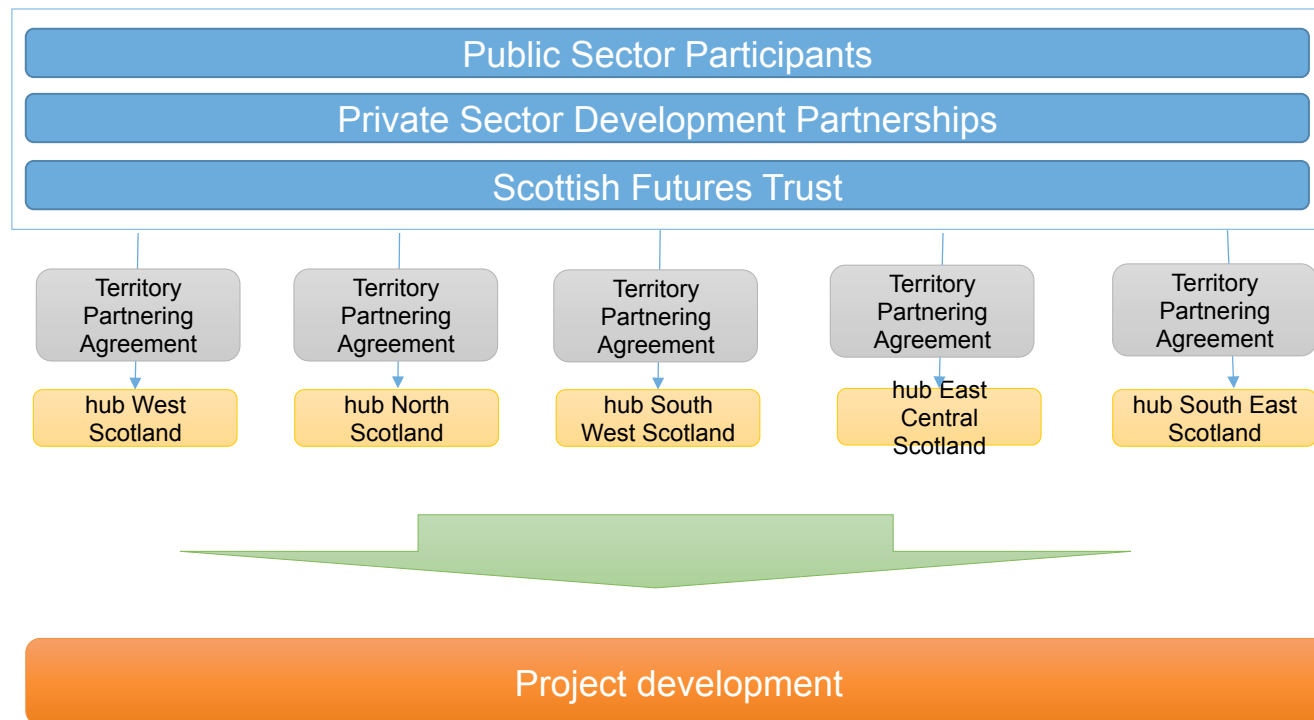
Emphasis on joint-working and best value

Focus on community and social infrastructure

€3bn investment programme

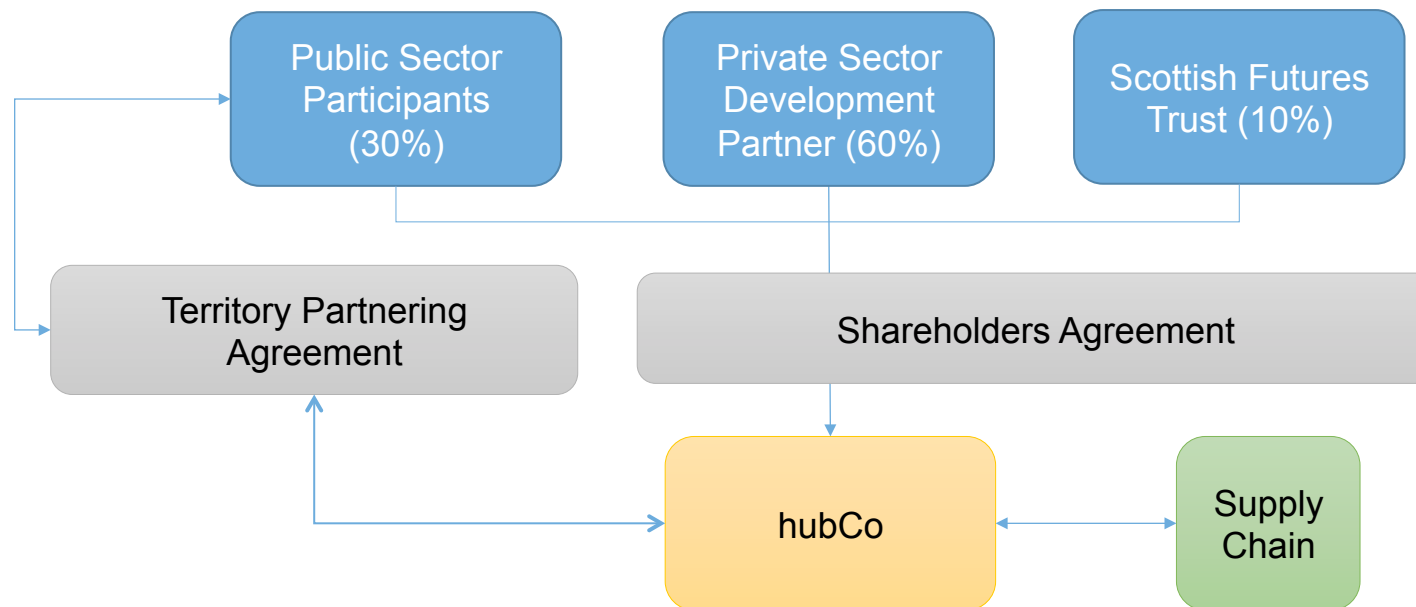
## Case Study: the hub PPP programme (2)

### *hub structure – National Level*



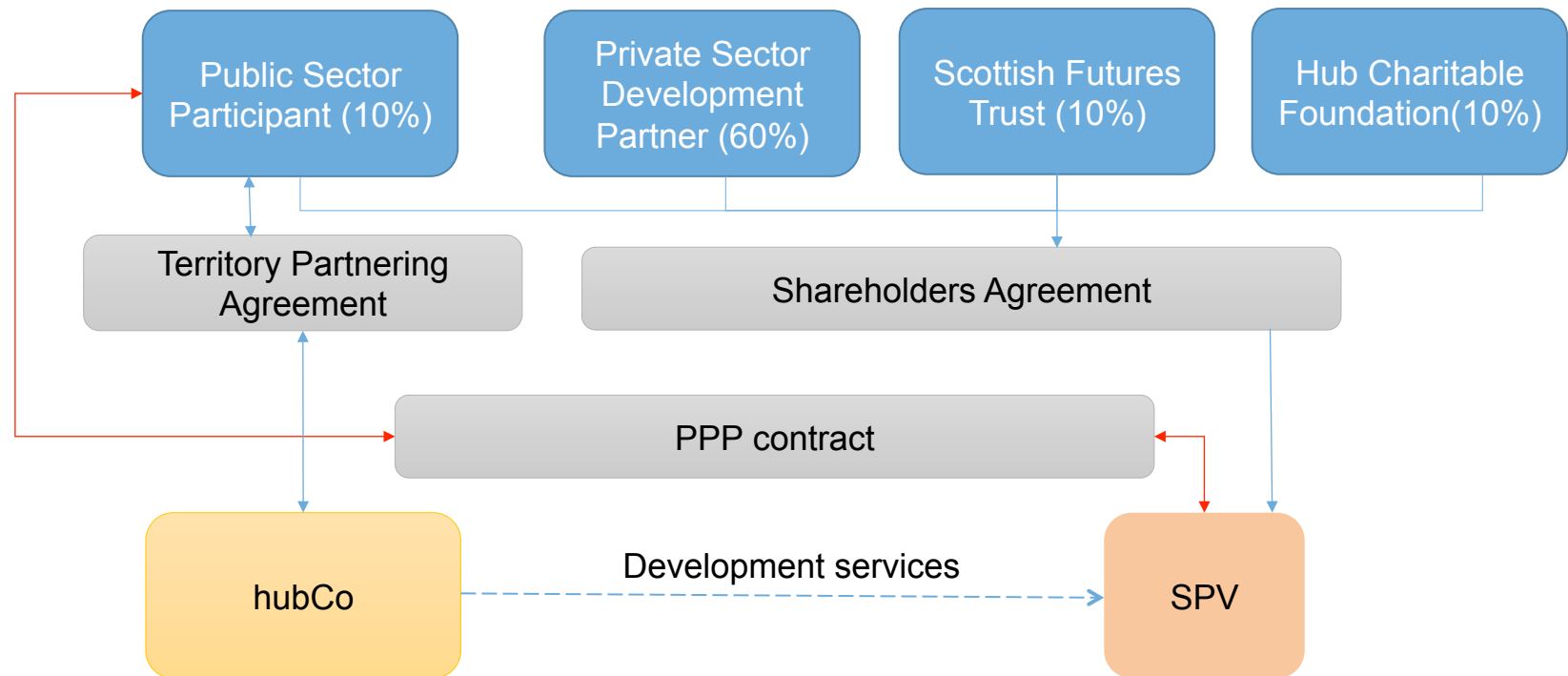
## Case Study: the hub PPP programme (3)

### *hub structure – Territory Level*



## Case Study: the hub PPP programme (4)

### *hub structure – Project level*

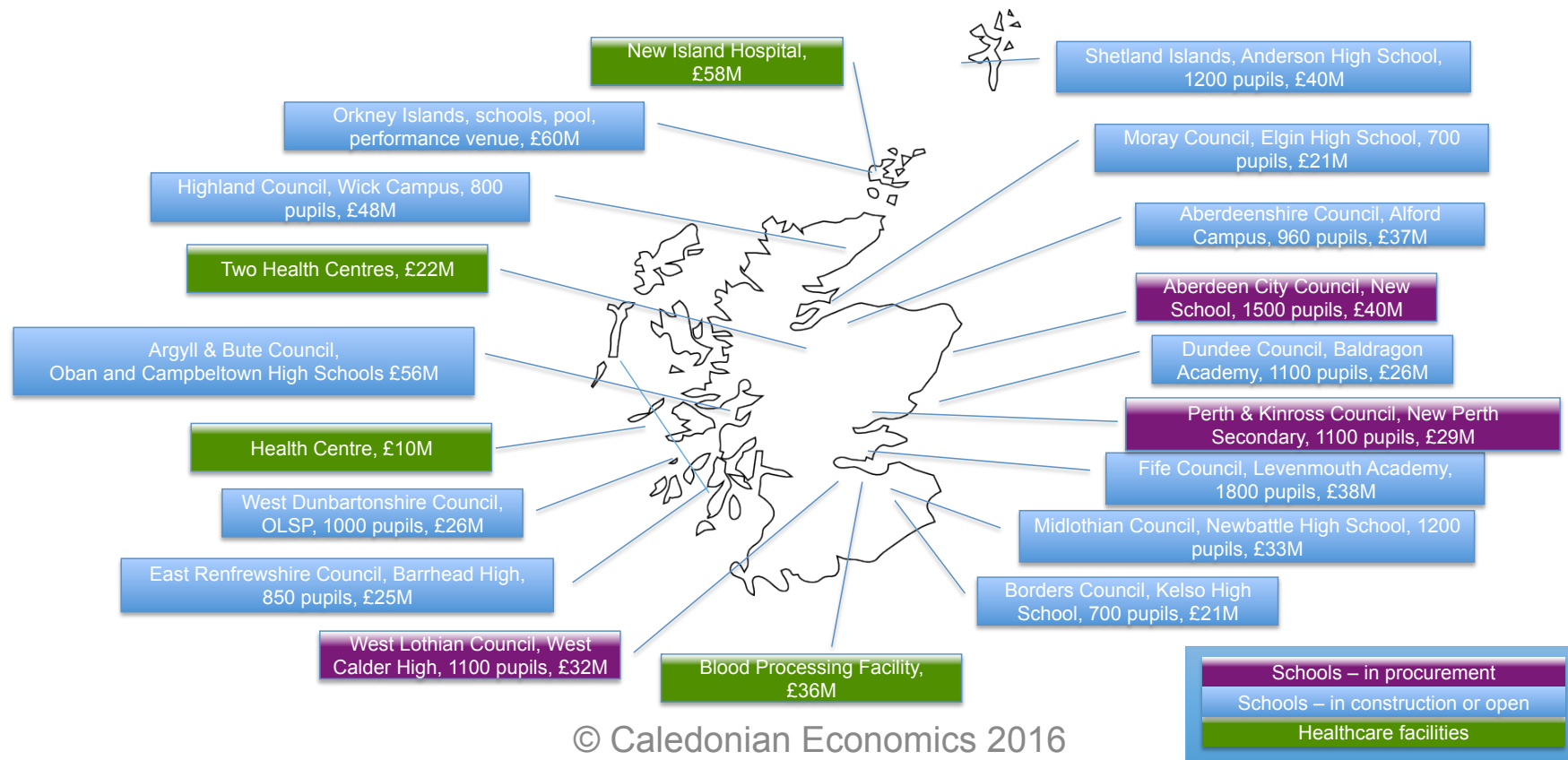




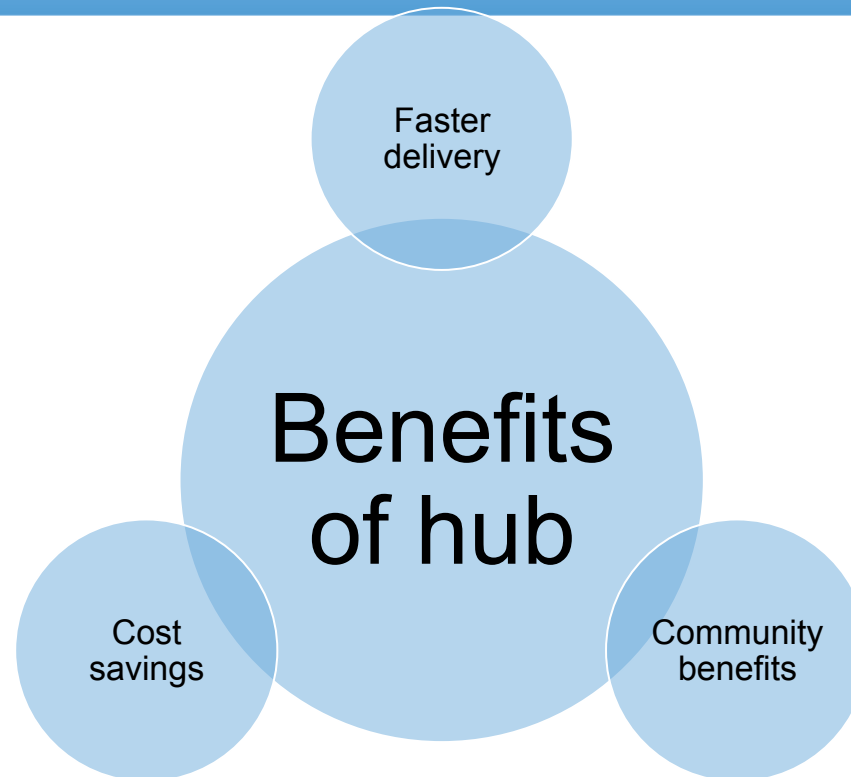
## Case Study: the hub PPP programme (5)

### Caledonian Economics – our experience

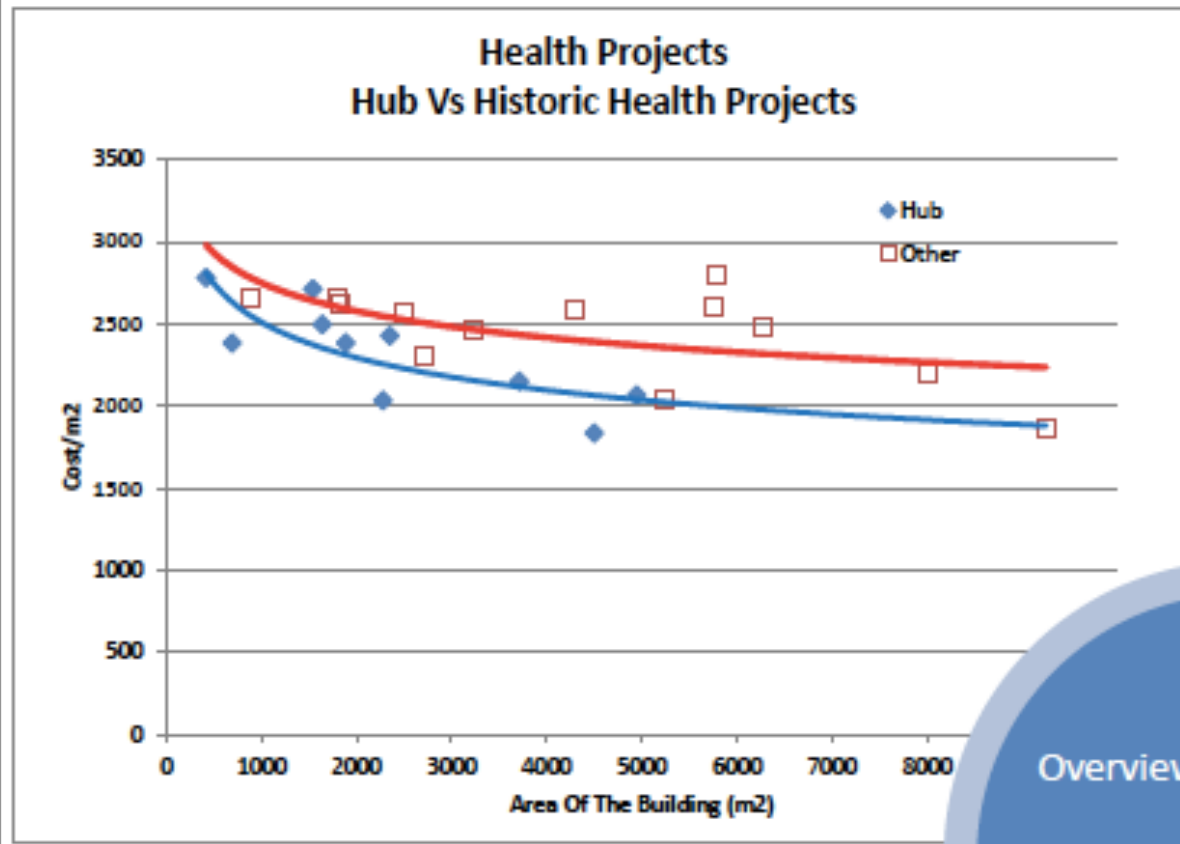
PPP Projects since 2010



## Case Study: the hub programme (6)



## Case Study: the hub programme (7)



Overview

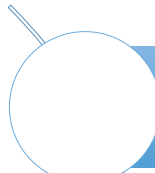
## Case Study: the hub programme (8)

Benefits

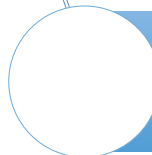
Community Benefits	Q3 2014	Q4 2014	Q1 2015
Value of works awarded to local & national SME's	84%	82%	79%
Work packages offered to local & national SME's	80%	87%	86%
Nr of new jobs created	194	214	214
Nr of pupils receiving educational engagement.	14,636	15,909	15,909
Nr of new apprentices' positions created	92	96	96
Nr of days of work placements provided	1,048	1,215	1,274

Based on = 2Q14 - 24nr at £107m | 3Q13 27nr at £124m | 4Q14 37nr at £100m | 1Q15 30nr at £210m

## Section 4 – Summary and Discussion



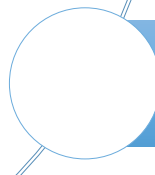
Would you like us to repeat or expand anything in this section?



Hub is complex to set up and then simple to use?  
*Do you think this is relevant in Latvia, if so why?*



Hub requires a number of public bodies to work together  
*Could this happen in Latvia? Why (or why not?)*



Hub is to procure mostly schools and health centres in Scotland  
*Is the same investment need in Latvia, or something else?*

## 5) Financial issues



Ben Wyvis Primary School, Highland, opened 2012



Keith Primary School, Moray, opened 2012



Clydebank High School,  
opened 2009



Whitehills Primary, Forfar, opened 2008



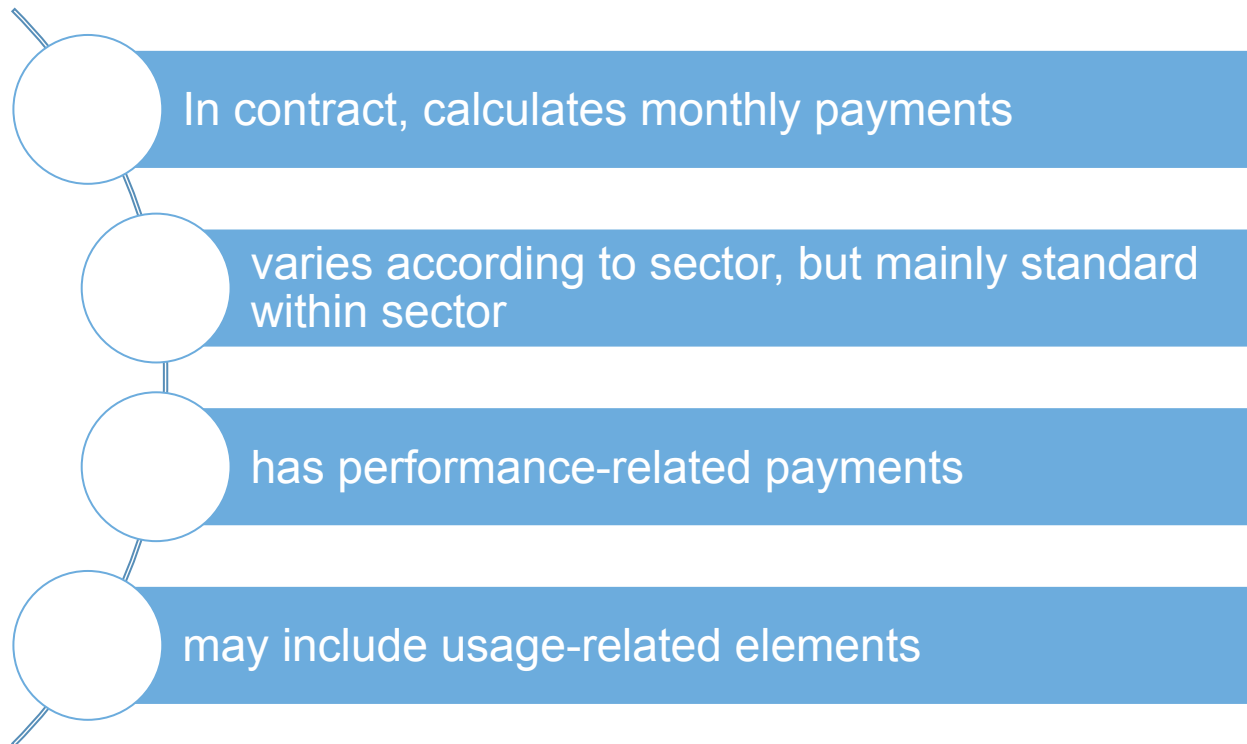
Cults Academy, Aberdeen, 2009

## Financial Issues - Cashflow during operational phase

*typically 25-30 years*



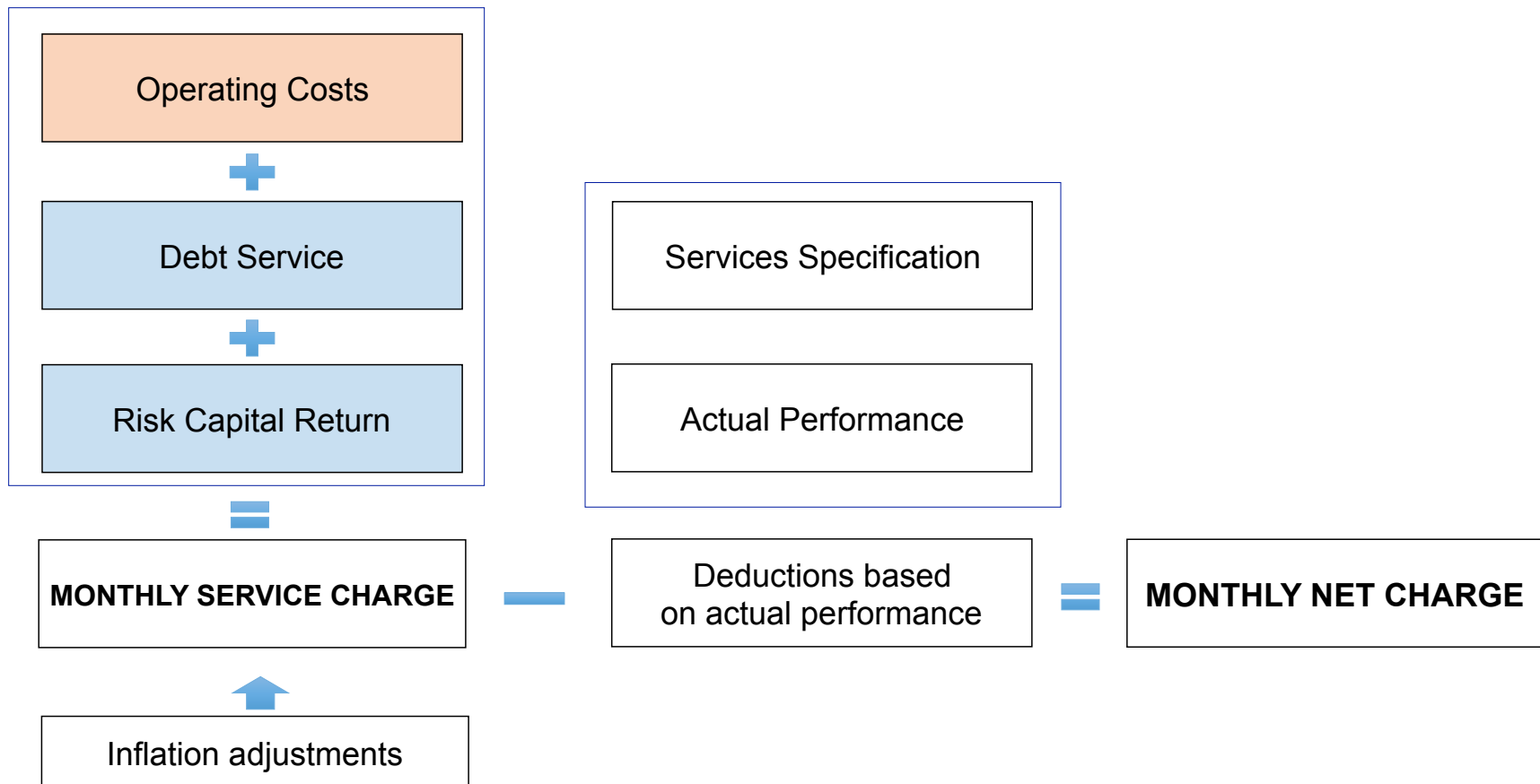
## Financial Issues - The payment mechanism (1)





## Financial Issues - The payment mechanism (2)

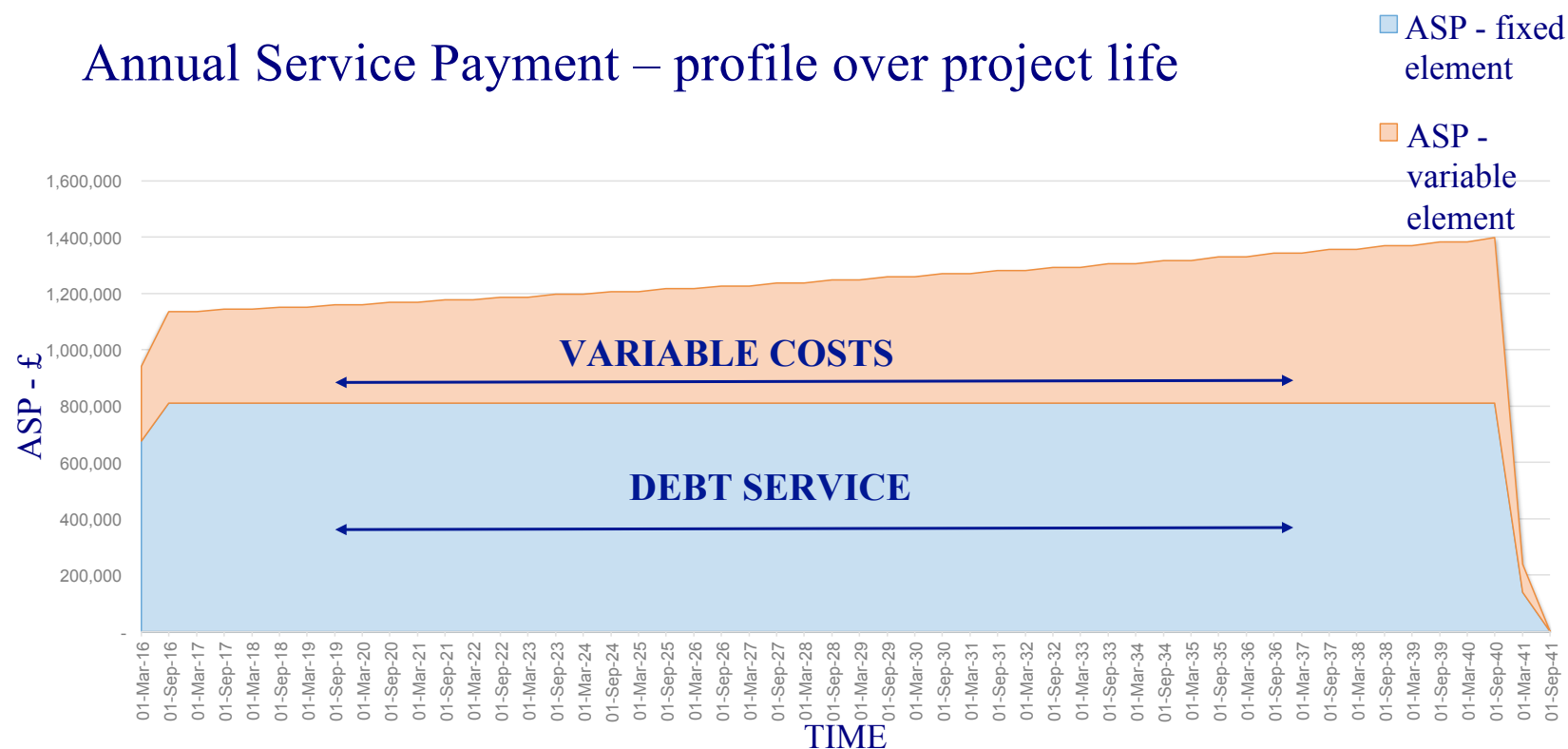
*performance incentives*



## Financial Issues - The payment mechanism (3)

*inflation adjustment*

### Annual Service Payment – profile over project life



# Financial Issues - Value for Money

*The Scottish 'Control Tower' Approach*

Programme-level assessment

*Strategic investment decision*



Project-level assessment

*projects prior to launching procurement*



Procurement-level assessment

*during procurement and delivery*

## Financial Issues - On or Off Balance Sheet?



## Financial Issues - Funding issues

Senior investors:

- banks;
- EIB/EBRD;
- institutions.

Risk capital:

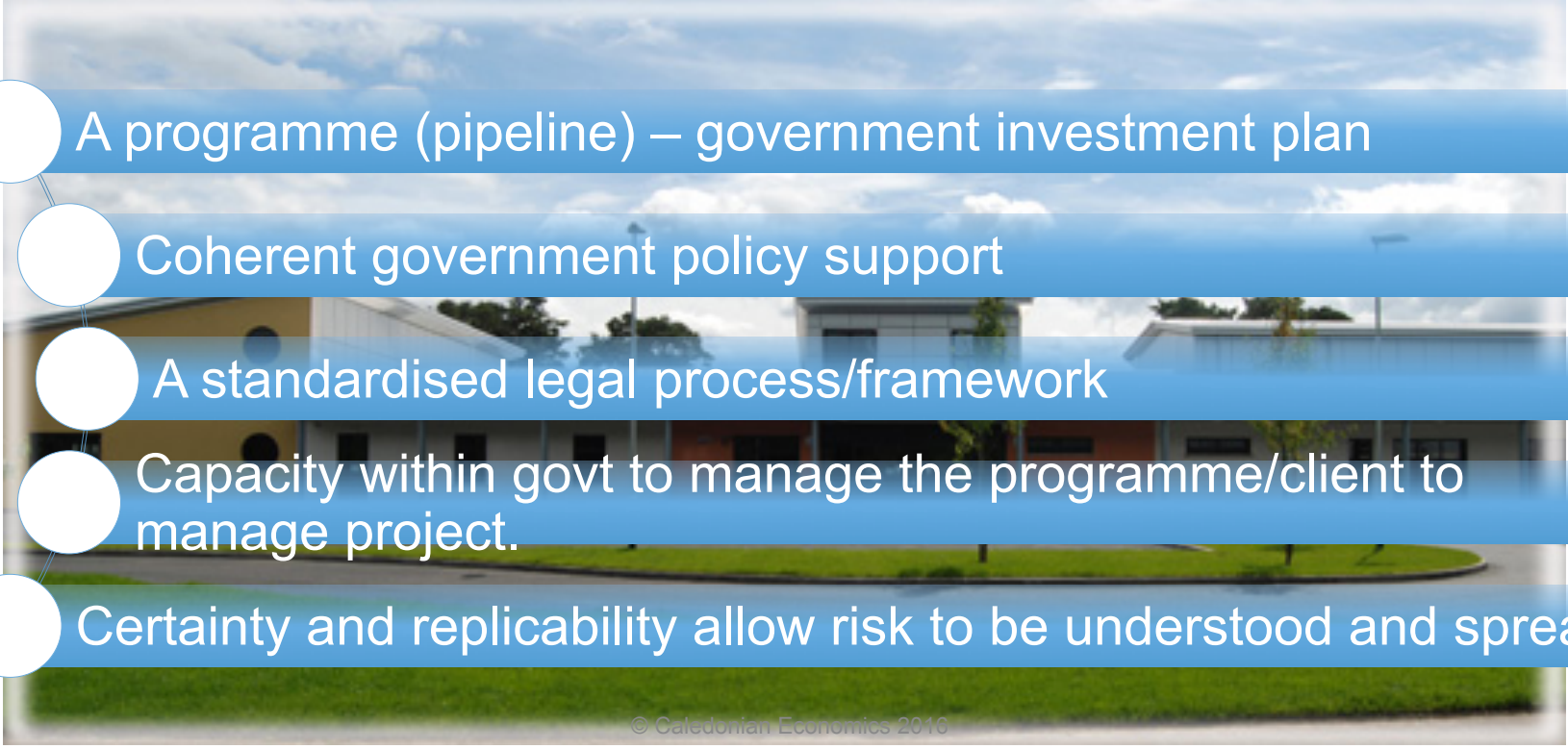
- local;
- international.
- institutions.

*Any appetite... on  
what terms?*

Gov of Latvia:

- reserves;
- bond.

## Financial Issues – what do international funders look for?

- 
- A programme (pipeline) – government investment plan
  - Coherent government policy support
  - A standardised legal process/framework
  - Capacity within govt to manage the programme/client to manage project.
  - Certainty and replicability allow risk to be understood and spread

## Financial Issues - Where next for PPP?

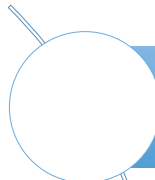
New sectors  
*energy*  
*performance*

Fiscal  
constraints  
*doing more*  
*with less*

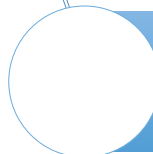
Alternative  
funders  
pension funds,  
social/ethical,  
crowd

Greater  
aggregation/  
collaboration  
*batching and*  
*bundling*

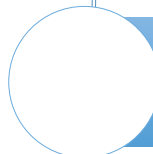
## Section 5 – Summary and Discussion



Would you like us to repeat or expand anything in this seminar?



PPP is working in Lithuania. Are there similarities between there and Latvia that would be helpful?



Do you have any other comments or questions?



Thank you for participating in this seminar





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