

Agenda – Y Pwyllgor Cyllid

Lleoliad:	I gael rhagor o wybodaeth cysylltwch a:
Ystafell Bwyllgora 3 – Y Senedd	Bethan Davies
Dyddiad: Dydd Mercher, 1 Mai 2019	Clerc y Pwyllgor
Amser: 09.30	0300 200 6372
	SeneddCyllid@cynulliad.cymru

1 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau

(09.30)

2 Papur(au) i'w nodi

(09.30)

(Tudalennau 1 – 4)

2.1 Papur i'w nodi 1 – Llythyr gan Brif Ysgrifennydd y Trysorlys – Ymchwiliad i ffynonellau cyllid cyfalaf Llywodraeth Cymru – 2 Ebrill 2019

(Tudalen 5)

2.2 Papur i'w nodi 2 – Llythyr gan y Gwir Anrhydeddus Alun Cairns AS, Ysgrifennydd Gwladol Cymru – Ymchwiliad i ffynonellau cyllid cyfalaf Llywodraeth Cymru – 10 Ebrill 2019

(Tudalen 6)

3 Ymchwiliad i ffynonellau cyllid cyfalaf Llywodraeth Cymru: Sesiwn dystiolaeth 1

(09.30–10.30)

(Tudalennau 7 – 20)

Gerald Holtham, Athro Hodge mewn Economi Ranbarthol

Dr Stanimira Milcheva, Athro Cyswllt mewn Cyllid Seilwaith ac Eiddo Tirol, Coleg Prifysgol Llundain

Papur 1 – Tystiolaeth ysgrifenedig: Gerald Holtham

10.30–10.45 Egwyl



4 Ymchwiliad i ffynonellau cyllid cyfalaf Llywodraeth Cymru: Sesiwn dystiolaeth 2

(10.45–11.45)

(Tudalennau 21 – 35)

Peter Reekie, Prif Weithredwr, Scottish Futures Trust

Papur 2 – Tystiolaeth ysgrifenedig: Scottish Futures Trust

5 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o weddill y cyfarfod

(11.45)

6 Ymchwiliad i ffynonellau cyllid cyfalaf Llywodraeth Cymru: Ystyried y dystiolaeth

(11.45–12.00)

7 Dull ar gyfer craffu ar Gyllideb Ddrafft Llywodraeth Cymru ar gyfer 2020–21

(12.00–12.15)

(Tudalennau 36 – 40)

Papur 3 – Dull ar gyfer craffu ar Gyllideb Ddrafft Llywodraeth Cymru ar gyfer 2020–21

8 Cyllideb Atodol Gyntaf Ombwdsmon Gwasanaethau Cyhoeddus Cymru ar gyfer 2019–20

(12.15–12.30)

(Tudalennau 41 – 44)

Papur 4 – Memorandwm Esboniadol Cyllideb Atodol Gyntaf Ombwdsmon Gwasanaethau Cyhoeddus Cymru ar gyfer 2019–20

Cofnodion cryno – Y Pwyllgor Cyllid

Lleoliad:

Gellir gwyllo'r cyfarfod ar [Senedd TV](#) yn:

Ystafell Bwyllgora 3 – Y Senedd

<http://senedd.tv/cy/5321>

Dyddiad: Dydd Mercher, 27 Mawrth 2019

Amser: 09.01 – 09.50

Yn bresennol

Categori	Enwau
Aelodau'r Cynulliad:	Llyr Gruffydd AC (Cadeirydd) Rhun ap Iorwerth AC Alun Davies AC Rhianon Passmore AC Nick Ramsay AC
Tystion:	Elan Closs Stephens, Comisiynydd Etholiadol Cymru Rhydian Thomas, Comisiwn Etholiadol Kieran Rix, Comisiwn Etholiadol
Staff y Pwyllgor:	Leanne Hatcher (Ail Glerc) Ryan Bishop (Dirprwy Glerc) Martin Jennings (Ymchwilydd)

1 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau

1.1 Croesawodd y Cadeirydd yr Aelodau i'r cyfarfod.

1.2 Cafwyd ymddiheuriadau gan Mike Hedges AC a Neil Hamilton AC.



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Cenedlaethol
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National
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Wales

Tudalen y pecyn 1

2 Papur(au) i'w nodi

2.1 Nododd y Pwyllgor ei siom ynghylch yr ohebiaeth gan Ysgrifennydd Gwladol Cymru ar weithredu Deddf Cymru 2014.

2.2 Cafodd y papurau eu nodi.

2.1 PTN1 – Llythyr gan Gadeirydd y Pwyllgor Materion Cyfansoddiadol a Deddfwriaethol – Cysylltiadau rhngsefydliadol rhwng y Cynulliad a Llywodraeth Cymru

2.2 PTN2 – Llythyr gan Ysgrifennydd Gwladol Cymru – Gweithredu Deddf Cymru 2014

3 Sesiwn graffu y Bil Senedd ac Etholiadau (Cymru): y Comisiwn Etholiadol

3.1 Cafodd y Pwyllgor dystiolaeth gan Elen Closs Stephens, Comisiynydd Etholiadol Cymru; Kieran Rix, Cyfarwyddwr Cyllid a Gwasanaethau Corfforaethol y DU; a Rhydian Thomas, Pennaeth y Comisiwn Etholiadol, Cymru.

3.2 Cytunodd y Comisiwn Etholiadol i ddarparu i'r Pwyllgor ffigurau am gostau wedi'u diweddarau yn gysylltiedig â'r broses o ddiwygio cofrestru etholiadol.

4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o weddill y cyfarfod ac eitem 1 o'r cyfarfod ar 4 Ebrill.

4.1 Derbyniwyd y cynnig.

5 Bil Senedd ac Etholiadau (Cymru): trafod y dystiolaeth

5.1 Trafododd y Pwyllgor y dystiolaeth a ddaeth i law.

Cofnodion cryno – Y Pwyllgor Cyllid

Lleoliad:

Ystafell Bwyllgora 5 – Tŷ Hywel

Dyddiad: Dydd Iau, 4 Ebrill 2019

Amser: 09.04 – 11.23

Gellir gwyllo'r cyfarfod ar [Senedd TV](http://senedd.tv) yn:

<http://senedd.tv/cy/5322>

Yn bresennol

Categori	Enwau
Aelodau'r Cynulliad:	Llyr Gruffydd AC (Cadeirydd) Rhun ap Iorwerth AC Alun Davies AC Mike Hedges AC
Tystion:	Manon Antoniazzi, Prif Weithredwr a Chlerc y Cynulliad Nia Morgan, Cyfarwyddwr Cyllid Elin Jones AC, Y Llywydd, Llywydd Anna Daniel, Pennaeth Trawsnewid Strategol Tom Jackson, Rheolwr y Bil
Staff y Pwyllgor:	Leanne Hatcher (Ail Glerc) Ryan Bishop (Dirprwy Glerc) Martin Jennings (Ymchwilydd)

1 Y Bil Senedd ac Etholiadau (Cymru): Sesiwn friffio breifat

1.1 Cafodd y Pwyllgor sesiwn friffio breifat ar y Bil Senedd ac Etholiadau (Cymru) gan Dr Toby James o Brifysgol East Anglia.



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Tudalen y pecyn 3

2 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau

2.1 Croesawodd y Cadeirydd yr Aelodau i'r cyfarfod.

2.2 Cafwyd ymddiheuriadau gan Rhianon Passmore AC, Nick Ramsay AC a Neil Hamilton AC.

3 Sesiwn graffu ar y Bil Senedd ac Etholiadau (Cymru): Comisiwn y Cynulliad 1

3.1 Clywodd y Pwyllgor dystiolaeth gan Manon Antoniazzi, Prif Weithredwr a Chlerc y Cynulliad a Nia Morgan, y Cyfarwyddwr Cyllid.

4 Sesiwn graffu ar y Bil Senedd ac Etholiadau (Cymru): Comisiwn y Cynulliad 2

4.1 Clywodd y Pwyllgor dystiolaeth gan y Llywydd, Elin Jones AC; Anna Daniel, Pennaeth y Gwasanaeth Trawsnewid Strategol a Tom Jackson, Rheolwr y Bil.

5 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o weddill y cyfarfod.

5.1 Derbyniwyd y cynnig.

6 Y Bil Senedd ac Etholiadau (Cymru): Trafod y dystiolaeth

6.1 Trafododd y Pwyllgor y dystiolaeth a ddaeth i law.

7 Trafod y flaenraglen waith

7.1 Trafododd y Pwyllgor y flaenraglen waith.

8 Ymchwiliad i ariannu cyrff a ariennir yn uniongyrchol: Ystyried yr ohebiaeth a gafwyd

8.1 Trafododd y Pwyllgor y Memorandwm Cyd-ddealltwriaeth drafft a'r ohebiaeth arfaethedig at y cyrff a ariennir yn uniongyrchol, gan gytuno arnynt.



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Llyr Gruffydd AM
Chair of the Finance Committee
National Assembly for Wales
Cardiff
CF99 1NA

2 April 2019

Dear Llyr,

INVITATION TO ATTEND THE NATIONAL ASSEMBLY FOR WALES'S FINANCE
COMMITTEE SESSION ON WELSH GOVERNMENT CAPITAL FUNDING SOURCES

1. Thank you for your letter of 19 March and the invitation to attend a Finance Committee meeting on the Welsh Government's capital funding sources.
2. Given there is a general delineation in parliamentary activities where the UK Government is accountable to the UK Parliament and the Welsh Government is accountable to the National Assembly for Wales, I think it would be more appropriate for the responsible Welsh Government minister to attend the session to discuss this issue.
3. My officials are always on hand if you require additional information or clarification on the issue of funding for the Welsh Government.

Best wishes,

RT HON ELIZABETH TRUSS MP

Eitem 2.2



UK Government
Llywodraeth y DU

Rt Hon Alun Cairns MP
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru

T: 020 7270 0575
E: Correspondence@ukgovwales.gov.uk

Llyr Gruffydd AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Ref: 235 SOS 19

10 April 2019

Dear Llyr,

Thank you for your recent letter inviting me to attend a committee session with your Committee on the Welsh Government's capital funding sources.

In the case of capital funding sources, the lines of accountability are clear and are reflected in the annual reporting arrangements on the implementation and operation of the Wales Act 2014. The Secretary of State must report to Parliament and Welsh Ministers must report to the Assembly.

I am accountable to Parliament in my role as Secretary of State for Wales and I would normally expect to be scrutinised by the Welsh Affairs Select Committee. I would expect Welsh Ministers to be scrutinised by Assembly Committees given their accountability to the National Assembly.

You will appreciate that I receive many invitations to give evidence to Committees of the National Assembly for Wales, this being the third invite in recent weeks. I believe there is a case for me to give evidence to Assembly Committees. For example, when the UK Government is legislating in areas of Assembly competence and is seeking the consent of the Assembly for the legislation.

However, in respect of the implementation of capital funding sources, I believe it would be most appropriate for your Committee to scrutinise Welsh Ministers and I fully expect the Welsh Affairs Select Committee to consider scrutinising me.

Whilst on this occasion I am afraid that I will be unable to attend the meeting. I am very interested in the findings and would like to be kept updated.

Rt Hon Alun Cairns MP
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru

Capital Funding Sources for the Welsh Government.

The following remarks may appear rather obvious, even trite. It may be worthwhile, however, to state some rather basic points as a background to the discussion.

Need for a proper plan

Firstly, if the Welsh Government (WG) is going to optimise its use of capital funding sources it needs to have a medium-term investment plan extending out 5 to 10 years. It began the process of constructing such a plan some seven years ago when the first Wales Infrastructure Investment Plan (WIIP) was produced. That plan, however, was little more than a wish-list of projects put forward by spending departments and collated by the Finance Department. There were no priorities established among the projects and no target dates for their completion. Their financing depended on the capital budget allocated to each department. Two projects were earmarked to be financed by what has evolved into the Mutual Investment Model.

At that time, it was not possible to calculate from the WIIP what the borrowing requirements of the WG would be. It had been WG practice to consider only the next three years because HMG announced Barnett allocation in a three-year cycle. Of course, there was no certainty about revenue beyond that horizon but it is necessary to make projections in planning investments. Where uncertainty is acute a scenario approach can be adopted. Even with such projections, however, a borrowing requirement can still not be calculated without target dates on all projects. At the time of the first WIIP, if the plan had been to complete the target list over 20-plus years there would have been little need to borrow at all given expected revenues. If the plan was for ten years it would have been necessary to borrow several billion pounds.

Since then things have evolved quite a lot. The 2018 interim report on the WIIP recognized the need for a co-ordinated all-government approach to establishing priorities. There was recognition of the need to make longer term economic and revenue projections and apparently techniques for doing so have been developed and are being refined. The statements in the report about how the WIIP would be drawn up in future were all exemplary. One might have hoped that after seven years they would be established procedures rather than good intentions but no doubt austerity can be blamed.

Which should be published

Secondly any long-term investment plan should be published in full. With a priority ordering of large projects and target dates for meeting them, the required expenditure can be compared with revenue projections and a borrowing programme derived. There is no reason why any of that should be secret. The public can discuss the priorities and timing, encouraging public debate and buy-in. With projects, provisional costings and dates in the public domain for 5 to 10 years ahead, there are likely to be plenty of offers of assistance and suggestions from private sector companies and financiers for ways to obtain capital. Lobbying is always self-interested but can also convey information and ideas to the public authority, which of course must remain alert and sceptical. The 2018 report is a big advance on its 2012 forebear and the government is to be commended on publication of the project pipeline.

It is full of retrospective case studies with glossy pictures showing completed projects with copy that reads like a press release from an advertising agency. That cannot be criticized; politics is also about salesmanship and it is appropriate to point to what has been achieved. But the selling is more authoritative and persuasive when there is full information on a worked-up future plan behind it. Everyone should understand that plans change and evolve under the pressure of events, especially long-term ones, so governments should not be fearful of giving hostages to fortune.

Three sources of finance

When such a plan exists there is a known borrowing requirement. The Welsh government now has limited but not insignificant powers to borrow from the Debt Management Office who will issue UK government bonds (gilts) to finance. That is likely to be the cheapest form of borrowing. Local authorities can also tap the gilt market in effect by borrowing from the Public Works Loan Board. That is also cheap finance but the Welsh government itself is not supposed to use it to exceed the borrowing limits imposed on it by the Treasury. It can work in conjunction with local authorities but it must not be seen too obviously to be relieving them of their debt burdens. The third major source of capital is private finance of which the Mutual Investment Model is an example.

The principle behind private finance is that the private provider of capital for a project is supposed to take on much of the risk associated with it. That may be construction risk, maintenance or operation risk. Although the public sector ultimately pays for the services it is procuring it has to demonstrate that risks have been shifted if the project is to come off its balance sheet. It is then, in effect, paying a lease on an asset perhaps with associated services rather than borrowing to construct the asset. If the asset reverts to the public sector at the end of a contract period, it is employing a form of what used to be known to consumers as hire purchase. Like all hire purchase agreements this turns out to be more expensive in the long run than outright purchase. Interest charges are higher reflecting the risks being run by the provider of the capital. In practice shifting risk is not so easy since the state is always responsible in the end for providing the services that the infrastructure is there to sustain – which makes the higher interest charges a bit irritating.

When should they be used?

The Welsh government says in the 2018 report on the WIIP that it will always use the cheapest sources of finance first before resorting to more expensive forms. That sounds sensible and if you are proceeding hand to mouth it is the best you can do. If a medium-term plan is in existence, however, one can do better. With such a plan it would be clear whether the borrowing requirement over any time period was likely to exceed the amount of the cheapest finance available (gilts). If it did not there is nothing to discuss; all borrowing would be done through issue of UK bonds via the DMO. Where the borrowing requirement exceeds the available gilt borrowing however, things are more interesting. Then there is the possibility of matching finance and projects rather than simply using up gilts first.

The aim should be to minimize the total cost of the borrowing programme. The significant fact to bear in mind is this: gilt interest rates are the same whatever the money is used for; that is not true of private finance. Recall that the interest rate on a private finance deal (including MIM deals) will reflect the risk born by the financier. It follows that private finance should be used for the least risky projects. Riskier projects should be financed with gilts. Risk can take several forms: construction, maintenance operation. A project can be sliced up in numerous ways. The state could acquire an asset itself and

license a private operator to run or maintain it, for example, so the comparison is not straightforward. Nonetheless the principle is clear. Carve up projects appropriately and use private finance where the risks to the financier are relatively low.

A second consideration is how the project will ultimately be paid for. For services free at the point of delivery, like much health, education and most road provision, the taxpayer foots the bill. Some services, like use of railways and toll roads or bridges incur user charges. Taxes, like death, are held to be inevitable but with most services for which you pay there is an element of choice. This means the government may be more relaxed about the financing cost of services that are self-financing. This argument, however, does not dominate the first one; minimizing overall cost should be the priority.

The ideal project for private finance, therefore, is one of which there are plenty of past instances so the risks are known and can be managed successfully. Anything highly innovative is likely to be expensive. Moreover, if the user will pay for the service so that servicing costs can be met out of user charges, so much the better. It follows that if the M4 relief road is to be built it should be financed by MIM since motorway construction is a routine procedure. Moreover, the case would be reinforced if it were a toll road – for which there are strong arguments. There is no obvious reason why tax payers in Anglesey should pay for commuters around Newport. And if the latter don't want to pay a toll they have the option of crawling along through the Bryn Glas tunnel. Wales' gilt allocation would then be used for riskier projects, which would certainly describe the Swansea Bay lagoon or the Carmarthen to Aberystwyth railway, should those be contemplated. Of course, that assumes the WIIP is ambitious enough to exceed capital budgets and the gilt allocation and that it includes some innovative projects. Those assumptions may or may not apply.

Gerald Holtham
24:iv:2019

Mae cyfyngiadau ar y ddogfen hon

Scottish Futures Trust

Evidence for National Assembly for Wales – Finance Committee Inquiry into the Welsh Government's capital funding sources

Scottish Futures Trust has been invited to give evidence to the Committee and this paper is intended to assist members in advance of oral evidence from Peter Reekie, SFT's Chief Executive on 1 May 2019.

1. Background to SFT

Scottish Futures Trust is an infrastructure agency established by Scottish Government in 2008. Its overall aim is:

“to improve the efficiency and effectiveness of infrastructure investment and use in Scotland by working collaboratively with public bodies and industry, leading to better value for money and providing the opportunity to maximise the investment in the fabric of Scotland and hence contribute to the Scottish Government's overarching purpose to increase inclusive economic growth”

In order to deliver the aim, SFT works between policy and delivery across all sectors, geographies and stages of infrastructure life-cycle, collaborating with Scotland's public and private sectors to:



PLAN asset investment and management effectively across sectors and places – **doing the right thing**



INNOVATE in approaches to funding, financing and delivery – **maximising the things we can do**



DELIVER projects and programmes to drive life-cycle value and vibrant construction and related industries – **doing things well**



MANAGE existing assets, estates and contracts productively – **making the most of the things we have**

SFT is publishing its 2019-24 Corporate Plan and 2019-20 Business Plan over the coming days. Members will be able to access these on our website: www.scottishfuturestrust.org.uk.

SFT has grown over 10 years to a team of 70, drawn from across the public and private sectors, characterised by:

Infrastructure expertise: The team retains technical skills and understanding of infrastructure systems and economics, social infrastructure design, costing and briefing/development, housing and commercial property development, asset and facilities management, digital and low carbon infrastructure, space planning, programme and change management.

Commercial / financial acumen: The team includes many senior individuals with 10-20+ years each of experience in infrastructure related debt and equity financing, financial advice and structuring across the public and private sectors, commercial deal structuring and legal documentation, transaction management, investment decision making and governance, corporate governance, commercial contract understanding and management and approaches to dispute resolution

2. Relevant Work Areas

SFT has investigated and implemented public and privately financed approaches to investment in public infrastructure across Scotland including:

- A programme of 10 major infrastructure projects with a value of approximately £1.5bn delivered using the “Non-Profit Distributing” (NPD) model of privately financed investment and spanning the roads, hospital and colleges sectors;
- The hub programme of institutional public private partnerships for community infrastructure developments which comprises 5 hub companies across Scotland developing and delivering schools, health centres, council and blue light facilities and other community infrastructure under both capital funded and profit-sharing private financed arrangements. The hub programme has delivered approximately £1.6bn of assets with a further £600m in construction, including 41 Design, Build, Finance and Maintain (DBFM) privately financed projects.
- Tax Incremental Financing (TIF) and Growth Accelerator (GA) projects which use local authority borrowing powers to raise finance to invest in public infrastructure which enables private economic development, with the finance being repaid either through an increment in tax-take retained by the Authority (TIF), or Scottish Government revenue funding for the outcomes delivered by the overall investment.
- National Housing Trust affordable homes, of which over 2,000 are now occupied across Scotland, and which have been delivered through limited liability partnerships (LLPs) established between SFT, Local Authorities and (under one variant of the approach) private developers.

3. Comments on Inquiry Considerations

SFT is careful to differentiate between the funding and financing of infrastructure and it may be helpful for the Committee to understand our use of language in this regard:

Any asset ultimately has to be paid for (or **funded**) either as it is built or as it is used. Funding for infrastructure assets come either from public sector budgets, or from “customers” in the form of user / occupier / developer charges.

If the asset is paid for as it is used, a form of **finance** (which comes with an expectation of repayment) can be raised to build the asset¹. Financing can be either public sector borrowing or private debt / equity.

¹ An exception is an asset financed using corporate or national debt where the debt stock is increased in perpetuity to pay for the asset. As this form of borrowing is not available to Scottish Government we do not consider it across our work

In respect of the forms of funding and financing mentioned in the terms of reference for the Inquiry:

Conventional Funding – capital budgets is a form of funding infrastructure assets as they are built using public budgets.

Conventional Funding – financial transactions is a form of financing which must ultimately be repaid to HM Treasury. Members will know that FTs must be lent outside the public sector boundary and utilised by a privately classified entity for a purpose which has an associated funding stream (for example rental income) which can eventually repay the finance.

Government Loans & Bonds – are again forms of financing which either increase the Government's debt stock in perpetuity (if regulations allow) or must be repaid using funding from future capital / revenue budgets or customer charge.

Capital Receipts create an additional source of funding over and above budget allocations.

Borrowing Powers of Bodies – In Scotland, Local Authorities have separate borrowing powers from Scottish Government which are used by them as a source of financing for assets, ultimately funded by their own future budgets or customer charges.

Mutual Investment Model – is an arrangement to use private finance to pay for the creation of an asset which must be classified to the private sector, and where the public sector funds the asset as it is used through revenue budgets over a 25-30 year period.

4. Scotland's Public Private Partnership Models

SFT manages Scottish Government's programme of privately financed infrastructure investment funded from revenue budgets as assets are used. Since 2011, this programme has been delivered through the NPD and hub DBFM arrangements.

The programme was launched in the 2011/12 Scottish Government Budget². The context of the decision to deliver a programme of privately financed infrastructure was set out in Chapter 3 of the budget document:

"Capital investment is vital to strengthening recovery and supporting sustainable economic growth. It sits at the heart of our economic strategy. The Scottish Government views the severe cuts in capital spending imposed by the UK Government as deeply damaging. We will do all we can to mitigate their effects."

The rationale for using privately financed investment was also set out in the budget document:

"As a result of our concern about the effect of the rapid and deep reductions in capital spending flowing from decisions in the UK Spending Review and the implications that these will have for the pace of implementation of the capital programme and the strength of the Scottish economy, the Scottish Government will explore all possible means to support higher levels of infrastructure investment than would be possible through the capital budget alone. This effort will be particularly important to support recovery and sustainable economic growth, as capital budgets will fall sharply in 2011-12 and are likely to remain low for several years."

²<https://www.webarchive.org.uk/wayback/archive/20170107125418/http://www.gov.scot/Publications/2010/11/17091127/23>

“In general, funding infrastructure investment through public capital ensures the lowest cost of finance for a typical project. Under the current public finance framework, the Scottish Government does not have the flexibility to borrow to fund additional capital expenditure. However, there is an overwhelming economic and financial case for providing this flexibility to borrow as soon as possible.

“In the absence of borrowing powers, there are a number of levers which can be used to help to expand Scotland’s public infrastructure programme. While ensuring these levers are used sustainably and responsibly, the Scottish Government – working closely with the Scottish Futures Trust and local authorities – will work to maximise their positive impact. Therefore, in addition to its planned capital investments in 2011-12 and future years, the Scottish Government will:

- take forward a new, affordable pipeline of revenue financed investment worth up to £2.5 billion, to be delivered through the Non-Profit Distributing (NPD) model; and
- make full use of innovative measures such as Tax Incremental Financing, the National Housing Trust and investment through the JESSICA Fund.”

The value for money sought from the NPD programme is the additionality of capacity to invest in infrastructure over and above traditional capital budgets which it brings, and the widely recognised value to the economy of that investment. It was recognised that the cost of finance would be higher than public borrowing and that maximising value for money, and ensuring affordability across the programme was critical.

4.1 Value for Money

SFT has sought to maximise value for money across the investment programme by:

- adopting profit capping (NPD)³ and profit sharing (hub DBFM) approaches to capture investment up-side for the public sector and improve on the value offered by older PFI contracts
- having an expert central team managing standard contract documents to ensure commercial consistency and reduce market bidding costs
- reducing the scope of contracted services to exclude catering cleaning etc. (soft facilities management)
- selecting projects and programmes of investment to be taken forward with characteristics suited to private finance arrangements
- managing a programme of “key stage review” assurance across all projects to share good practices across procuring authorities and ensure the correct steps have been completed before projects proceed
- for smaller projects, using a programme approach (hub) to bring consistency, reduce transaction costs and develop longer term partnering arrangements between the public and private sectors
- Maximise community benefits of SME engagement and training delivered across projects and programmes
- Bring a public sector mindset to the delivery of projects through placement of a Public Interest Director on the board of each delivery company.

³ Found by the ONS and Eurostat in 2015 to be classified to the public sector under ESA10 guidance and therefore no longer pursued as the key characteristic of delivering additional investment is no longer achieved

4.2 Affordability

From the outset the programme has delivered within an affordability limit. This year, the budget includes capping the revenue funding for infrastructure investment at 5% of Scottish Government's Resource budget (excluding social security). This figure includes annual revenue budget impact of Scottish Government capital borrowing, historic PFI project unitary charge payments and the Scottish Government's share of payments made under NPD and hub DBFM projects. These payments are expected to peak for contracted and committed payments at 3.2% in 2020-21 and 2021-22

4.3 Monitoring

The Scottish Government and SFT maintain a high level of transparency over revenue funded investment projects and have been commended by the international Infrastructure Transparency Initiative for the data points published in respect of major investment projects⁴. Important aspects of transparency, which SFT continuously seeks to build upon, include:

- Six Monthly Capital Investment Project Reporting to the Parliamentary Audit and Post Legislative Scrutiny Committee⁵;
- Publication of annual unitary charge information⁶
- Publication of 5% affordability cap monitoring in budget documentation⁷
- Publication of NPD and hub DBFM contracts and Financial Models⁸
- Publication of hub project pipeline information⁹
- Publication of hub programme community benefits delivery monitoring⁹

5. Future Investment

In the 2018-19 Programme for Government¹⁰, a new National Infrastructure Mission was established to support inclusive economic growth through an increase in infrastructure investment by £1.5bn, or approximately 1% of 2017 GDP, per annum by 2025-26. The Office for the Chief Economic Advisor has published evidence linking infrastructure investment to economic growth¹¹.

This ambitious mission to deliver additionality of investment cannot be delivered using the currently projected levels of Scottish Government capital budgets and borrowing powers.

Scottish Government Borrowing Powers are limited both annually and in aggregate in the Fiscal Framework¹². In its 2014 evidence to the Smith Commission on Proposals for Further Devolution to Scotland, SFT argued that Scotland should have the powers to be able to determine the right level of

⁴ <http://infrastructuretransparency.org/news/cost-research-finds-major-learning-opportunity-for-scotland-and-cost-members/>

⁵ https://www.parliament.scot/S5_Public_Audit/General%20Documents/Major_Capital_Projects_Progress_Report_-_September_2018.pdf

⁶ <https://www.gov.scot/publications/pipeline-npdhub-projects-unitary-payment-charges/>

⁷ [https://www.gov.scot/publications/scottish-budget-2019-20/ \(Page 45\)](https://www.gov.scot/publications/scottish-budget-2019-20/(Page%2045))

⁸ <https://contracts.scottishfuturestrust.org.uk/category/hub>

⁹ <https://www.scottishfuturestrust.org.uk/page/hub>

¹⁰ <https://www.gov.scot/programme-for-government/>

¹¹ <https://www.gov.scot/publications/exploring-economic-rationale-infrastructure-investment/pages/1/>

¹² <https://www.gov.scot/publications/fiscal-framework-factsheet/pages/borrowing-powers/>

infrastructure investment to affordably meet its economic and social objectives, and how this investment is both funded and financed. SFT's evidence pointed out that Scotland has unlimited powers to take on future repayment obligations through PPP-type arrangements and that "It appears inconsistent that borrowing powers, which could provide both flexibility and a lower cost of finance for investment, should have a cash value borrowing limit imposed as a reserved matter¹³". SFT suggested that the annual and total limit on Scottish Ministers borrowing powers be removed. This proposal was not adopted in the revised Fiscal Framework and Scottish Ministers Borrowing Powers remain capped.

In the light of this ambitious National Infrastructure Mission, and constrained borrowing powers, it is likely that additional forms of financing will be required to deliver the Mission. Public Financing, for example Local Authority borrowing powers, which are independent of the limited powers of Scottish Ministers, are likely to be better value than private financing approaches. Wherever possible, these will be considered under approaches such as SFT's Growth Accelerator¹⁴. It is however possible that forms of private financing will be required in order to deliver the Mission. Following the reclassification by ONS and Eurostat of NPD projects to the public sector this approach is no longer able to deliver additionality of investment under a privately financed PPP approach and will not be used any further. SFT is currently examining profit sharing finance schemes, such as the Welsh Mutual Investment Model, to help secure both the investment needed and best value for the taxpayer.

In this investigation, we have had substantial engagement with the local, UK and European construction markets which have faced substantial challenges in recent years, exemplified by the demise of Carillion in early 2018. It is essential that our future approaches to project selection, development of project pipelines, funding and financing structures and procurement methodologies allow us to deliver high-quality assets which meet Scotland's economic and social needs **from** the construction industry, and provide opportunities **for** the indigenous construction industry, which represents around 6% of Scotland's economy to invest in productivity, fair work and wider social and environmental benefits.

6. Conclusion

We hope this evidence is useful to the Committee in its inquiry into the Welsh Government's capital funding sources. It focusses on SFT's experience of privately financed approaches to investment in public infrastructure as we thought this may be of the most use. SFT has experience of innovation in financing and delivering affordable housing, and in enabling private development through our Tax Incremental Financing and Growth Accelerator approaches. Peter Reekie will be pleased to expand on the evidence in this paper, or provide information on other areas of our work if that would be helpful in oral evidence.

Scottish Futures Trust
April 2019

¹³ https://www.scottishfuturestrust.org.uk/storage/uploads/Smith_Commission_SFT_31_October.pdf

¹⁴ <https://www.scottishfuturestrust.org.uk/page/growth-accelerator>

Mae cyfyngiadau ar y ddogfen hon

Mae cyfyngiadau ar y ddogfen hon

Ombwdsmon Gwasanaethau Cyhoeddus Cymru

Cyllideb Atodol 2019-20

Memorandwm Esboniadol i Gadeirydd y Pwyllgor Cyllid

Cefndir

Bu'r Amcangyfrif ar gyfer 2019/20 yn destun craffu gan y Pwyllgor Cyllid ym mis Tachwedd 2018, a chafodd ei gynnwys yng Nghynnig y Gyllideb Flynyddol ym mis Rhagfyr 2018.

Cafwyd cyfeiriadau yn y gosodiad Amcangyfrifon at y gofyniad i gyflwyno Cyllideb Atodol mewn perthynas â:

- Costau'n gysylltiedig â'r Bil OGCC newydd sy'n adlewyrchu'r rhai y manylwyd arnynt yn y Memorandwm Esboniadol. Codwyd y rhain i adlewyrchu cyflogau a phrisiau cyfredol yn unol â Chasgliad 1 o Graffu'r Pwyllgor Cyllid ar Amcangyfrifon yr Ombwdsmon Gwasanaethau Cyhoeddus Cymru ar gyfer 2019-2010 a gyhoeddwyd ym mis Tachwedd 2018.
- Costau pensiwn cyflogwr ychwanegol mewn perthynas â chynnydd Cenedlaethol i gyfraddau cyfraniad cyflogwr ar gyfer pensiynau sector gyhoeddus.

Mae cost ychwanegol y ddwy eitem hyn wedi'u cynnwys yn Atodiad A o'r nodyn hwn.

Cynydd ym Mhensiwn Cyflogwr o 1 Ebrill 2019

Cyhoeddodd Llywodraeth y DU gynlluniau'r llynedd i gyflwyno newidiadau pellach i gynlluniau pensiwn gwasanaeth cyhoeddus o Ebrill 2019. Bydd y newidiadau hyn yn arwain at gynnydd yng nghyfraniadau pensiwn cyflogwr o Ebrill 2019 lle mae Llywodraeth y DU wedi neilltuo £4.7bn yng nghyllideb yr hydref i helpu sefydliadau sector gyhoeddus gwrdd â'r costau hyn yn 2019-20.

Cadarnhawyd y bydd Llywodraeth Cymru yn darparu cyllid ychwanegol i sefydliadau sector cyhoeddus yn 2019-2020 i'w galluogi i gwrdd yn llawn â'r costau ychwanegol sy'n gysylltiedig â'r newidiadau pensiwn hyn.

Darperir Hysbysiad Pensiynau Cyflogwr 567, a gyhoeddwyd ar 9 Chwefror 2019, wybodaeth am y newidiadau yng nghyfraddau cyflogwr o 1 Ebrill 2019.

Band	2018-19	2019-20	Newid
Band 1 (£23,000 ac o dan)	20.0%	26.6%	6.6%
Band 2 (£23,001 i £45,500)	20.9%	27.1%	6.2%
Band 3 (£45,501 i £77,000)	22.1%	27.9%	5.8%
Band 4 (£77,001+)	24.5%	30.3%	5.8%

Effaith y Cynnydd ym Mhensiwn ar OGCC

Mae OGCC yn cyflogi 67 o weithwyr ac mae 65 ohonynt yn aelodau o Gynllun Pensiwn y Gwasanaeth Sifil. Y gyllideb gyflog ar gyfer 2019-20 yw £2,514,000 ac effaith y cynnydd ym mhensiwn yw twf ychwanegol o 5.9% yng nghyfraniadau cyflogwr, sy'n dod i gyfanswm o £148,000 ac sy'n ddaliadwy i Bensiynau'r Gwasanaethau Sifil o 1 Ebrill 2019 ymlaen. Mae'r costau wedi'u cynnwys yn Atodiad A y Gyllideb Atodol.

Y Bil OGCC Newydd

Cymeradwyodd Cynulliad Cenedlaethol Cymru'r Bil Ombwdsmon Gwasanaethau Cyhoeddus (Cymru) gyda phleidlais yn y Senedd ar ddydd Mercher, 20 Mawrth 2019. Dyma'r Bil cyntaf i'w basio a gyflwynwyd gan un o Bwyllgorau'r Cynulliad.

Roedd y costau gwreiddiol y manylwyd arnynt yn y memorandwm esboniadol 2017 yn cynnwys mwy o staff, cyngor proffesiynol, costau'n gysylltiedig â TG a swyddfa yn ogystal â chostau sefydlu un tro, sy'n cynnwys offer TG a swyddfa yn ogystal â recriwtio staff. Mae'r rhain yn gyfanswm o £340k ac fe'u nodir yn y tabl isod.

	Cyflog	Ffioedd Ymgynghorwyr	Hyfforddia nt teithio	Swyddfa / TG	Costau un tro	Cyfanswm
	£000	£000	£000	£000	£000	£000
Cwynion llafar	35	0	1	5	5	46
Ymchwiliadau ei hun	115	10	2	10	10	147
Safonau Cwyno	115	10	2	10	10	147
Cyfanswm	265	20	5	25	25	340

Cytunwyd y byddai'r costau'n cael eu diweddarau i brisiau cyfredol un waith y cytunwyd ar y bil – Chwyddiant CPI, gwobrwyon cyflog a'r cynydd ym mhensiwn cyflogwr. Cost lawn y flwyddyn yw £359k.

	Cyflog	Ffioedd Ymgynghorwyr	Hyfforddiant teithio	Swyddfa / TG	Costau un tro	Cyfanswm
	£000	£000	£000	£000	£000	£000
Cwynion llafar	36	0	1	5	5	47
Ymchwiliadau ei hun	121	11	2	11	11	156
Safonau Cwynion	121	11	2	11	11	156
Cyfanswm	278	22	5	27	27	359

Yn dilyn Cydsyniad Brenhinol, rhagwelir mai'r dyddiad cychwyn fydd mis Gorffennaf 2019, gan arwain at gostau cylchol o £224k am ran o'r flwyddyn, yn ogystal â chostau un tro o £27k sy'n gyfanswm o £251k – fel y dangosir isod.

	Cyflog	Ffioedd Ymgynghorwyr	Hyfforddiant teithio	Swyddfa / TG	Costau un tro	Cyfanswm
	£000	£000	£000	£000	£000	£000
Cwynion llafar	24	0	1	3	5	33
Ymchwiliadau ei hun	81	8	1	8	11	109
Safonau Cwynion	81	8	1	8	11	109
Cyfanswm	186	16	3	19	27	251

Mae'r costau cylchol am ran o'r flwyddyn a'r costau sefydlu un tro wedi'u cynnwys yn Atodiad A y Gyllideb Atodol.

Ombwdsmon Gwasanaethau Cyhoeddus Cymru

Cyllideb Atodol 2019/20	Cyllideb 2019/20	Costau Pensiwn	Bil OGCC newydd		Cyfanswm y Gyllideb Ddiwygiedig
			Cylchol (rhan o flwyddyn)	Costau un tro	
	£000	£000	£000	£000	£000
A. DEL Cyfalaf	22	0	0	5	27
B. Refeniw Cyllidol DEL					
Costau Staff	3,385	148	186	0	3,719
Hyfforddiant a Recriwtio	55	0	0	20	75
Ffioedd Cyngori a chyfreithiol	260	0	16	0	276
Cyfathrebu	45	0	0	0	45
Teithio a chynhaliaeth	35	0	3	0	38
Costau Swyddfa	120	0	19	1	140
TG	180	0	0	1	181
Rhagosodiadau	380	0	0	0	380
Cyfanswm	4,460	148	224	22	4,854
Incwm	-17	0	0	0	-17
Cyfanswm Refeniw Cyllidol DEL	4,443	148	224	22	4,837
C. DEL nad yw'n arian					
Dibrisiant	70	0	0	0	70
Refeniw DEL (B+C)	4,513	148	224	22	4,907
Cyfanswm DEL (A+B+C)	4,535	148	224	27	4,934
Gwariant a Reolir yn Flynyddol (GRF)					
Symudiad LGPS	0	0	0	0	0
Symudiad darpariaethau	20	0	0	0	20
Cyfanswm AME	20	0	0	0	20
Cyfanswm Gwariant a Reolir	4,555	148	224	27	4,954
Adnoddau Gofynnol	4,555	148	224	27	4,954
Dibrisiant	-70	0	0	0	-70
Newid yn nharpariaethau	-20	0	0	0	-20
Symudiad mewn Cyfalaf Gweithio	20	0	0	0	20
Gofyniad Arian Parod Net	4,485	148	224	27	4,884