

Dr Alister W Coutts & Partners LLP

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Financing for Municipal & Regional Projects

“Back to the Future”

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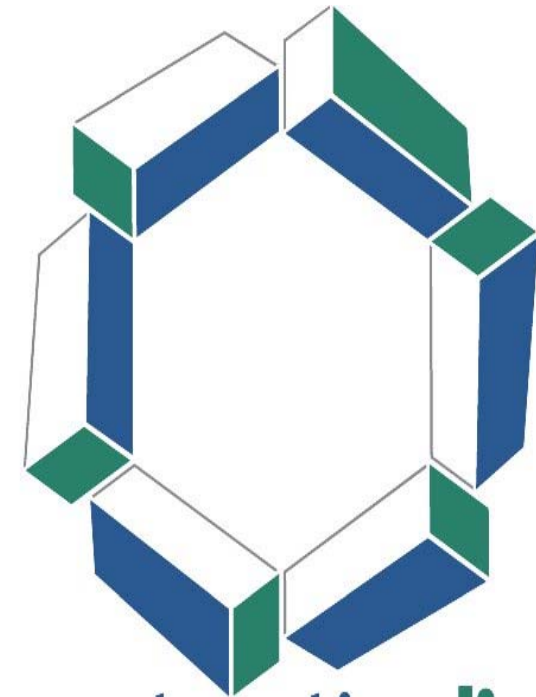


**Chartered
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RICS

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constructionline

U.K. REGISTER OF PRE-QUALIFIED CONSTRUCTION SERVICES

PPP Consultancy Services

- **Project Directors – Traditional & PPP Initiatives;**
- **Lead Negotiators on ‘Design & Build’ Projects;**
- **Project Managers & Contract Administrators;**
- **Technical Advisors for Municipal Projects;**
- **Advisors on Public Sector Procurement;**
- **Lecturers & Researchers on Construction Procurement;**
- **Advisors on Stakeholder Management & Communication.**

Our Proposition (1)

Public Private Partnerships

provide

Access to Private Sector Finance

A Mechanism for Project Control

A Chance to major on Life Cycle rather than Capital Costs

Our Proposition (2)

The Past provides a Platform for the Future

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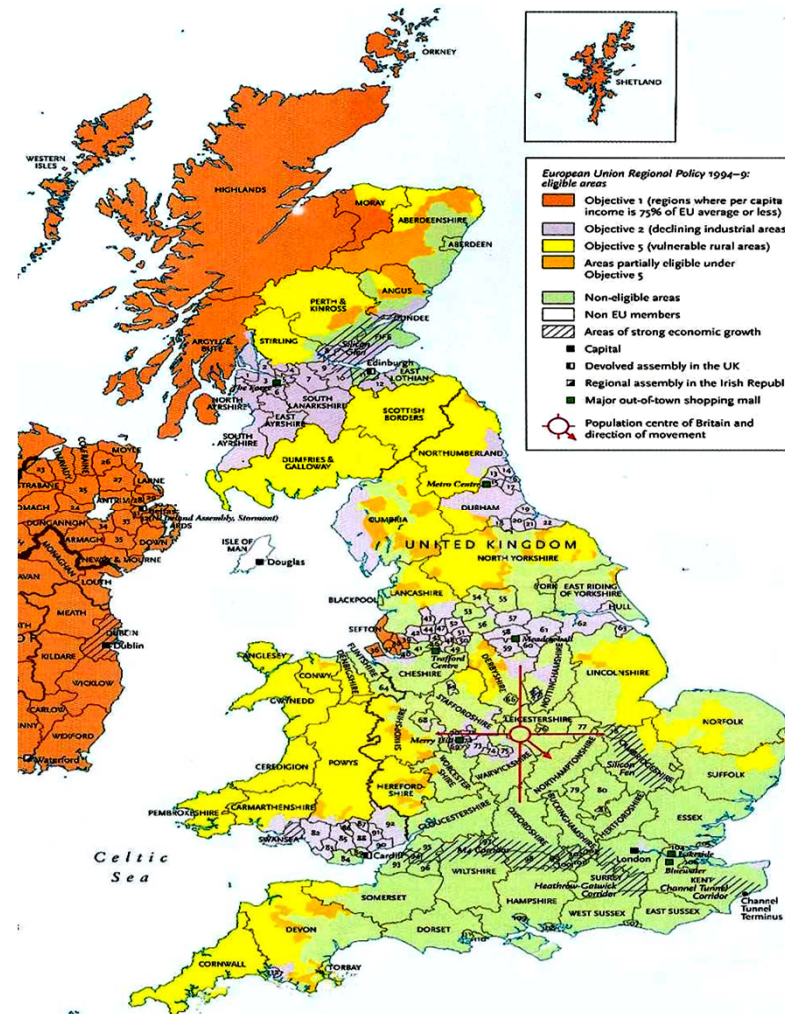
The Past

Our Chosen Example



Successful Small-Scale Public Private Partnerships

Where? - The Highlands of Scotland (1)



Where? - The Highlands of Scotland (2)



The Highland Council – Key Facts

- **United Kingdom Land Area - 245,000 sq. km.**
- **Scotland's Land Area - 80,000 sq. km.**
- **Highland Council Land Area - 26,500 sq. km.**

- **United Kingdom Population - 60,000,000**
- **Scotland's Population - 5,200,000**
- **Population of the Highlands - 210,000**

PPP Projects in the Highlands of Scotland

<u>Description</u>	<u>Capital Value</u>
▪ Scottish Office - Skye Bridge	€ 41 million
▪ Scottish Office - Inverness Airport Terminal	€ 16 million
▪ Scottish Office - Highland Water & Sewage	€ 80 million
▪ NHS Highland - Easter Ross Primary Care Centre	€ 16 million
▪ NHS Highland - Craig Phadrig Psychiatric Unit	€ 27 million
▪ Highland Council - IT	€ 22 million
▪ Highland Council - PPP 1 Schools	€ 28 million
▪ Highland Council - PPP 2 Schools	€150 million

PPP Projects in the Highlands of Scotland



Accepted as Good



Regarded as Bad

The Council Used PPP for a number of reasons:

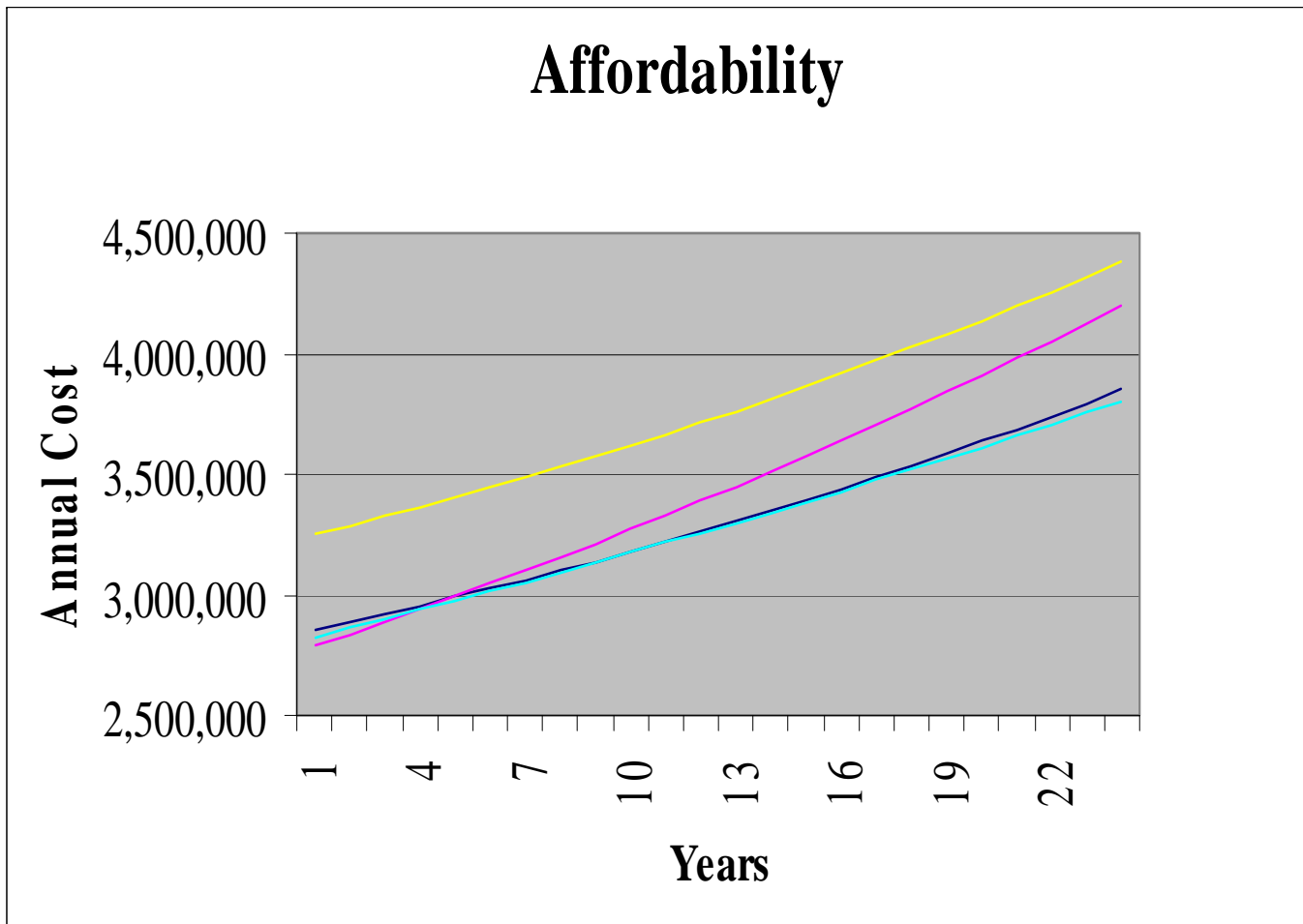
- **Acknowledged need to modernise their facilities;**
- **Insufficient Central Government Finance available;**
- **It left capital available for other infrastructure projects;**
- **Financial support was available from central Government;**
- **Allowed investment in major infrastructure developments;**
- **Council had PPP / Project Management expertise 'in-house';**
- **Council wished to promote Sustainability and to emphasise the importance of the Life Cycle approach.**

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The Process in Action

The Council was 'up-front' on Affordability:



Council also wished to ensure Economic Sustainability

- **Highland Council Objectives:**
 - Maintain fragile local economies;
 - Ensure 'local' firms can participate in initiatives;
 - Avoid any redundancies / loss of capacity;
 - Provide Training & Development opportunities.
- **A PPP initiative can deliver these Objectives if:**
 - Funders are prepared to work with local consortia;
 - The project size allows local contractors be participate;
 - Economic sustainability is fully recognised.

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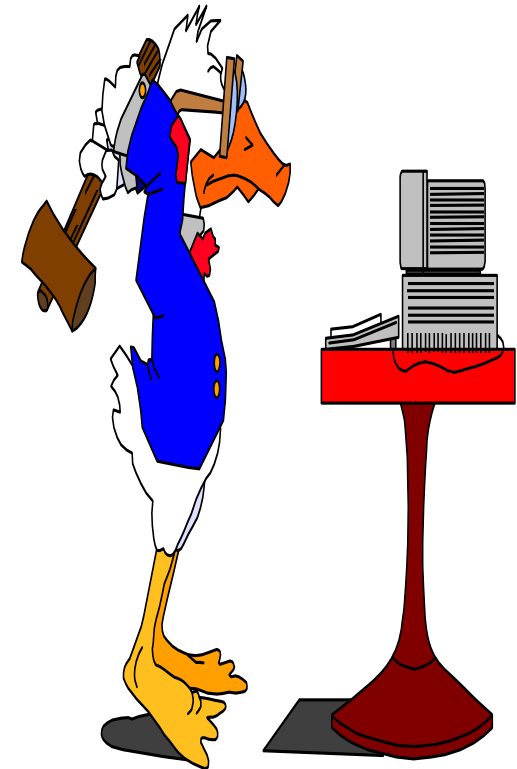


Public Private Partnerships

Sample Highland Council Projects

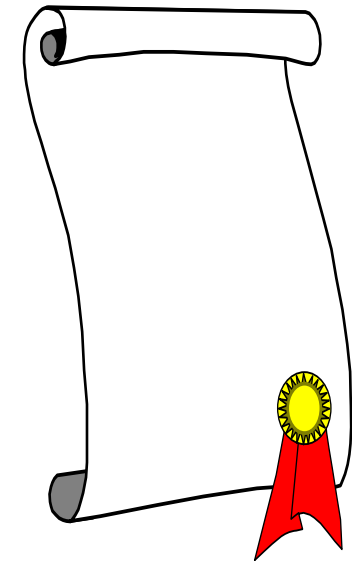
Operational PPP Projects (1)

- **8 year IT Contract with Fujitsu (ICL);**
- **€ 81 million for a Managed Service;**
- **Provision & Maintenance of 3,500 PCs;**
- **3 year rolling refresh of all IT equipment;**
- **Provision of all software & hardware;**
- **Responsible for all Training & Development;**
- **Transfer of 50 staff to Fujitsu;**
- **First IT scheme using private finance.**



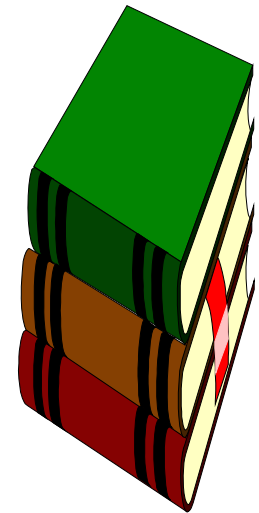
Operational PPP Projects (2)

- **25 year Contract with a Consortium consisting of the M J Gleeson Group plc & The Royal Bank of Scotland Group plc ***
- **€ 128 million contract;**
- **Project consists of 4 Schools in remote rural locations - details given later in the Presentation;**
- **Model scheme completed in record time!**
- **Schools now owned by Investment Fund ***



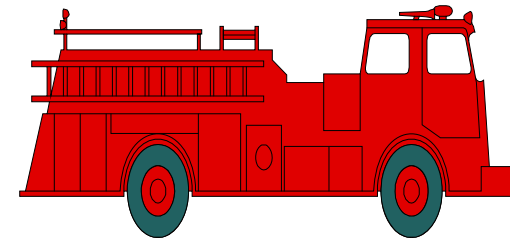
Operational PPP Projects (3)

- **30 year Contract for the funding, design, construction and operation of 11 Schools;**
- **€ 225 million 'Build Cost';**
- **€ 760 million contract value;**
- **Single Bidder - but allowed to proceed by Treasury;**
- **Financial Close achieved on 28 March 2006;**
- **First school was handed over on 1 April 2007;**
- **All schools are now fully Operational.**



Pipeline PPP Projects (1)

- **Outline Business Case completed for a 30 year contract for the funding, design, construction and operation of:**
 - 65 Fire Stations with a € 120 million ‘Build Cost’;**
- **€ 270 million contract;**
- **Project involves provision of facilities in four Municipal areas – Shetlands Isles, Orkney Isles, Western Isles and the Highlands!**
- **Business Case was lodged with the Scottish Government for permission to proceed.**



Pipeline PPP Projects (2)

- **Completed a Business Case for a 20 year contract for the Disposal of Household Waste;**
- **€ 192 million contract;**
- **Scheme was required to comply with legislation;**
- **Proposed service will be very high cost due to the distances between communities;**
- **The solution also has a high capital cost;**
- **This is a politically sensitive project;**
- **Do you wish an EfW Plant in your back yard?**



Pipeline PPP Projects (3)

- **Business Case accepted for a 15 year Contract for the funding, design, construction and operation of 5 Care Homes for the Elderly – € 51 million ‘Build Cost’;**
- **Estimated € 145 million contract value;**
- **6 Pre-qualified Bidders - with initiative being progressed under the *Competitive Dialogue* protocol;**
- **Aim was to reach Financial Close in December 2008 with first Care Home to be available in August 2010;**
- **Political decision taken to suspend the initiative!**



Pipeline PPP Projects (4)

- **Business Case completed for the funding, design, construction and operation of Office Accommodation with a € 12 million 'Build Cost';**
- **Estimated € 39 million contract value;**
- **4 Pre-qualified Bidders - with initiative being progressed under the *Competitive Dialogue* protocol;**
- **Financial Close was programmed for May 2008;**
- **Offices were to be available in August 2010;**
- **Political decision to abandon the initiative!**



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Education, Culture & Sport Public Private Partnership 1 Initiative

Project Details (1)

2 Secondary Schools

Drumnadrochit

250 pupils + 24 Nursery

(4,280 m²)

Strontian

250 Pupils + 24 Nursery

(4,680 m²)

2 Primary Schools

Spean Bridge

75 pupils + 24 Nursery

(940 m²)

Tomatin

70 pupils + 24 Nursery

(880 m²)

Project Details (2)

- **Annual Unitary Charge – € 4.5 million**
- **Capital Value of Projects – € 25 million**
- **Assets revert to Council ownership at contract end**
- **No surplus land to consider**



Education, Culture & Sport PPP 1



Glenurquhart High School, Drumadrochit – 250 pupils



Education, Culture & Sport PPP 1



**Ardnamurchan High School, Strontian - 250
pupils**

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Education, Culture & Sport PPP 1



Spean Bridge Primary School, Spean Bridge – 75 pupils



Education, Culture & Sport PPP 1



Strathdern Primary School, Tomatin - 70 pupils

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Education, Culture & Sport Public Private Partnership 2 Initiative

Project Details (1)

4 Secondary Schools

Dingwall Academy

1,100 pupils

Portree High School

700 pupils

Millburn Academy

1,100 pupils

Kinlochleven High

110 pupils

Project Details (2)

6 Primary Schools

Cawdor

120 pupils

Culbokie

80 pupils

Cullicudden

100 pupils

Inshes

250 pupils

Gaelic

150 pupils

Kinlochleven

70 pupils

Project Details (3)

- **Annual Unitary Charge - € 24 million**
- **Capital Value of Projects - € 201 million**
- **Assets revert to Council ownership at contract end**
- **No surplus land to consider**



Education, Culture & Sport PPP 2



Dingwall Academy - 1,100 pupils

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Education, Culture & Sport PPP 2



Cawdor Primary School – 120 pupils

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Education, Culture & Sport PPP 2



Cullicudden Primary School – 100 pupils

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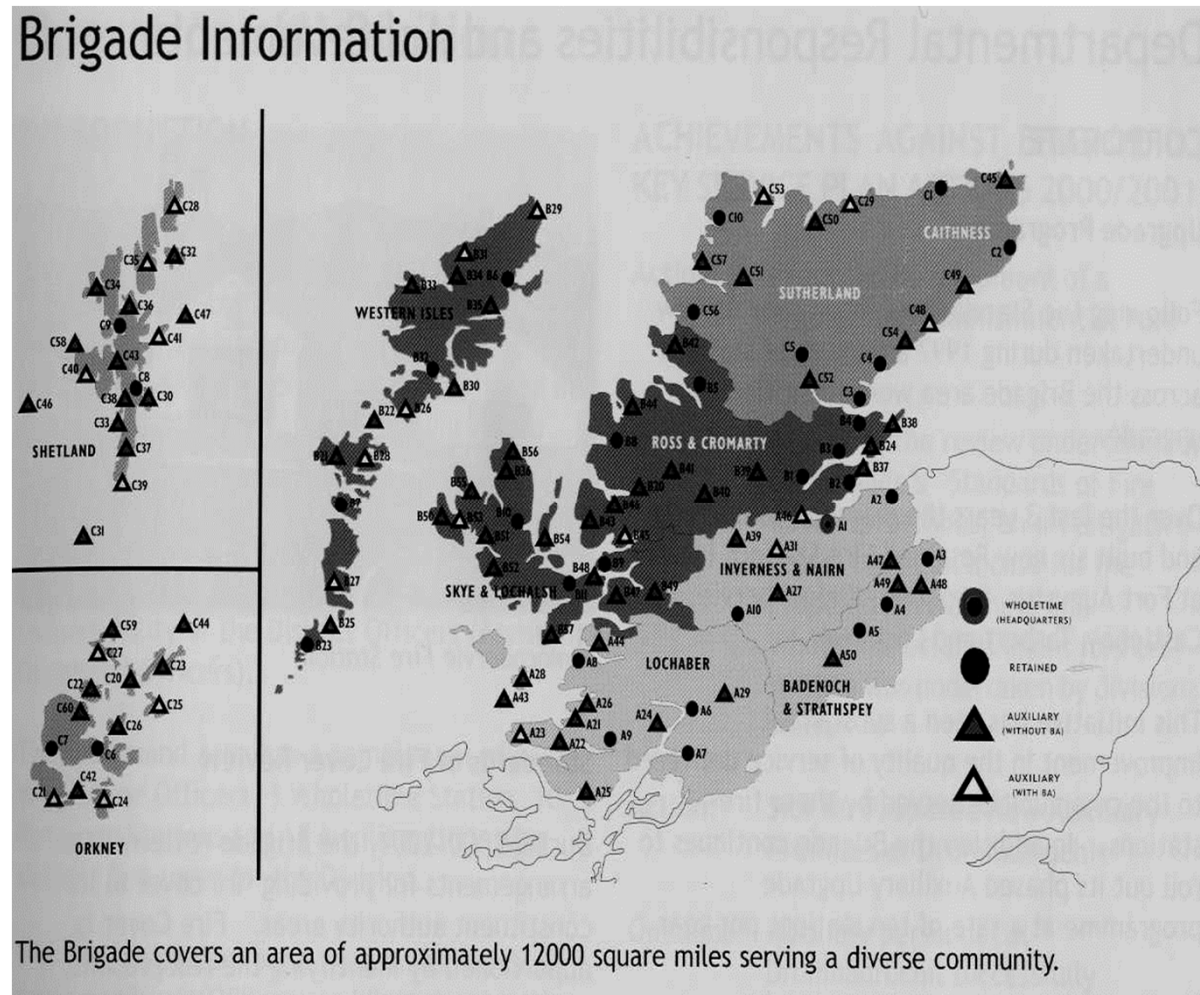
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Fire Services PPP Initiative

Fire Service Sites

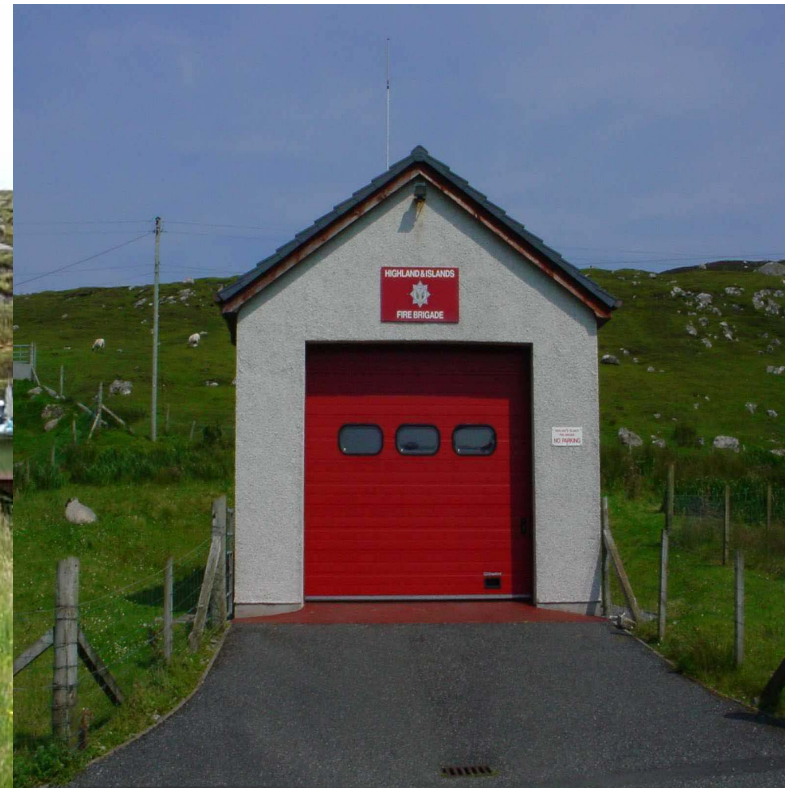
Brigade Information



The Brigade covers an area of approximately 12000 square miles serving a diverse community.



Highland & Islands Fire Service



The Problem - Obsolete Fire Stations



Highland & Islands Fire Service



The Solution - Single Bay - Achiltibue Fire Station

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Waste Management PPP Initiative

Waste Management Sites



Waste Management Objectives

- **Prevent the generation of waste at source;**
- **Use 'local' rather than 'regional' landfill sites;**
- **Introduce Materials Recovery Facilities (MRF);**
- **Provide an Energy from Waste (EfW) Plant.**

Capital Investment is required

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The Future

Accepting Reality (1)

- **The Past will not return;**
- **The Future is highly uncertain;**
- **Public Sector resources have been curtailed;**
- **Public Sector Assets are deteriorating;**
- **Ongoing Capital Investment is required;**
- **Capital is a scarce commodity;**
- **Securing Private Sector Investment is the key.**

Accepting Reality (2)

- **Historic Procurement and Funding Models are no longer appropriate;**
- **There needs to be a recognition that certain types of Public Sector Projects must be publicly funded;**
- **Government Procurement Agencies have favoured large-scale initiatives using 'Bundling', BSF, LIFT, Hubs and Framework Agreements to achieve 'economies of scale';**
- **This has led to a reduction in the opportunities for SMEs resulting in the demise of indigenous contractors and contractors;**
- **Small-scale PPP initiatives that recognise the importance of economic sustainability in maintaining fragile economies should be supported.**

Funding for Municipal & Regional Projects

- Attention has focused on the use of Project Bonds for Infrastructure investment with statements issued in relation to large Transport, Energy & ICT schemes;

BUT

- There is a need for investment in the Social Infrastructure:

Public Sector Housing, Schools, Care Homes, Health Centres, Fire Stations, Police Stations and Waste Management facilities.

But, where can we source the Funds?

- **Traditional Government Funding for Public Sector initiatives:**
 - **necessary for Maintenance, Renewal & Repair Projects.**
- **Bank Funding through Commercial & Multilateral Banks.**
- **Project Bonds – for new Facilities:**
 - **Public Sector Housing;**
 - **Schools, Leisure Centres, Fire Stations & Police Stations;**
 - **Community Hospitals, Health Centres & Care Homes;**
 - **Waste Management, Water & Sewerage Systems.**

Project Size

- **Large PPP Initiatives** (€200M and upwards) are suitable for:
 - **Roads, Railways, Hospitals, Airports & Ports.**
 - **Major initiatives are suitable for international consortia & funders.**
- **Small PPP Initiatives** (€20M to €200M) are suitable for:
 - **Municipal Projects and Community Hospitals & Care Centres;**
 - **Public Sector and Mixed Tenure Housing.**
 - **'Stand-alone' schemes are suitable for local consortia & funders.**

Small Scale PPP Initiatives have been used successfully in the past and they can be used in the future if a suitable funding mechanism can be devised that fully addresses the needs of project stakeholders!

Advantages of Small Scale PPP Projects

- **Large Pipeline of Potential 'stand-alone' Projects;**
- **Individual Project Programmes will be shorter;**
- **Community benefit are much easier to realise;**
- **Project Risks are easier to assess and manage;**
- **Possible pool of local consortia and funders;**
- **Opportunities for local consultants and contractors;**
- **Facilitates local democratic control & management.**

Disadvantages of Small Scale PPP Projects

- **Difficult to manage the national project pipeline;**
- **Assumes that clients have PPP procurement skills;**
- **Procurement costs may rise due to resource issues;**
- **Danger of a ‘feeding frenzy’ once projects emerge;**
- **Requires a change in procurement culture – can ‘Value for Money’ be the defining characteristic if there is no possibility of delivering an initiative other than by using a Public Private Partnership?**

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