Advice note for Cabinet Secretary for Transport, Infrastructure and Connectivity, 12 August 2018

Cabinet Secretary for Transport, Infrastructure and Connectivity,

IMPACTS OF PRIVATE FINANCING ON EXISTING MAJOR ROADS INFRASTRUCTURE PROJECTS

Purpose

1. To advise the Cabinet Secretary on the capital profile forecast associated with delivering the A9 Dualling [REDACTED] and to identify areas which will require further consideration in developing a privately financed roads infrastructure programme.

Priority

2. Routine.

Background

Potential Consequences of Delivering Additional Revenue Funded Investment:

1. It will be important to clarify whether the ambition to achieve a 1% target relative to GDP is sustainable over the long term given the potential revenue budget impacts of all proposed projects becoming operational. There are two reasons for this:

   - Ongoing affordability issues (including the RDEL contractual commitments for rail franchises and ferries contracts, in addition to commitments around concessionary fares).

   - Whether we are creating a sustainable increased plateau of construction activity or whether there is a risk of creating a peak of activity which would be followed by a potential significant reduction in activity which would be unhelpful in the long term.

2. Further consideration may need to be given to the timing of a refreshed IIP as the proposed 2019 refresh does not align with the review of the National Transport Strategy and subsequent Strategic Transport Projects Review 2 which will set out our priorities (and potentially a pipeline of projects) for the next 20 years. The contents of the STPR2 would be a fundamental element of any long term investment plan (irrespective of how such projects are financed).

3. The use of private financing for major roads projects has the capacity to allow capital to be made available for other critical maintenance(backlog) projects. These projects could be packaged up to provide a sustainable pipeline of work for the construction industry, building the necessary skills and experience in the Scottish construction sector.

Existing Commitments for A9 and A96 Dualling Programmes

4. We are currently committed to delivering the £3bn A9 Dualling by 2025 and the £3bn A96 Dualling by 2030.

5. The first section of the dualling, between Kincraig and Dalraddy, opened to traffic in September 2017. We expect to award the contract for the second section between Luncarty and Pass of Birnam in the coming weeks. Design work on the remaining nine projects of the programme is well advanced with statutory consents process now progressing on a number of the projects. To meet the 2025 deadline, the remaining nine schemes totalling over 110km of dualling must to be procured and constructed.

6. [REDACTED]

7. [REDACTED]

8. Given the delivery commitments to complete both A9 and A96, it will be necessary to overlap construction phases. Assuming that these programmes are fully funded through capital, the capital budget required would peak between Financial Year 2022-23 to 2025-26 where it is estimated that an annual budget of £800-£900m will be required. (A full breakdown provided in Annex A).

Considerations for private financing

9. On A9 dualling, should a private financing route be pursued, we believe that the deliverability risk needs to be significantly developed and expectations validated on the pace at which such projects can be developed, procured and delivered. This needs to be considered from both a public and private sector perspective, particularly in light of significantly increased construction activity in England during the same period.

In particular, the Cabinet Secretary should note the following:

10. Time would be required in order to develop, finalise and present a new model to the market. Although a similar model is currently being used in Wales, large infrastructure contracts for roads have yet to be awarded. Consequently, we believe that the time taken for the market to accept a revised model will impact procurement timescales meaning that a 2025 target date

would be unachievable, even assuming that we could commence procurement immediately (which is not advisable as the statutory processes are still incomplete).

11. The deliverability of such a programme is only partially within our own gift. We are reliant on the funding and construction markets to respond to both the level of activity required, the availability of skills and the capacity to deliver. In order to identify available capacity, market testing will be required both in terms of the levels and types of programmes/ projects proposed, their geographical distribution and the commercial model to be applied. Careful planning and time will be required to optimise this approach.

12. Part of the conditioning of the market will be creating certainty over the robustness of investment proposals, the funding available to support them and a more regulated approach to the release of projects to the market to ensure that deal flow is managed, private sector bidding capacity is optimised and as a result pricing can be influenced. This will require careful political management of expectations across government and the wider public sector (including in particular local authorities) regarding the scale and timing of investment.

13. From the public sector perspective, establishing the capacity and capability to develop and procure projects, sufficiently scoped and validated to justify the investment prior to commencing procurement. Whilst this will be essential to develop private sector confidence in the pipeline, it will be challenging, politically and operationally to manage such requirements (particularly with local authorities) and therefore incentivisation and funding conditions will be an essential lever that will require to be applied.

14. From a private sector perspective there is no doubt that private finance is more available than post 2009 financial crisis but in the absence of the European Investment Bank and the markets view on risk sharing within any model the pricing of such finance remains a concern, accepting that our argument will be based on delivering investment more quickly (with the benefits that derives) at a higher cost. Brexit is also likely to be a factor here.

Inquiry into A9 Dualling Programme – documents provided by Transport Scotland

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constituency Interest	General Awareness
Cabinet Secretary for Transport, Infrastructure and Connectivity			X		
Roy Brannen					X
Transport Scotland Directors					X
PS Transport Scotland					X
DG Economy					X
[REDACTED]					X
[REDACTED]					X

Annex A: Estimated capital budget which will be required to support the delivery of A9 [REDACTED]

	FY 2018-19 (£)	FY 2019-20 (£)	FY 2020-21 (£)	FY 2021-22 (£)	FY 2022-23 (£)	FY 2023-24 (£)	FY 2024-25 (£)	FY 2025-26 (£)	FY 2026-27 (£)	FY 2027-28 (£)	FY 2028-29 (£)	FY 2029-30 (£)	FY 2030-31 (£)	Total (£)
A9 Dualling Programme	54,502,689	71,027,000	183,823,000	368,700,000	612,229,000	672,726,000	557,454,000	477,015,000						**2,997,476,689**
A9 Dualling - Luncarty to Birnam	33,766,400	42,996,400	22,675,200	385,000	60,000	60,000	60,000	0						**100,003,000**
						[REDACTED]								