

# Ownership and Offshoring of NPD and Hub Projects Scottish Futures Trust

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**European Services  
Strategy Unit**

(Continuing the work of the Centre for Public Services)

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## European Services Strategy Unit

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The **European Services Strategy Unit** is committed to social justice, by the provision of good quality public services by democratically accountable public bodies. The Unit continues the work of the Centre for Public Services, which began in 1973. Research and strategic advice for public bodies, trade unions and community organisations includes analysis of regional/city economies and public sector provision, jobs and employment strategies, impact assessment and the effects of marketisation, privatisation, public private partnerships and transformation.

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# Abbreviations

CC	County Council
E&W	England & Wales
HUBco	Hub company
IFRS	International Financial Reporting Standards
INPP	International Public Partnerships
LBC	London Borough Council
LP	Limited Partnership
LLP	Limited Liability Partnership
Ltd	Limited
NPD	Non-Profit Distributing
PFI	Private Finance Initiative
PIP	Pensions Infrastructure Platform
plc	Public Limited Company
PPP	Public Private Partnership
PwC	PricewaterhouseCoopers
SFT	Scottish Futures Trust
SPRUCE	Scottish Partnership for Regeneration in Urban Centres
SPV	Special Purpose Vehicle
UK	United Kingdom
US	United States

# Executive summary

## **Scottish Futures Trust NPD and hub projects have significant structural corporate relationships with offshore tax havens**

**28** NPD and hub projects (**59.6%**) have shareholders with corporate relationships with offshore tax havens - Jersey, Guernsey, Cayman Islands, British Virgin Islands, Dubai International Financial Centre, Luxembourg and Cyprus.

**20.2%** of the equity in NPD and hub companies is owned by offshore tax haven companies through direct corporate relationships.

They account for **29.4%** of private sector NPD and hub shareholding (excluding SFT, other public sector participants and projects with hub Community Foundation shareholdings). Although the 47 SPVs and the bulk of the development companies are registered in Scotland, they are primarily owned by companies such as Equitix, Balfour Beatty, Interserve, Galliford Try, Amber Infrastructure and Morgan Sindall, all registered in England and Wales.

## **Connection between Scottish public sector pension fund investments, offshore tax haven links and shares in NPD and hub companies**

Four Scottish pension funds have investments in offshore infrastructure funds with stakes in NPD and hub projects. Glasgow City Council, on behalf of Strathclyde Pension Fund, has a £30m investment in the Equitix Fund IV LP since 2016; Edinburgh City Council, on behalf of Lothian Pension Fund and Lothian Buses Pension Fund and the Falkirk Council Pension Fund have investments in the Equitix Fund II LP. Both Equitix funds are ultimately owned by Tetragon Financial Group Limited, which is registered offshore in Guernsey.

The Strathclyde Pension Fund agreed in late May 2018 to invest £50m in the Equitix Fund V LP, managed by Equitix GP 5 Limited (Guernsey).

It is vital that public sector bodies and pension funds understand the conflicts of interest and consequences of investments in infrastructure funds ultimately managed and controlled offshore. It leads to the loss of UK tax revenue, a risk of action against offshore jurisdictions and decisions made on investment grounds that frequently have a negative impact on jobs, the local economy and the quality of public infrastructure. Decisions are often influenced by investment advisers with narrow interests seeking to maximise fees and fail to take account of the loss of accountability and transparency.

## **Strathclyde Pension Fund makes its largest ever infrastructure investment**

The May 2018 meeting of the pension fund agreed to invest a staggering £500m in the JPMorgan International Infrastructure Fund. The \$14.5bn JPMorgan fund invests in three sectors - transportation, regulated utilities and contracted power - primarily in the US (37%), Europe (24%) and UK (21%) (JPMorgan Asset Management, 2017). This part of Strathclyde's strategy to increase infrastructure investment overseas (Infrastructure Investor, 2018a).

## **Ownership matters**

Over 51% of the equity in UK PFI projects is owned by infrastructure funds located in offshore tax havens. The five largest listed offshore infrastructure funds made a total profit of £2.9bn in the five-year period 2011-2017, but paid no corporate tax in this period. Offshoring also decreases transparency and democratic accountability.

ACP: Hub North Limited is a joint venture between Currie & Brown Equitix Ltd and Galliford Try Investments Ltd, registered in England and Wales. However, Currie & Brown Equitix Ltd is also a joint venture owned by Equitix companies with ultimate ownership by the Tetragon Financial Group Ltd in Guernsey via the Cayman Islands.

Currie & Brown Ltd is ultimately owned by Dar Al-Handasah Consultants Shair and Partners Holdings Limited in the Dubai International Financial Centre (a financial zone with its own regulatory and tax regime) via Jersey. Dar Al-Handasah are international engineering consultants which are part of the Dar Group of architectural, civil and structural engineering, financial and construction consultancies with 200 offices in the US, Europe, Middle East, Africa and Asia.

### **Scottish companies**

The total capital cost of the 47 projects is £2,726.9m with a total unitary charge of £7,917.3m. The five largest projects account for 49% of the total capital cost and 55.2% of the total unitary charge. All five companies are registered in England and Wales (except for the 30% shareholding of a Luxembourg registered company (Table 10). However, companies registered in Scotland account for £466.7m or just 17.1% of the total capital cost or 16.2% of the total unitary charge.

Offshore and foreign shareholdings account for **21.9%** of the total unitary charge or **26.6%** of the private sector share of the total unitary charge. The figures could potentially rise to 23.6% and 28.7% respectively if shareholdings currently owned by Amber Investments Holdings are sold to INPP within the Amber Infrastructure Group Holdings Limited.

Uberior Infrastructure Investment (No 5) Ltd (Lloyds Bank Infrastructure GP Ltd) hold equity in Scot Roads Partnership Project Ltd (M8, M73 and M74 motorway improvements) and the High Wood Health (Project Co) Limited (Acute Services Redevelopment Project). This company was briefly owned by Standard Life Aberdeen and is now PIP Infrastructure Investment (No 5) Ltd owned by the Pensions Infrastructure Platform (PIP) after it sold six PFI assets in a £400m transaction in November 2017. These are transactions between secondary market funds that are an indirect change of ownership of the company's assets.

To date there is little evidence of the direct sale of equity in NDP and hub companies. An earlier project, Falkirk Schools NPD, a 29.3% equity stake owned by the Royal Bank Projects Investments was sold to HICL Infrastructure Fund (Guernsey) in October 2013 for an undisclosed sum. A total of 87.5% of Scotland's PFI/PPP education projects (280 out of 320 schools) are currently partly or wholly owned by offshore tax haven funds. Nearly half the schools had 100% of their equity owned offshore (Table 11, Whitfield, 2016).

Amber Investment Holdings Limited has a 41.67% stake in the Amber Blue Central hub company with seven SPVs and International Public Partnerships Limited (registered in Guernsey) are part of Amber Infrastructure Group Holdings Limited that provides financial and asset management services to both companies.

### **Big 4 auditors dominant**

The big four auditors - PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young - are the auditors for two thirds of the hub and infrastructure companies.

### **Recommendations**

1. The sale or transfer of equity must be strictly controlled by the Scottish Government and SFT because companies with offshore corporate relationships are already established as shareholders in hub companies - 28 out of 47 NPD projects and 29.4% of private sector NPD and hub company shareholding. This is likely to require new or amendments to existing regulatory frameworks.
2. Competitive bidding of NPD and hub projects has facilitated major PFI companies in Scotland, England and Wales to gain a significant role in the NPD and hub programme. This is an inevitable consequence of procuring private sector delivery of the flawed NDP and hub company model instead of publicly planned, financed and operated public infrastructure with construction-only contracts. Scotland urgently needs to develop a strategy to rapidly rebuild public sector capability and capacity, which has been systematically weakened by successive rounds of PFI, NPD and hub projects.

3. Local authorities and other public bodies should urgently review their pension fund investments to identify how many other investments they hold in offshore infrastructure funds. It is not credible and sustainable to be signing NPD and hub projects in which the shareholders have corporate relationships with infrastructure funds in offshore tax havens.
4. Privately financed infrastructure projects are flawed from the very start because of the lack of transparency, democratic accountability and participation in the selection and evaluation of options, the procurement process, contract award, monitoring and scrutiny of performance (Whitfield, 2010). The use of offshore tax havens significantly further reduces transparency and democratic accountability because they are designed to conceal ownership of assets and profits to avoid taxation.
5. Scotland should plan to take NPD and hub companies into public ownership on book value basis to achieve savings and regain democratic accountability and control.
6. A publicly funded Scottish National Investment Bank should be established to finance national infrastructure projects, low carbon energy and retrofitting projects that address climate change and local economic development. The Scottish Futures Trust abolished.

# Introduction

## Scope of project

The research focuses on the 47 Scottish Futures Trust (SFT) Non-Profit Distributing and hub projects that had reached financial closure by March 2018. The SFT is an infrastructure agency owned by the Scottish Government responsible for delivering privately financed schools, hospitals, roads and community facilities. The SFT created five regional hub companies (public private partnerships) covering the North, West, East Central, South West and South East territories and drew up partnership, financial, procurement and design and build agreements and regulatory structures.

The private sector usually has a 60% shareholding, public sector partners in each of the five regions have a 30% stake and the Scottish Futures Trust a 10% shareholding. Many projects have a 10% shareholding allocated to other public sector partners and 20% to a hub community foundation. However, there are exceptions where one or more private companies have between 60% - 100% shareholding of SPVs. The Scottish Government provides a spreadsheet of current and pipeline projects, similar to the annual HM Treasury current Private Finance Initiative (PFI) project data.

This research focuses on private sector shareholdings in the hub companies.

## The evidence base

*Scotland NPD and Hub Company Equity Ownership spreadsheet* - a separate document has the name of 47 NPD and hub projects name, the SPV and equity holder names extracted from the SFT list of NPD and hub projects of 23 March 2018. A summary of equity ownership is provided for private sector equity owners - red for offshore and other foreign ownership, black for companies registered in Scotland, England and Wales, and blue for Amber Blue projects because of the possibility of offshoring due to the relationship between Amber Infrastructure Group and International Public Partnerships (INPP).

This report provides more detailed information on the *chains of ownership for four companies that have equity in 25 SPVs*, plus analysis of the implications and possible increase in offshoring in some NPD and hub projects.

A spreadsheet of *NPD auditors and lawyers* identifies those responsible for many SPV and equity holder companies. This could later be expanded to include commentary on relevant issues.

## Growth of the infrastructure secondary market

New PFI secondary market infrastructure funds have accelerated the sale of equity in project companies since 2003 with ownership concentrated in a smaller number of offshore funds. The updated ESSU PPP Equity Database records 462 transactions between 1998-2016 involving the direct sale of equity of 1,003 projects (including those where equity was sold multiple times) at an estimated cost of £10.3bn (Whitfield, 2017).

A sample of 334 projects, a third of the total number of projects engaged in the sale of equity in 118 transactions, a quarter of the transactions between 1998-2016, provides information to determine the annual rate of return. This is a significant sample reflecting different sectors, size, geography and a spread of vendors and purchasers of PPP equity.

The average annual rate of return was 28.7% in 1998-2016 more than double the 12%-15% annual rate of return in PFI/PPP Final Business Cases. There has been little change in the average time 6.47-year gap between the date of financial closure of projects and the sale of equity. An average of 43.4% of project equity was sold in each transaction in the sample.



In addition, the full or part-sale of 33 secondary market infrastructure funds 2003 - 2016 involved the purchase of equity in 1,151 PFI/PPP project companies (includes multiple transactions in some projects) at a cost of £8.1bn (Whitfield, 2016).

Offshore infrastructure funds own 51.3% of the equity in Private Finance Initiative (PFI) projects in the UK. The five largest listed offshore infrastructure funds (HICL, John Laing Infrastructure Fund, Bilfinger Berger Global Infrastructure, 3i and International Public Partnerships (INPP) made a total profit of £2.9bn in the five-year period 2011-2017 but paid zero corporate tax. The latter two funds, 3i and INPP, together with Tetragon Financial Group Limited which acquired Equitix Holdings in late 2014, have equity in several hub companies (European Services Strategy Unit, 2017). Tetragon is traded on Euronext in Amsterdam N.V. and on the Specialist Fund Segment of the main market of the London Stock Exchange.

### **The profit motive**

Several factors influence secondary market transactions.

Firstly, the risk of a project is significantly reduced once construction is complete and the facility is operating to plan.

Secondly, the existence of a secondary market with an average annual rate of return more than twice the annual rate of return agreed when the contract was signed means that there is a financial incentive for equity holders to sell rather than retain their shareholding. For example, Carillion plc sold equity in 49 PFI projects between 2003 and 2017 gaining a revenue of nearly £500m and annual rate of return up to 39%. Most of the transactions were to offshore infrastructure funds (European Services Strategy Unit, 2018).

Thirdly, the motive to sell equity has been justified by equity holders on the grounds of reducing debt, recycling to finance new PFI projects or further reducing risk. Few admit to selling equity to try to obtain significant additional profit.

Fourthly, the decision to sell will take account of current transactions in the secondary market, the value of past, current or future dividends paid to shareholders by the SPV and knowledge about the quality and sustainability of the project gained from managing, maintaining and repairing and operating the facility.

Fifthly, offshore infrastructure funds are constantly looking for opportunities to increase their shareholding in existing projects or to acquire shareholding in other projects that align with the sectors they target investment.

Finally, profits obtained by selling equity is paid directly to the shareholder, for example, the parent construction or investment company - it does *not* go to SPV. Ultimately, the shareholders of the parent company are the main beneficiaries.

Virtually all the companies that are shareholders in NPD and hub companies in Scotland have sold equity in UK PFI projects, mainly to offshore funds, and include Equitix Holdings, Galliford Try, Amber Infrastructure Group, Robertson Capital Projects, Balfour Beatty, Morgan Sindall, Kier, Laing O'Rourke, Kajima, Interserve, and John Graham Holdings. Furthermore, public sector bodies, such as Lancashire County Council and Leicester City Council, have sold their shareholding in PFI projects.

### **Methodology**

The project used the core information on the NPD and hub projects compiled by the SFT and published on 21 March 2018 and accessed Annual Reports and Annual Returns for each Special Purpose Company and the main equity shareholders in each NPD and hub project. Company registers in Jersey, Guernsey, Cyprus, Cayman Islands, British Virgin Islands and Dubai were used to confirm company registrations. A few company names that originated in the SFT NPD spreadsheet have been updated.

The distribution of equity ownership in the NPD and hub companies is summarised in Table 1 with 21 projects (22.6%) are linked to offshore funds, and a further seven could develop offshore links because of the structural relationship between Amber Infrastructure and INPP. This could possibly lead up to 30% of NPD and hub projects having corporate relationships with offshore infrastructure funds. In addition, three foreign-owned companies have equity stakes in hub companies.

Table 1: **Summary of private and SFT equity ownership in 47 NPD and hub projects**

Category of equity holders	No. of equity owners	%
Projects with corporate links to offshore funds	21	22.6
Possible later link via Amber Blue & INPP	7	7.5
Other foreign owned companies	3	3.2
Scottish and UK companies	25	26.9
SFT (10% stakes)	37	39.8
<b>Total</b>	<b>93</b>	<b>100.0</b>

Source: Spreadsheet of Hub and SPV equity ownership

The hub companies for the North and South West territories with nine and eight SPVs respectively, have significant corporate relations with companies in offshore tax havens. In addition, the Inverness College project in the North has 50% of its equity similarly owned and the South West has two additional large projects - Ayrshire College and with 100% offshore equity ownership and 50% of the equity in the new £533m Dumfries and Galloway acute services hospital offshore.

Equity ownership of the East Central hub company could potentially change due to the relationship of Amber Investment Holdings Ltd (with a 41.67% equity stake in the hubco) and the offshore International Public Partnerships within Amber Infrastructure Group Holdings Limited.

# Hub and SPV equity ownership

## Analysis of companies with corporate relationships with offshore infrastructure funds

The following Tables focus on the hub companies that have clear evidence of corporate infrastructure funds that are part of offshore companies.

### ACP: Hub North Limited share ownership

Table 2 details the corporate ownership of ACP: Hub North Limited. Starting at the top with joint ownership by Currie & Brown Equitix Limited and Galliford Try Investments Limited it identifies subsequent ownership leading to Guernsey in the case of Equitix and to Jersey for Currie & Brown. Dar Al-Handasah Consultants (Shair and Partners) Holdings Ltd (Jersey) acts as an intermediate holding company and ultimately owned by the Dubai holding company. Dar Al-Handasah Consultants own to companies registered in England and Wales, Dar Al-Handasah (UK) Limited and Dar Al-Handasah Project Finance Holdings Ltd which are owned by the Jersey-based holding company (further details below).

Table 2: ACP: Hub North Limited ownership structure

ACP: Hub North Limited (Scotland)		
Currie & Brown Equitix Ltd (E&W) 50% - Joint venture		Galliford Try Investments Ltd (E&W) 50% - wholly owned subsidiary
Equitix N Hubco Ltd (E&W) 50% - subsidiary	Currie & Brown (Investment) Ltd (E&W) 50% - wholly owned subsidiary	Galliford Try Construction & Investment Holdings Ltd (E&W) - immediate parent
Equitix Hubco 3 Ltd (E&W) - subsidiary	Sweett Group Limited (E&W) - wholly owned subsidiary	Galliford Try plc (E&W) - ultimate parent
Equitix Capital Eurobond 3 Ltd (E&W) - immediate parent	Currie & Brown Holdings Limited (Jersey) - intermediate parent	
Equitix Fund III LP (E&W) - investment fund	Dar Al-Handasah Consultants (Shair and Partners) Holdings Ltd (Jersey) - intermediate holding company	
Equitix GP 3 Ltd (General Partner) (Guernsey)	Equitix No 3 Ltd (UK) Limited Partner plus institutional investors as limited partners	
Equitix Holdings Ltd (E&W) - holding company		
Pace BIDCO Ltd (E&W) - subsidiary		
Pace Topco Ltd (E&W) - holding company		
Pace Cayman Holdco Ltd (Cayman Islands) - immediate parent		
Tetragon Financial Group Ltd (Guernsey) - ultimate parent and controlling company		
Dar Group of Companies (Jersey and Dubai International Financial Centre) (see Appendix 1)		

Note: Ownership is 100% unless otherwise stated

<b>ACP: Hub North Limited - SPVs and % equity</b>
Aberdeen Community Health and Care Village - Aberdeen Community Health Care Village Limited - 60%
Forres, Woodside and Tain Health Centres - hub North Scotland (FWT) Limited - 60%
Alford Academy - Hub North Scotland (Alford) Ltd - 60%
Wick High School - hub North Scotland (Wick) Limited - 60%
Anderson High School - Hub North Scotland (Anderson) Limited - 60%
Elgin High School - hub North Scotland (Elgin High School) Ltd - 60%
Oban High School and Campbeltown Grammar - Hub North Scotland (O&C) Ltd - 60%
Lochside Academy - Hub North Scotland (New Academy - SOTC) Limited - 60%
Inverurie Health Care Hub & Foresterhill Health Centre - Hub North Scotland (I&F) Limited - 60%

Pension funds invested in the Equitix Fund III LP are listed in Table 3. This and similar Limited Partnership funds usually have a General Partner and a Limited Partner, in this case Equitix companies. The Fund then seeks institutional investment from pension funds and other investors who are also classified as Limited Partners and receive a return relative to their investment. The limited partnership model ensures that liability is limited to the investment in the fund and are considered 'tax transparent' so that limited partners are liable to tax as if they had made the profit themselves. In the case of the Equitix LP funds, payments range up to £1,000 or more and can be increased at any stage. Investors receive annual dividend payments relative to the performance of the fund.

Table 3: **Pension fund investors in Equitix Fund III LP**

<b>Public sector Limited Partners in Equitix Fund III LP</b>
Greater Manchester Pension Fund (Tameside MBC)
West Yorkshire Pension Fund
Merseyside Pension Fund
Hampshire CC Pension Fund
Equitix Fund III Feeder Limited ( <b>Guernsey</b> )

Source: Companies House LP6 forms for Equitix Fund III LP

### **Dar Al-Handasah Consultants Shair and Partners Holdings Ltd**

Currie & Brown Equitix Limited joint venture is jointly owned by Equitix N Hubco Ltd (UK) and Currie & Brown (Investment) Ltd (UK) with the latter company owned by Currie & Brown Holdings Limited (Jersey) which is in turn 100% owned by Dar Al-Handasah Consultants Shair and Partners Holdings Ltd (Dubai International Financial Centre).

Currie & Brown was acquired in 2012 and provides contract and cost management, PPP advice, project management, property and development services internationally.

*"Currie & Brown has been supporting clients with PPP/P3 expertise since the 1990s. Our engagement planning and activity comprehensively meets client needs whether for an emerging PPP market/programme or, at the other extreme, in relation to a transaction in a mature or secondary PPP market"*

<https://www.curriebrown.com/en/services/pppp3-advice/> accessed 20 May 2018)

Dar Al-Handasah Consultants Shair and Partners Holdings Ltd has an intermediate holding company of the same name registered in Jersey plus two other Dar Al-Handasah companies registered in England and Wales. The main UK company is Dar Al-Handasah Consultants (Shair & Partners) (UK) Limited which had a £10.5m turnover in 2016 and a net operating profit of £0.41m and employed 82 engineers and 9 administrative staff. the previous year turnover was slightly higher at £11.8m with operating profit of £1.8m.

Both the Currie & Brown and Dar Al-Handasah companies are part of the Dar Group of Companies that has a 18,000 consultancy workforce in 193 offices and 58 countries in the US, Europe, Middle East, Africa and Asia. The Dar Group is a privately owned international professional services firm, formed in 1986 and has since acquired architectural, civil and structural engineering consultants plus others in oil and gas, water, transportation,

mechanical and electrical engineering, finance and construction (see Appendix 1). Dar Group Company Limited has been a Jersey registered company since 2000.

A new company, Dar Group (UK) Limited, was registered at Companies House, Cardiff on 9 May 2018 with two shareholders - Dar Al-Handasah Consultants Shair and Partners Holdings Ltd, Jersey, and Mr Fouad Emmanuel El Khoury who is also a director of Dar Al-Handasah (UK) Limited and Dar Al-Handasah Consultants (Shair & Partners) (UK) Limited, both owned by an intermediate holding company - Dar Al-Handasah Consultants (Shair & Partners) Holdings Limited - registered in Jersey. He is also a shareholder of the Dubai registered company, Dar Al-Handasah Consultants Shair & Partners Holdings Limited, the ultimate parent company registered in Dubai. Basic corporate information and shareholders of this company is available from <https://www.difc.ae/public-register/dar-al-handasah-consultants-shair-and-partners-holdings-ltd>

## Dubai International Financial Centre

The Centre is a designated zone in Dubai with its own independent regulator, a global financial exchange with a "...common law framework, tax-friendly regime, and enabling environment make the ideal hub to access the region's rapidly growing demand for financial and business services" (<https://www.difc.ae/about>). The Dar Group of Companies opened a corporate office in the Dubai International Financial Centre in June 2014.

## Equitix Education 2 Limited

GT Equitix Inverness Holdings Ltd (Scotland) has two joint shareholders in Equitix Education 2 Limited (E&W) and GT Inverness Investments Limited which is ultimately owned by Galliford Try plc (E&W). Table 4 tracks the ownership of the Equitix shareholding to Guernsey via the Cayman Islands.

Table 4: Equitix Education 2 Limited

Hub North	
GT Equitix Inverness Holdings Ltd (Scotland)	
Equitix Education 2 Limited (E&W) 50%	GT Inverness Investments Ltd (Scotland) (50%)
Equitix Capital Eurobond 2 Limited (E&W) - subsidiary	Galliford Try Investments Ltd (E&W) - subsidiary
Equitix Fund Holdco 2 Limited ( <b>Guernsey</b> ) - subsidiary	Galliford Try Construction & Investment Holdings Ltd (E&W) - immediate parent
Equitix Fund II LP (E&W) - investment fund	Galliford Try plc (E&W) - parent
Equitix GP 2 Limited ( <b>Guernsey</b> ) General Partner	Equitix No. 2 Limited (E&W) Limited Partner plus institutional investors as limited partners
Equitix Holdings Ltd (E&W) - holding company	
Pace BIDCO Ltd (E&W) - subsidiary	
Pace Topco Ltd (E&W) - holding company	
Pace Cayman Holdco Ltd ( <b>Cayman Islands</b> ) - immediate parent	
Tetragon Financial Group Ltd ( <b>Guernsey</b> ) - ultimate parent & controlling company	

Note: Ownership is 100% unless otherwise stated

Equitix Education 2 Limited - SPVs and % equity
Inverness College - GT Equitix Inverness Limited - 50%

Pension funds invested in the Equitix Fund III LP are listed in Table 5 and include Edinburgh City Council - Lothian Pension Fund and Lothian Buses Pension Fund and the Falkirk Council Pension Fund.

Table 5: **Pension fund investors in Equitix Fund II LP**

<b>Public sector Limited Partners in Equitix Fund II LP</b>
Edinburgh City Council - Lothian Pension Fund and Lothian Buses Pension Fund
Falkirk Council Pension Fund
Bradford City Council - West Yorkshire Pension Fund
East Riding Council Pension Fund
Cambridgeshire CC Pension Fund
Croydon LBC Pension Fund

Source: Companies House LP6 forms for Equitix Fund II LP

### **Pace Topco Limited in Equitix and Tetragon structure**

Pace TopCo Limited is the last in the chain of Equitix companies registered in England and Wales and is owned by Pace Cayman Holdco Limited, Cayman Islands (100% of 1.4m A voting shares with the three directors of Equitix Holdings - Hugh Crossley, Geoffrey Jackson and Nicholas Parker - own the C voting shares (Pace Topco Limited Annual Return ARO1, Companies House, 2015). Pace Topco develops and manages infrastructure projects on behalf of fund investors and *"...identifies and manages the acquisition of project opportunities via the secondary market on behalf of the funds"* (Pace Topco Limited Annual Report, 2016).

Both Pace Topco and Equitix Holdings reported they had *"...generated returns in excess of the development costs and managed to successfully develop the projects during the current year"* which included the financial close of eight SPVs in Scotland (Ayr Academy, Dalbeattie Campus, East Ayrshire Campus, Largs Academy, Elgin Schools, Oban & Cambletown Schools, and the Lochside Academy and South of the City Schools in Aberdeen, plus completion of the Wick Schools Project (Equitix Holdings Limited and Pace Topco Limited Annual Reports, 2016).

The co-founder directors of Tetragon, Reade Griffith and Paddy Dear, hold interests in Pace Cayman Holdco Limited through which the Fund ultimately owns its equity stake in Equitix (Tetragon Financial Group Limited, Annual Report 2017). Given the secrecy endemic in tax havens such as the Cayman Islands, it has not been possible to obtain additional information on ownership, investors and directors of Pace Cayman Holdco Limited other than confirmation of its registration.



## Alliance Community Partnership Limited

Table 6: Alliance Community Partnership Limited share ownership

Hub South West Scotland Limited			
Alliance Community Partnership Ltd (60%) SFT Investments Ltd (12.5%) 11 other public bodies (27.5%)			
<b>Alliance Community Partnership Limited (Scotland)</b>			
Equitix SW Hubco Ltd (E&W) 70% - subsidiary		Kier Project Investments Ltd (E&W) 10% - subsidiary	
		Galliford Try Investment Ltd (E&W) 10% - subsidiary	
		Graham Investment Projects Ltd (NI) 10% - subsidiary	
Equitix Hubco 3 Limited (E&W) 50% - subsidiary	Equitix Hubco 4 Limited (E&W) 50% - subsidiary		Kier plc (E&W) - parent
Equitix Capital Eurobond 3 Ltd (E&W) - immediate parent	Equitix Capital Eurobond 4 Ltd (E&W) - immediate parent		Galliford Try plc (E&W) - parent
Equitix Fund III LP (E&W) - investment fund	Equitix Fund IV LP (E&W) - investment fund		John Graham Holdings Ltd (NI) - parent
Equitix GP 3 Ltd (Guernsey) (General Partner)	Equitix No. 3 Ltd (E&W) (Limited Partner plus institutional investors as limited partners)	Equitix GP 4 Ltd (Guernsey) (General Partner)	Equitix No. 4 Ltd (E&W) (Limited Partner plus institutional investors as limited partners)
Equitix Holdings Ltd (E&W) - holding company			
Pace BIDCO Ltd (E&W) - subsidiary			
Pace Topco Ltd (E&W) - holding company			
Pace Cayman Holdco Ltd (Cayman Islands) - immediate parent			
Tetragon Financial Group Ltd (Guernsey) - ultimate parent & controlling company			

Note: Ownership is 100% unless otherwise stated

<b>Alliance Community Partnership Limited - SPVs and % equity</b>
NHS Lanarkshire Bundle (Wishaw, East Kilbride and Kilsyth Health Centres) - hub SW NHS Sub hub Co Limited - 60%
Greenfaulds High School - hub SW Greenfaulds Sub hub Co Limited - 60%
Ayr Academy - Hub SW Ayr DBFM Co Limited - 60%
Dalbeattie Learning Campus - Hub SW Dalbeattie DBFM Co Limited - 60%
William McIlvaney Campus - Hub SW EALC DBFM Co Limited - 60%
Largs Campus - Hub SW Largs DBFM Co Limited - 60%
Cumbernauld Academy & Art Theatre - Hub SW Cumbernauld DBFM Co Limited - 60%
Queen Margaret Academy - Hub SW QMA DBFMCO Limited - 60%

Pension funds invested in the Equitix Fund III LP and Fund IV LP are listed in Table 7 and includes Glasgow City Council on behalf of the Strathclyde Pension Fund.

Strathclyde Pension Fund approved a £30m investment in the Equitix Fund IV LP in June 2016. *"The fund will seek investment opportunities across the whole of the UK. Equitix has investments in two of the Scottish Hubcos and therefore will see a reasonable level of investment opportunities within Scotland, including Lanarkshire and Ayrshire in particular through Hub Southwest".* The proposal cited the three earlier Equitix Funds I, II and III as *"...performing in excess of expectations and are presenting a gross IRR [Internal Rate of Return] in excess of 12.5% and a short-term cash yield in excess of 10%"* (Strathclyde Pension Fund, 2016).

The pension fund invested £50m in Equitix Fund V LP, managed by Equitix GP 5 Limited (Guernsey), in May 2018. A rather one-sided justification claimed the *"...investment strategy of Equitix's core infrastructure funds is designed to take advantage of the attractive risk/return characteristics of core infrastructure assets offering investors predictable yields, long duration asset life and limited default and financing risk"* (Strathclyde Pension Fund, 2018b).

Table 7: Pension fund investors in Equitix Fund III LP and Equitix Fund IV LP

Public sector Limited Partners in Equitix Fund III LP	Public sector Limited Partners in Equitix Fund IV LP
Greater Manchester Pension Fund (Tameside MBC)	Glasgow City Council/Strathclyde Pension Fund
West Yorkshire Pension Fund	Derbyshire CC Pension Scheme
Merseyside Pension Fund	East Riding Council Pension Fund
Hampshire CC Pension Fund	Nottinghamshire CC Pension Fund
Equitix Fund III Feeder Limited ( <b>Guernsey</b> )	Hampshire CC Pension Fund
	Croydon LBC Pension Fund
	Environment Agency Pension Fund
	Equitix Fund IV Feeder Limited ( <b>Guernsey</b> )

Source: Companies House LP6 forms for Equitix Fund III LP and Equitix Fund IV LP

## Amber Blue Central Limited

Amber Blue Central Limited is owned by two Scottish companies with equity stakes of 41.67% and 16.66% and by Amber Investment Holdings Limited, part of the Amber Infrastructure Group Holdings which includes the INPP offshore infrastructure fund (Table 8)

Table 8: Amber Blue Central Limited shareholdings

Hub East Central		
Amber Blue Central Limited (Scotland)		
Robertson Capital Hub Investments Ltd (Scotland) 41.67% - wholly owned subsidiary	Amber Investment Holdings Ltd (E&W) 41.67% - wholly owned investment company	Forth PPP Ltd (Scotland) 16.66 - wholly owned subsidiary
Robertson Capital Projects Ltd (Scotland) - wholly owned subsidiary	Amber Infrastructure Group Ltd (E&W) - immediate parent company	Forth Holdings Ltd (Scotland) - parent company
Robertson Group Limited - wholly owned subsidiary	Amber Infrastructure Group Holdings Ltd (E&W) - ultimate controlling party	
Robertson Group (Holdings) Ltd (Scotland) - wholly owned holding company	The Group includes International Public Partnerships LP (INPP) (incorporated in E&W, shares traded London Stock Exchange but registered in <b>Guernsey</b> - hence potential future owner of hubco equity - see text	
Newlands (Elgin) Holdings Limited (W.G. Robertson owns 65% of share capital)		

Note: Ownership is 100% unless otherwise stated

Amber Blue Central Limited - SPVs and % equity
Levenmouth High School - hub East Central (Levenmouth) Limited - 60%
Forfar Community Campus - Hub East Central (Forfar) Limited - 60%
Baldragon Academy - Hub East Central (Baldragon) Limited - 60%
Stirling Care Village - Hub East Central (SCV) Limited - 60%
Pharmaceuticals Services - Hub East Central (PSS) Limited - 60%
Bertha Park High School - hub East Central (Bertha Park) Limited - 60%
Ladyloan & Muirfield Primary Schools - Hub East Central (Forfar) Limited - 60%

## Amber Infrastructure and International Public Partnerships

Amber Infrastructure Group Holdings Limited is a holding company that provides investment advice, asset management and fund management services in relation to infrastructure assets provided to the public sector. It also develops and finances new infrastructure opportunities in regeneration, energy and digital/broadband sectors. The group "...includes the General Partner to International Public Partnerships Limited Partnership, in which International Public



*Partnerships Limited (INPP) is the ultimate parent"* (Amber Infrastructure Group Holdings Limited, 2018).

International Public Partnerships (INPP) is one of four investment funds operated and advised by Amber Infrastructure - the others are the Scottish Partnership for Regeneration in Urban Centres (SPRUCE) a private equity fund managed on behalf of the Scottish Government; the London Energy Efficiency Fund and the National Digital Infrastructure Fund.

INPP is listed on the London Stock Exchange, but registered in Guernsey. It raises capital to acquire PPP assets by issuing shares which are bought by institutional investors and wealthy individuals. INPP is one of largest offshore infrastructure funds with equity in 73 PFI projects in UK with average 61.4% equity ownership, plus projects in other countries. The 2017 annual report listed two shareholders with more than a 5% of ordinary shares - Schroder plc with 12.6% and Investec Wealth & Investment Limited with 11% - both have tiers of nominee companies that conceal the identity of investors.

The relationship between Amber Infrastructure Group and INPP is illustrated by INPP's 2017 annual report.

**Figure 1: Relationship between Amber Infrastructure and International Public Partnerships**



Amber Infrastructure reported: *"The Group has continued to benefit from additional growth in assets under management from funds it manages and long-term contractual management services income from managed infrastructure concessions. This includes advising International Public Partnerships Limited (INPP), the FTSE 250 listed fund, on 7 transactions with a combined equity investment value of approximately £460m"* (ibid).

#### **INPP invested £464m of new cash**

*"During 2017, INPP completed a record level of new investment activity, making £464 million of new cash investments into four new and four follow-on investments and entered into up to £225 million of new investment commitments and binding offers across the energy distribution, waste water, education and transport infrastructure sectors"* (INPP, 2018).

This illustrates the possibility that Amber Investment Holdings may at some stage seek to transfer/sell the equity of some SPVs to INPP, although this would be dependent on the rights of other shareholders embedded in the shareholder agreement of NDP and hub projects.

The equity ownership structure of the Alliance Community Partnership Limited is examined in Table 6. This is another company in which Equitix has a significant role which concludes in Guernsey via the Cayman Islands.

Other NPD and hub projects with corporate relationships with offshore and foreign-owned companies are summarised in Table 9.

**Table 9: Other NPD and hub projects with offshore and foreign equity ownership**

<b>Offshore</b>	<b>(shareholding in hubco)</b>
High Wood Health (Project Co) Limited	<b>Laing O'Rourke plc</b> (E&W) (50%) - wholly owned subsidiary
	O'Rourke Investments Ltd (E&W) - holding company
	O'Rourke Investment Holdings (UK) Ltd (E&W) - immediate parent
	Laing O'Rourke Corporation Limited ( <b>Cyprus</b> ) - parent
	Suffolk Partners Corporation ( <b>British Virgin Islands</b> ) - ultimate parent and controlling party
C3 Investments in Ayrshire College Education Limited	<b>C3 Investments in Ayrshire College Education Holdco Ltd</b> (Scotland) (100%)
	<b>3i Infrastructure plc</b> ( <b>Jersey</b> ) (infrastructure fund, 3i Group plc has 33.8% shareholding)
Scot Roads Partnership Project Ltd	<b>Meridiam Infrastructure Finance II SARL</b> ( <b>Luxembourg</b> ) (30%) - subsidiary
	Meridiam Infrastructure (SCA) SICAR ( <b>Luxembourg</b> ) - partnership company
<b>Foreign</b>	<b>(shareholding in hubco)</b>
Scot Roads Partnership Project Ltd	<b>Amey Ventures Asset Holdings Limited</b> (E&W) (20%) - investment holding company
	Amey Investments Ltd (E&W) - investment holding company
	Amey UK plc (E&W) - immediate parent
	Ferrovial S.A. ( <b>Spain</b> ) - ultimate parent & controlling company
	<b>Cintra Infrastructure UK Limited</b> (E&W) (20%) - holding company and motorway services provider
	Cintra Global Holding Ltd (E&W) - immediate parent
	Ferrovial S.A. ( <b>Spain</b> ) - ultimate parent & controlling company
Seacole National Centre Ltd	<b>Kajima Partnerships Ltd</b> (E&W) (50%) wholly owned subsidiary
	Kajima Estates (Europe) Ltd (E&W) intermediate holding company
	Kajima Europe Limited (E&W) - construction, development and management of PPPs and property investment
	Kajima Corporation ( <b>Japan</b> ) - ultimate parent company

Note: Ownership is 100% unless otherwise stated.

# Hub corporate relationships with offshore tax havens

**28** NPD projects (**59.6%**) have shareholdings in companies that have corporate relationships with companies in offshore tax havens - Jersey, Guernsey, Cayman Islands, British Virgin Islands, Luxembourg and Cyprus.

**20.2%** of the equity in NPD and hub companies is owned by offshore tax haven companies through direct corporate relationships.

They account for **29.4%** of private sector NPD shareholding (excluding SFT, other public sector participants and projects with hub Community Foundation shareholdings).

Although the 47 SPVs and the bulk of the development companies are registered in Scotland, they are primarily owned by companies such as Equitix, Balfour Beatty, Interserve, Galliford Try, Amber Infrastructure and Morgan Sindall, and registered in England and Wales.

In fact the Ayrshire College project is 100% owned offshore; 50% of the equity in Inverness College is ultimately owned offshore; 70% of the M8, M73, M74 Motorway Improvements project is ultimately foreign owned with 30% in a tax haven; the thirteen Space Scotland and Wellspring Partnership projects are dominated by Galliford Try and Morgan Sindall (83% and 80% respectively); and the Scottish National Blood Transfusion Service National Centre project equity is jointly owned by Interserve plc and Kajima Corporation (Japan).

The Acute Mental Health & North Ayrshire Community Hospital is 100% owned by Balfour Beatty plc and has a third of the equity in the Aberdeen Western Peripheral Route/Balmedie Tippetty. Balfour Beatty has a track record of acquiring and selling equity stakes in PFI projects. It sold equity in 24 PFI projects for £521m between 2006-2018, 17 to offshore funds, including a 50% stake in the Edinburgh Royal Infirmary project sold to Equitix Holdings for £72m in 2015 (ESSU, 2017). Galliford Try sold equity in five PFI projects between 2011-2015, three of which were acquired by offshore funds and equity in the St Andrews Community Hospital, Fife, project was sold to the Dutch Infrastructure Fund.

## **IHS Lothian Limited**

IHS Lothian Limited (IHS Lothian Investments Limited, IHS Lothian Corporate Limited and ultimate parent company IHS Lothian Corporate Holdings Limited) for the Royal Hospital for Sick Children/Department of Clinical Neurosciences project is financed by a £74m loan facility with the Prudential Assurance Company Limited and Prudential Retirement Income Limited and a £72.4m loan facility with the European Investment Bank. Macquarie Capital was sole sponsor and financial adviser to IHS Lothian and provided £15m of junior debt. The SFT Hub projects spreadsheet March 2018 refers to IHS Lothian Limited *"with ultimate ownership being Macquarie Capital Group Limited"*. However, this is highly unlikely since Macquarie provided only junior debt.

## **PIP Infrastructure Investment (No. 5) Limited**

Uberior Infrastructure Investment (No 5) Ltd (Lloyds Bank Infrastructure GP Ltd) hold equity in Scot Roads Partnership Project Ltd (M8, M73 and M74 motorway improvements) and the High Wood Health (Project Co) Limited (Acute Services Redevelopment Project).

However, the company was acquired by Aberdeen Asset Management plc in May 2014 and the name changed to Aberdeen Infrastructure Investment (No 5) Ltd. This name was retained after Standard Life acquired Aberdeen Asset Management plc on March 2017 to become Standard Life Aberdeen. Although the company was registered in England and Wales the administrator and secretary (State Street Ltd) and auditor (PricewaterhouseCoopers) were both located in Guernsey. These are indirect secondary market transactions involving a change of company ownership.

Standard Life Aberdeen sold six PFI assets in a £400m transaction to the Pensions Infrastructure Platform (PIP) in November 2017 and the company name changed again to PIP Infrastructure Investment (No 5) Ltd and remained registered in England and Wales.

### **Sale of equity**

To date there is little evidence of the direct sale of equity in NDP projects. An earlier project, Falkirk Schools NPD, a 29.3% equity stake was sold by the Royal Bank Projects Investments to HICL Infrastructure Fund (Guernsey) in October 2013 for an undisclosed sum.

An internal public sector equity transaction occurred in 2016 when the Greenfaulds High School SPV owned by the Hub South West Scotland Limited was sold to Alliance Community Partnership Limited (60%), Scottish Futures Trust (10%), North Lanarkshire Council (10% and Hub Community Foundation (20%) (Hub SW Greenfaulds Holdco Limited Annual Report 2016).

A significant share of Scotland's PFI/PPP education projects - 87.5% (280) of the 320 schools - are already partly or wholly owned by offshore infrastructure funds. Nearly half the schools had 100% of their equity owned offshore (Table 11, Whitfield, 2016). However, this does not automatically mean this scale of offshore tax haven share ownership will be repeated in NPD and hub companies, but it does indicate the potential threat.

### **Analysis of shareholdings and capital cost and total unitary charge**

An analysis of equity ownership and the capital cost of the 47 NPD and hub projects identifies the role of companies registered in Scotland. The total capital cost of the 47 projects is £2,726.9m and the total unitary charge over the length of the contracts is £7,917.3m (SFT NPD spreadsheet, March 2018). The five largest projects account for 49% of the total capital cost (£1,241.6m) and 55.2% of the total unitary charge. All five companies are registered in England and Wales (except for the 30% shareholding of a Luxembourg registered company (Table 10).

A similar analysis of the project companies that are mainly registered in England and Wales with shareholding of 50% - 100% shows that they are responsible for £1,018.6m of the capital costs. The total capital cost of these projects is £2,260.2m from which we can conclude that companies registered in Scotland account for £466.7m or just 17.1% of project capital cost or 16.2% of the total unitary charge (Table 10).

Table 10: Project company shareholdings and capital cost and total unitary charge

Largest projects by capital cost				
Project	Companies	Company Registration	Capital cost (£m)	Total Unitary Charge (£m)
Aberdeen Western Peripheral	Galliford Try, Carillion, Balfour Beatty - 100%	E&W	469.0	1,417.7
M8, M73 and M74 improvements	PIP Infrastructure, Meridiam, Amey & Cintra - 100%	E&W (70%) Luxembourg (30%)	<sup>1</sup> 217.0	<sup>1</sup> 965.0
Acute Services Redevelopment	Laing O'Rourke plc & PIP Infrastructure Investment - 100%	E&W	212.6	533.5
Glasgow College	Sir Robert McAlpine Ltd - 50%	E&W	193.0	603.0
Roya Hospital for Sick Children	IHS Lothian Holdings - 100%	E&W	150.0	437.5
	450%		<b>1,241.6</b>	<b>3,956.7</b>
Project companies mainly registered England & Wales				
	Wellspring Partnership - 100%		125.5	348.3
	ACP: Hub North Limited - 100%		285.9	741.5
	Alliance Community Partnership Ltd 90%		<sup>2</sup> 249.2	<sup>2</sup> 623.2
	Space Scotland Ltd - 100%		255.6	663.3
	Equitix Education 2 Ltd - 50%		<sup>3</sup> 22.5	<sup>3</sup> 67.7
	Interserve Developments & Kajima 100%		33.3	97.1
	Woodland View Holdings - 100%		46.6	133.7
		sub total	<b>1,018.6</b>	<b>2,674.8</b>
		<b>Total</b>	<b>2,260.2</b>	<b>6,631.5</b>

Source: Spreadsheet of Hub and SPV equity ownership. Note: 1. 70% of £310.0m and £1,378.6m ; 2. 90% of £276.9m and £692.4m; and 3. 50% of £45.0m and £135.4m

### Offshore and foreign shareholding as a proportion of total unitary charge

The relative scale of offshore and foreign shareholdings was calculated using the data for the total unitary charge for each hubco and SPV (Table 11). It took account of the nine projects which have 100% private shareholdings, the 37 hubcos which had 60% private sector shareholdings and the joint venture control of the hubcos.

Offshore and foreign shareholdings account for **21.9%** of the total unitary charge or **26.6%** of the private sector share (£6,510.8m) of the total unitary charge.

This could potentially rise to **23.6%** and **28.7%** respectively if the Amber Investment Holdings shareholdings are sold to INPP within the Amber Infrastructure Group Holdings Limited.

**Table 11: Offshore/foreign equity holders share of the total unitary charge in Hubcos and SPVs**

Hubco or SPV	% offshore/ foreign shareholding	Total unitary charge of SPVs	Offshore/foreign shareholder share of unitary charge	% of Total Unitary Charge of £7,917.3m
<b>Offshore</b>				
ACP: North East Hub Ltd	50	741.5	222.4	
GT Equitix Inverness Ltd	50	135.4	67.7	
Alliance Community Partnership Ltd	70	692.4	290.8	
C3 Investments in Ayrshire College Education Ltd	100	140.8	140.8	
Scot Roads Partnership Project Ltd	30	1,378.6	413.6	
<b>Foreign</b>				
Seacole National Centre Ltd	50	97.1	48.5	
Scot Roads Partnership Project Ltd	40	1,378.6	551.4	
<b>Total offshore/foreign</b>			<b>1,735.2</b>	<b>21.9</b>
<b>Offshore and foreign shareholdings as a % of private sector share (£6,510.8m) of the total unitary charge</b>				<b>26.6</b>
<b>Potential offshore</b>				
Amber Blue East Central Ltd	41.67	537.3	134.3	
<b>Potential total</b>			<b>1,869.5</b>	<b>23.6</b>
<b>Offshore and foreign shareholdings as a % of private sector share (£6,510.8m) of the total unitary charge</b>				<b>28.7</b>

Source: Tables 2, 4, 6 and 8 above; Scottish Government (2018) *NPD and Hub projects*, 21 March 2018.

### Potential impact of secondary market transactions

Assessing the detailed operational and legal issues of the sale of equity in NPD and hub companies and SPVs is not within the scope of this report. Firstly, it is difficult to predict the internal strategy of existing NPD and hub shareholders to the sale of equity. Secondary, it is difficult to predict the external demand from secondary market funds given the particular structure of NPD and hub companies and shareholder agreements. There are particular risks associated with NPD and hub projects that have to be taken into account (Cuthbert, 2018).

As the Introduction to this report noted, virtually all the companies that are shareholders in NPD and hub companies in Scotland have sold equity in UK PFI projects, as have some local authorities, mainly to offshore funds.

However, the risk of further construction flaws as exposed in Edinburgh schools and many other local authorities could deter potential secondary market investors. On the other hand, the four offshore shareholders of ESP (Holdings) Limited, the SPV holding company for the Edinburgh PPP1 schools project, issued a subordinated loan note of £5.5m in 2016 at an interest rate of 13.07% until 2033 to finance remedial works (ESP (Holdings) Limited, 2017). Proof that funding PFI failure can be profitable too!



# Conclusion and recommendations

Important questions are raised by public sector, in particular local authority pension funds investing in infrastructure funds that are an integral part of offshore company structures. Whether this is lack of knowledge about the names and activities of particular funds or a consequence of outsourcing investment decisions is unknown. However, it is vital that public sector bodies and pension funds understand the conflicts of interest and consequences of such investments, such as tax loss, risk of action against offshore jurisdictions and decisions made on investment grounds that have negative impact on jobs, the local economy and the quality of public infrastructure.

The situation raises a conflict of interest for public sector workers who are usually strongly opposed and campaign to stop public sector organisations outsourcing services and approving public private partnerships. These investment decisions usually reflect the outsourcing of investment responsibilities to financial institutions and/or the total separation and non-communication between internal functions within public bodies.

The House of Commons agreed an amendment to anti-money-laundering legislation in May 2018 to require registers of ownership to be publicly available in 14 British overseas territories which include the Cayman Islands and the British Virgin Islands. However, this does not include Jersey, Guernsey or the Isle of Man which are classified as self-governing possessions of the Crown, although the UK Parliament has the power to legislate but has not done to date.

The SFT Hub pipeline identified 33 education, health and community projects with a capital cost of £620.7m in 'development' although the financial close/site start dates for two thirds of these projects were in 2017 or early 2018. Projects will be at an advanced stage and likely to be unable to address the issues raised in this report. A 'qualifying' list of 13 projects with a capital cost of £137.1m had financial close/site start for late 2018 or 2019 may be open to late amendments.

## Recommendations

**1.** The sale or transfer of equity must be strictly controlled by the Scottish Government and Scottish Futures Trust because companies with offshore corporate relationships are already established as shareholders in hub companies. This is likely to require new or amendments to existing regulatory frameworks.

The current level of corporate relationships with offshore funds is already significant - 28 out of 47 NPD projects and 29.4% of private sector NPD and hub company shareholding. It is difficult to predict if, and what level, of secondary market transactions may occur in these companies, but drawing a broad lesson from PFI secondary market transactions indicates that offshore infrastructure funds are most likely to acquire assets than other participants because they have the resources to acquire assets and have developed a relatively dominant role in the infrastructure secondary market.

**2.** Competitive bidding of NPD and hub projects has facilitated major PFI companies in Scotland, England and Wales to gain a significant role in the NPD and hub programme. This is an inevitable consequence of procuring private sector delivery of the flawed NDP and hub company model instead of publicly planned, financed and operated public infrastructure with construction-only contracts. Scotland urgently needs to develop a strategy to rapidly rebuild public sector capability and capacity, which has been systematically weakened by successive rounds of PFI, NPD and hub projects.

**3.** Local authorities and other public bodies should urgently review their pension fund investments to identify how many other investments they hold in offshore infrastructure funds. Pension fund members have a vested interest in maintaining good quality local employment

and are usually opposed to outsourcing of public services and privately financed infrastructure projects because the threat of job losses and cuts to terms and conditions. Similarly local and sub-regional economic development strategies aim to maximise job retention and to increase training and job creation.

Local authority management of pension funds and investment advisers seek to maximise the financial return from investment and maintain the long-term sustainability of pension funds. However, these objectives are in conflict when decisions are made on single issue, budget based and narrow agendas.

It is not credible and sustainable to be signing NPD and hub projects in which the shareholders have corporate relationships with infrastructure funds in offshore tax havens. The potential financial gain to the pension fund is marginal, particularly given the range of alternative investment opportunities, relative to the potential job losses, the effect of cuts in terms and conditions and the potential loss of access to pension fund membership for public sector employees.

This raises questions about the decision making process and the quality of advice supplied by internal or external investment advisers; the degree to which these issues are examined in the decision making process; and the role of trade union trustees.

**4.** Privately financed infrastructure projects are flawed from the very start because of the lack of transparency, democratic accountability and participation in the selection and evaluation of options, the procurement process, contract award, monitoring and scrutiny of performance (Whitfield, 2010). The use of offshore tax havens significantly further reduces transparency and democratic accountability because they are designed to conceal ownership of assets and profits to evade taxation (Whitfield, 2012).

**5.** A proposal to nationalise UK Private Finance Initiative projects followed increasing criticism of the PFI model. This included the high cost of private finance, construction failures, secondary market profiteering and the ineffectiveness of other proposals such as buyouts, nationalising PFI debt or windfall taxes to terminate the PFI model (People v Barts PFI, 2015).

A paper by Mercer and Whitfield (2018) proposed nationalising the Special Purpose Vehicles or project companies at a cost of £2.3bn-£2.5bn based on book value compensation of shareholders. They propose that service contracts are renegotiated so that public authorities contract directly with the providers, not via the SPV. Significant annual savings of £1.4bn from the elimination of operating profits means that nationalisation will pay for itself within two years. This approach could be developed to take NPD and hub projects into public ownership to achieve savings and regain public ownership and democratic control over Scotland's public infrastructure.

UK nationalisation will include PFI projects in Scotland, hence a parallel proposal should be prepared to nationalise the NPD and hub companies and SPVs on the same book value basis.

**6.** The Scottish Futures Trust should be abolished and a publicly-funded Scottish National Investment Bank established to finance national infrastructure projects, low carbon energy and retrofitting projects that address climate change and local economic development.



# Appendix 1



## FACTSHEET

The Dar Group is a privately owned international professional services firm, underpinned by specialist brands, dedicated to the planning, design, engineering and project management of facilities, installations and structures that contribute to the sustainable advance of communities worldwide.

Dar Group grew out of the ambitions of the Middle East region's leading design consultancy Dar Al-Handasah, which was founded in 1956 by four engineering professors from the American University of Beirut. In 1986, the Dar Group was created to embark on a mission to build a global portfolio of premium engineering and design brands.

### FAST FACTS

**Founded:** 1956

**Group formed:** 1986

**Headquartered:** Dubai

**Headcount:** 18,600 across c.200 offices

**Global footprint:** 58 countries

**No. of Companies:** 14

**Performance:**

Gross revenue – c. \$2.3 billion in 2016

ENR Rankings – rated #6 international design firm in 2017

### OWNERSHIP & LEADERSHIP

The Dar Group is owned by 35 shareholders who are working partners of the business leading key regions, **services** and ensuring connectivity across the Group. Each Dar Group company operates independently under the leadership of its own management and boards. Group strategy, including decisions on acquisitions, is led by its Chairman and CEO.

#### Talal Shair – Chairman & CEO

Mr. Shair is the Chairman-CEO of Dar Al-Handasah Consultants (Shair and Partners) and of the Dar Group it founded. He is a Member of the Young Presidents Organization of which he is a Founding Member of the Cairo Chapter; he sits as a Member of the Board of Trustees of

- American University of Beirut, Lebanon;
- International College, Beirut, Lebanon;
- King's Academy, Jordan;

and is a Member of Lebanese American University's Advisory Board.

### FOUR PILLARS OF GROWTH

Dar Group's vision is to connect people, places and communities, providing world-class, innovative solutions to the most complex engineering and design needs globally. Its strategy is to complement the current portfolio of premium brands through selective M&A to create a leading global engineering and consulting brand with breadth and scale across all four of its strategic growth pillars:

## A LEGACY OF EXCELLENCE & GROWTH

Dar Group's strategy is to promote sustained excellence through a portfolio of sector leading companies, and to expand through organic growth, group synergies, and scale acquisitions that complement its existing capabilities.

	COMPANY	SERVICE AREA	HQ	ABOUT
Founded 1956	<b>Dar Al-Handasah</b>	Multidisciplinary	Beirut	Leading international consultancy with design centers in Beirut, Cairo, London, Pune and Amman and 45 regional operation offices in 30 countries across EMEA, Asia and the Commonwealth of Independent States.
Dar Group Formed 1986	<b>Perkins+Will</b>	Architecture	Chicago	Architecture and design firm with 24 global offices that services the commercial, civic, cultural, healthcare, education, science and technology, and transportation sectors.
1986	<b>Penspen</b>	Energy	London	Provider of engineering, operations, integrity and maintenance services to the oil and gas industry. Completed over 5,000 pipeline and pipeline-related projects in over 40 countries.
1989	<b>T.Y. Lin International</b>	Infrastructure	San Francisco	Civil and structural engineering firm, operating in the US and Asia, that specializes in the planning, design and construction engineering / inspection of public and private infrastructure.
2004	<b>R&amp;H Rail (Pty) Ltd.</b>	Infrastructure	Johannesburg	Provider of integrated consulting services to the railway sector and one of Africa's largest private rail consultants.
2005	<b>IPA Advisory</b>	Project Management	London	Independent advisory firm that provides professional consultancy services in Markets & Transactions, Regulation & Policy and PPP across the Energy, Water and Infrastructure sectors, with extensive experience across the UK, EMEA and Asia.
2008	<b>Landrum &amp; Brown</b>	Infrastructure	Cincinnati	Leading aviation planning consultancy firm that provides services to the top 50 USA airports and services markets in China, Asia, Australia and the Middle East.
2009	<b>D2 Consult International GmbH</b>	Infrastructure	Linz	Consulting firm specialized in modern infrastructure, automated tunnelling and complex lining systems.
2009	<b>Ross &amp; Baruzzini</b>	Infrastructure	St. Louis	Provider of professional engineering, technology consulting, architectural, and construction administration to clients in the education, government, healthcare, and transportation industries.
2009	<b>Integral Group</b>	Infrastructure	California	Leader in building system design that specializes in the design of systems for a wide variety of project types operating out of 12 offices across Canada, the US and the UK.
2012	<b>Currie &amp; Brown</b>	Project Management	London	Leading construction consultancy that provides a range of construction management specialist skills including cost management, project management, building surveying, PFI/PPP services, due diligence and sustainable working.
2012	<b>Project Finance Advisory Ltd. ("PFAL")</b>	Project Management	San Francisco	Dar Group establishes Project Finance Advisory, Ltd. (PFAL), in the US to provide complementary expertise in large-scale infrastructure and real estate financial advisory services for public and private sector clients.
2013	<b>Maffei</b>	Infrastructure	Solagna	Italy-based engineering firm in the field of Tension Membrane / Fabric structures and ETFE foil designs for structural applications such as stadia covers, façades and retractable systems.
2017	<b>GPO Group</b>	Infrastructure	Spain	GPO Group is an international, multi-sector engineering company that renders planning, design, construction and operational services for transportation, building, automotive, energy and environmental projects developed in more than 20 countries.

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