

SCOTTISH FUTURES TRUST

Business Plan **2009/10**

Date: 19 May 2009

Board Approval on: 20 May 2009

This business plan covers the 10 month period from June 2009 to March 2010. Thereafter annual business plans will be produced covering an April to March period.

This plan has been drawn up to progress beyond the transitional phase of creating the corporate and operational structures of SFT and assessing and planning the substantial change in approach to major infrastructure procurement required in Scotland. The nature of future investment in schools, the impact of International Financial Reporting Standards (IFRS), the impact of Treasury draft budgeting guidance issued on 28 April 2009 and the role of SFT in supporting the updated National Waste Plan will continue to be developed.

A five-year corporate plan will be produced by September 2009.

**Scottish Futures Trust
Business Plan**

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1. Executive Summary

The purpose of this document is to set out the business objectives for the Scottish Futures Trust (SFT) in the form of a Business Plan covering the 10 month period to March 2010. This plan has been drawn up to progress beyond the transitional phase of creating the corporate and operational structures of SFT and assessing and planning the substantial change in approach to major infrastructure procurement required in Scotland.

SFT's role is part radical conversion but to a greater extent additional. The conversion role arises from taking over and redirecting some of the activities previously carried out by the Scottish Government's Financial Partnerships Unit but discharging these duties in a significantly different manner due to SFT's clear operational independence and greater level of authorised responsibility. The additional roles arise from SFT's arm's length structure which gives greater freedom of action and an ability to actively look across sectors and markets in order to bring forward initiatives with an emphasis on cooperation and delivery. Both roles come together and support the over-riding and unwavering pursuit of delivering value for money in all infrastructure investment, working in collaboration with all key Scottish public sector delivery bodies.

SFT is already making a significant contribution to the delivery of vital new infrastructure. The Company is addressing in excess of £2.7 billion worth of infrastructure projects in or nearing procurement. This includes validation work in cooperation with Transport Scotland on the Forth Replacement Crossing and Borders Railway. Active support is being given to four schools projects, totalling some £270 million, and to a project providing £90 million of investment into new mental health facilities. Work is also in advanced stages in respect of two major initiatives: The first community facilities *hub Partnership* pathfinder project is on track to commence procurement in 2009, and the development of a collaborative schools procurement pilot has already started. Taken together these two new initiatives plan substantial investment in schools, doctors' surgeries and other community facilities in the next three years. The two initiatives will prepare the ground for achieving value for money in wider scale investment in the future.

It is well documented that financial markets continue to present real challenges and the implications of the public sector adopting new accounting rules are yet to be fully understood. As this plan was being prepared, draft Treasury guidelines were issued that may have a significant effect on the structuring and scale of finance to support future investment. Under these circumstances, whilst SFT will clearly continue to evaluate and develop opportunities to implement innovative financing structures, such as Tax incremental financing, its immediate focus will be on optimising and strengthening existing funding structures.

In order for SFT to fully deliver its business objectives, and to increase its ability to add real value to project development and delivery functions, a key priority for SFT is to develop its capabilities by recruiting a highly professional core team. A selected recruitment round for specific skills and expertise is being progressed within the next few months.

It is clear from this Business Plan that the demands and expectations for SFT exceed its current capacity, given that recruitment is ongoing, and therefore it has had to carefully concentrate current efforts on selected work streams. The emphasis is on growing a capability to match fully the need to pursue value for money in infrastructure investment. SFT's success will be measured against the value for money benefits it achieves.

2. SFT's Market

2.1. Overview

The market in which SFT operates is the totality of investment in the public infrastructure of Scotland. This market is fragmented with many sources of funding and infrastructure delivery organisations. SFT does not currently control any of the capital budget or have any of its own sources of funding for infrastructure investment although this will change as projects, including the schools project, are announced. SFT will work in collaboration with the variety of organisations charged with delivering public sector infrastructure to deliver its objectives.

2.2. Infrastructure Funding

There are several sources of infrastructure funding in Scotland including both public and private sector investment in public infrastructure. There is not a single source of data on this investment programme, with the Government's 2008 Infrastructure Investment Plan (IIP)¹ giving the most complete view. In the current year 2009/10, total investment will be around £5.5bn, or £16bn over the current 3-year spending review period. The sources of investment funding are broadly:

- £3.6bn Government capital budget
- £400m Local Authority funding²
- £800m sector specific funding such as universities and Registered Social Landlords raising private finance, and Scottish Water investing funds from service charges
- £700m of privately raised finance in NPD/PPP projects (substantially outwith capital budgets)

The major challenges in dealing with future investment include:

- International Financial Reporting Standards (IFRS) being adopted throughout the UK, will bring PPP-type projects on to the Government's balance sheet³ and therefore any future projects involving private finance may be required for budgeting purposes to fall within the Scottish Government's capital budget allocation. Even if SFT assisted public bodies in raising private finance, or accessing alternative sources of finance, it is likely that this investment would also be considered to be "on balance sheet" and subject to capital budget limitations.
- The availability and cost of private finance to fund infrastructure projects has been badly affected by the credit crunch.
- Major projects, such as the Forth Replacement Crossing and Glasgow Southern General Hospital, will utilise significant capital during their procurement.

¹ <http://www.scotland.gov.uk/Resource/Doc/217601/0058293.pdf>

² This data is the least easily verifiable and has been derived from figures in the IIP

³ It should be noted that as at 28 April 2009, HM Treasury has published new draft budgeting guidance for 09/10 which may re-introduce budget additionality for PPP/NPD projects.

- The need to deliver a co-ordinated investment strategy that maximises procurement and investment synergies and economies of scale.
- The predicted impact on public spending arising from the UK budget announced in April 2009.

SFT's mission to improve value for money has increased resonance due to the above factors. SFT will continue to investigate innovative financing structures that could potentially bring "additionality" of funding. Early progress is being made on two initiatives: Tax incremental financing and reviewing surplus or under deployed assets. However, structural development of a wide-ranging alternative funding regime will, as envisaged in the May 2008 business case, take time to develop as any structure has to: (1) operate successfully within the existing, and changing, government accounting rules; and (2) overcome the challenges that arise from the credit crunch.

2.3. Infrastructure Investing Organisations

SFT's primary role, in the short to medium term, will be in working collaboratively with the holders of the budgets and sources of finance discussed to maximise the efficiency and effectiveness of their infrastructure investment, generating the best possible value for the available funds.

There are a wide range of bodies across Scotland with infrastructure delivery and asset management responsibilities including:

- Local Authorities and their representative body COSLA
- Health Boards
- Delivery agencies such as Transport Scotland
- Government Companies such as Scottish Water
- Scottish Funding Council and the universities and colleges
- Government Directorates such as housing / health
- Advisory bodies such as Scottish Procurement Directorate (including CAPD)
- Collaborative procurement bodies including Scotland Excel
- Local Authority Joint Venture and subsidiary companies

SFT will not seek to duplicate their work. This business plan sets out where SFT will focus its effort in the next 10 months. In refining and delivering the programme set out in Section 5, SFT will remain open to working with any of these bodies, and will actively seek opportunities to engage where it can see that collaboration could further SFT objectives.

3. SFT Background and Formation

3.1. Aims of SFT

The overall aims of the Scottish Futures Trust are as follows:

The aim of the Scottish Futures Trust is to improve the efficiency and effectiveness of infrastructure investment in Scotland by working collaboratively with public bodies and industry, leading to better value for money and ultimately public services.

The SFT will act across all phases of the infrastructure investment cycle: needs identification, options investigation, investment appraisal, procurement, financing, design, construction, life cycle management / maintenance and disposal with a particular focus on planning financing and procurement.

3.2. Background

Establishing a delivery body to support public infrastructure investment is not without precedent. *Partnerships British Columbia* in Canada, *Partnerships Victoria* in Australia, *Strategic Investment Board* in Northern Ireland, *NDFA* in the Republic of Ireland and *Partnerships for Schools* in England are all established bodies helping procure and deliver public infrastructure. SFT has its own distinct style and independent establishment but its overall goal of improving value for money is one that is shared with these bodies.

The business case for the development of the Scottish Futures Trust “Taking Forward the Scottish Futures Trust” was published by Scottish Government in May 2008. The Company was incorporated and launched in the Scottish Parliament by the Cabinet Secretary for Finance and Sustainable Growth on 10th September with Sir Angus Grossart as its chairman. An interim executive team established an office base in December 2008. Appointment of a full complement of four other non-executive Directors was completed by the Cabinet Secretary on 23rd January 2009. Barry White started as Chief Executive on 1 May 2009.

SFT’s role is part radical conversion but to a greater extent additional. The conversion role arises from taking over and redirecting some of the activities previously carried out by the Scottish Government’s Financial Partnerships Unit but discharging these duties in a significantly different manner due to SFT’s clear operational independence and greater level of authorised responsibility. The additional roles arise from SFT’s arm’s length structure which gives greater freedom of action and an ability to actively look across sectors and markets in order to bring forward initiatives with an emphasis on cooperation and delivery. Both roles come together and support the overriding and unwavering pursuit of delivering value for money in all infrastructure investment, working in collaboration with all key Scottish public sector delivery bodies.

3.3. SFT Governance

SFT is a company limited by shares, wholly owned by Scottish Ministers. SFT will operate independently of Scottish Government (SG), with the shareholder relationship defined in a Management Statement and Financial Memorandum (MSFM).

3.4. Customers and Services

SFT's prime customer is the Scottish Government. As SFT's aims encompass all infrastructure investment in Scotland, any public body with custody of, or a requirement for infrastructure, may be a secondary customer of the Company. This interim Business Case does not segregate priorities and actions, or anticipated benefits by individual secondary customer. This may be appropriate in time, but at this stage the focus is on priority actions across infrastructure investment in Scotland to deliver on the overall aims of the Company.

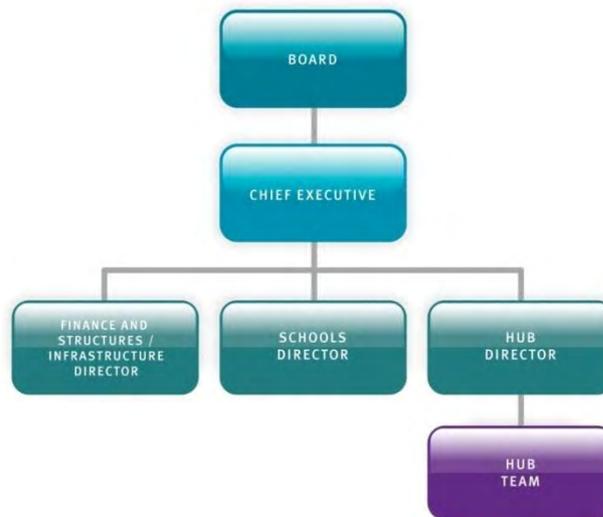
3.5. Business Activity in the Period up to June 2009

SFT is addressing projects in or nearing procurement with a combined capital value of over £2.7bn. Additionally, work is ongoing to develop new collaborative procurement methods. A number of financing structures are being evaluated with a priority being given to those that can be replicated and bring additionality to existing capital budgets. More detail on these activities, how they will be taken forward in 2009/2010 and relevant objectives are in *Annex 1*. A summary of current work is contained in the table below.

| SFT Active Projects | Delivery | Aggregation & Collaboration | Funding & Finance | Centre of Expertise | Validation |
|---|----------|-----------------------------------|-------------------------|---------------------------|------------|
| <i>hub</i> Partnership | X | X | X | X | X |
| Schools programme development (incl pilot project) | X | X | X | X | X |
| Scotland waste management | | X | | X | |
| Scottish Water - efficiency of finance | | | X | | |
| TIF (Tax Incremental Financing) | | | X | | |
| Spending landscape / IFRS | | | X | X | |
| Borders Rail | | | | | X |
| Forth Crossing | | | | | X |
| Aberdeen Schools refinancing plan | | | | X | X |
| Tayside Mental Health | | | | X | X |
| Moray Schools | | | | X | X |
| Western Isles Schools | | | | X | X |
| Orkney Schools | | | | X | X |

3.6. Current Structure

SFT's current staff level is nine, mainly secondees or temporary staff, with a recruitment drive being initiated to put in place a permanent team. The secondment arrangements have been very helpful in allowing SFT to progress activities but recruitment, retention and development of a small, but capable, team is a high priority.



3.7. Budget and Accounts

SFT has operated within the budget set out in the May 2008 business plan. Annual accounts are being prepared for the year ending 31st March 2009.

4. SFT's Strategy

4.1. Overview

SFT has made an interim assessment of priority areas where the Company can take actions in the short, medium and longer term that will contribute to the delivery of the overall aims.

- The priorities are set out in paragraphs 4.3 and 4.4 below.
- The action plan in Section 5 shows the intended breadth of action to support these priorities
- Annex 1 sets out more detail on SFT's intended role and objectives.

In setting business priorities SFT champions:

- **Action** – areas in which SFT can take, or facilitate real actions that will lead rapidly to new ways of working and value for money investment in infrastructure.
- **Independence** – of operation from Government and other stakeholders allowing us to pursue the actions that will deliver the overall aims set for us.
- **Pragmatism** – to make progress and deliver value rather than becoming a counsel of perfection.
- **Open Mindedness** – not to promote any single model or structure – new or historic, but to seek to provide best value in all cases.

4.2. SFT Development

SFT will, as envisaged in the original business case, develop in two overlapping phases. Phase 1 is supporting and improving existing and new public sector investment largely using existing funding models. Phase 2 will see the development and deployment of new financing models where work has already begun but, given the changing backdrop of public sector financing rules and challenging financial markets, will take longer to develop and deploy.

4.3. Phase 1 – Supporting and Improving Existing and New Public Sector Investment

SFT is supporting and developing a delivery mechanism for the *hub* community programme and develop and deliver further investment in schools. The sizes of both these programmes are under review but both will deliver significant investment in new facilities across Scotland. Aggregation, collaboration and successful delivery is at the heart of these two initiatives.

SFT is also acting as a centre of expertise to support and validate existing procurements. Examples of this are support to the Moray Schools NPD project, supporting the investment in waste treatment infrastructure, and the Forth Replacement Crossing.

SFT will also offer operational PPP projects support either when there are particular problems or when periodic commercial support is required, acting as a centre of expertise and retained knowledge developing a level playing field with private sector expertise.

Currently these services are provided by a team largely sourced through secondments. While this has enabled SFT to get started and make good progress, recruitment of a permanent team is a priority to ensure continuity and retention of knowledge.

A further description of SFT's role in existing and new public sector investment projects is described in Annex 1.

4.4. Phase 2 – Development and Deployment of New Financing Models

SFT will seek opportunities to increase value for money through reducing the cost of finance for infrastructure projects and in implementing innovative financing structures. SFT can provide in-depth understanding of the two principal current issues in this area, namely the implementation of International Financial Reporting Standards (IFRS) and the credit crunch, and will work to develop innovative solutions within the constraints imposed by them. Some initiatives such as a tax incremental financing (TIF) structure is already being worked on with the City of Edinburgh Council. Major funding initiatives will take time to develop and have to be carefully prepared within the existing constraints.

As stated in the May 2008 business case, Phase 2 will increase in significance with time and may also change in direction if public sector rules are altered.

4.5. Working with Other Public Sector Bodies

SFT will create a positive working relationship with public sector bodies based on positive engagement and decisive action. The team will seek collaboration, bring rigour and deploy skills that are not always readily available across the public sector.

An initial communication strategy has been developed to ensure that public sector bodies engaging with SFT are aware of the available support and the limits that will exist. Crucially, as a free at the point of use service, control over resources will need to be managed to avoid over commitment.

Clear prioritisation and agreed goals, as any engagement begins, will underpin effective support.

4.6. Relationships with the Private Sector

The role of the private sector is crucial to the successful delivery of infrastructure. The public sector benefits from a strong and active private sector to: provide sufficient competition as a driver of value for money; deploy risk management capabilities; develop innovative approaches; and the ability to programme manage and deliver wide ranging projects. The significance of the construction industry to the local and national economies is also recognised.

SFT will seek to make procurement more efficient to avoid waste of private sector resources, the cost of such waste inevitably flows through to end pricing and helping avoid waste will in turn provide a benefit to the public sector through improved value for money.

4.7. Sustainability and Design Quality

Sustainability in the widest sense will be a key driver for SFT when developing infrastructure and delivery solutions. Economic, environmental and social sustainability will be addressed in the early stages of project development and will become an inherent part of procurement and delivery in order to facilitate sustainable economic growth locally and nationally, to minimise adverse environmental impact, and to promote the development of sustainable communities.

The positive impact of high quality design will be supported at all stages of procurement, and through to delivery.

5. SFT Core Activities and Action Plan

5.1. The Core Activities

The themes which focus SFT's activities are as follows:

1. Centre of Expertise
2. Aggregation and Collaboration
3. Funding and Financing
4. Delivery
5. Validation

These are described in more detail in the following sections. Acting individually or together there will drive improved value for money



The action plan below sets out actions to be undertaken categorised under the five core activities. These are further developed in *Annex 1* on a project by project basis with objectives set against each project heading. These objectives, together with the general business objectives which are also in *Annex 1*, will be used to measure progress by the end of March 2010 and reported on as part of SFT's annual report.

5.2. Centre of Expertise

SFT will develop its role as the centre of expertise in infrastructure investment in Scotland and will collaborate with others to develop new and better ways of doing things, and will not be bound by existing structures or methodologies. SFT will continue to be the owner of the Non-Profit Distributing (NPD) model of infrastructure finance, and recognises that there is considerable variety in the means by which this model can be deployed.

SFT recognises the recent work done by a number of bodies in relation to infrastructure investment in Scotland. Valuable work has been done and documented by:

1. Audit Scotland in its review of major capital projects;
2. The Scottish Parliament's Finance Committee in its inquiry into methods of funding capital investment projects; and
3. The Council of Economic Advisors in their first annual report.

SFT can play a significant role in developing and implementing their recommendations for infrastructure projects and will engage with these bodies to pursue this role.

During this period, SFT will:

- a. Pursue new and different models of infrastructure investment that recognise public bodies' needs, accounting / budgeting arrangements, market conditions and fiscal constraints – not being bound by existing structures, and looking to apply models in different sectors where they could deliver enhanced value for money;
- b. Promote consideration of asset life cycles and appropriate risk / reward structures in all infrastructure procurements, engaging with significant infrastructure projects to ensure that these considerations, which SFT sees as key to delivering value for money, are being properly addressed;
- c. Provide specific support to waste projects by recruiting appropriate staff to help local authorities in their waste treatment procurements, particularly as these relate to making progress toward the 2013 and 2020 targets;
- d. Continue to support operational PPP projects and in particular the NPD model and those bodies procuring, or delivering projects using it, including co-ordinating the NPD Forum;
- e. Engage with Audit Scotland, the Council of Economic advisors and Scottish Procurement Directorate to further define and develop the Centre of Expertise role, in particular with reference to cross-sectoral appraisal / co-ordination.

5.3. Aggregation and Collaboration

SFT will look for opportunities to broker improved co-operation and collaboration between public bodies that procure or have an interest in infrastructure investment. The Company sees improved collaboration in infrastructure planning, procurement, financing and management as an important area where value for money can be improved.

Sharing skills and experience is an important element of collaboration and SFT will actively seek opportunities to broker exchanges between bodies with different recent relevant experience. It is particularly important that taking a central role on a significant infrastructure project is not a “once in a career” experience for public body employees.

SFT believes that efficiencies-of-scale benefits can come from appropriate aggregation in procurement, finance and life cycle management.

During this period SFT will:

- f. Review the investment in waste treatment being pursued by local authorities and actively seek opportunities to broker collaboration between local authorities;
- g. Develop a schools investment programme, starting initially with a pilot where aggregated procurement and delivery benefits in the schools sector can be accrued;
- h. Promote the use of the *hub* initiative, the new planning and procurement vehicle for community-based infrastructure which has collaboration between different public bodies at its heart;
- i. Explore with willing public bodies opportunities for collaboration across all stages of the infrastructure investment cycle within and across sectors of infrastructure, brokering partnerships where opportunities are identified;
- j. Look for opportunities to share skills and experience through facilitating secondment between public bodies and potentially taking secondments into SFT where skills are identified that could be more widely applied in a central role;

5.4. Funding and Financing

SFT’s work in this area will be directed towards: (1) making more efficient use of the £3.5bn of existing Scottish Government funds; (2) leveraging in additional funds where possible (noting that any debt raised to fund public infrastructure will require repayment in the future); and (3) effectively deploying any additional infrastructure funding made available by central and local public bodies.

There are opportunities to increase value for money through reducing the cost of finance for infrastructure projects, and in implementing innovative financing structures. SFT can provide in-depth understanding of the two principal current issues in this area, namely the implementation of International Financial Reporting Standards (IFRS) and the credit crunch, and will work to develop innovative solutions within the constraints imposed by them. SFT does not itself, at this stage, have capital or revenue funding to support infrastructure investment, and will work with budget holders to identify affordable solutions using public and private finance as appropriate.

SFT will both advise on funding and financing approaches that public bodies have developed or have had brought to them, and will act to internally develop and promote approaches where it is believed that the initiative can improve value for money.

Funding and financing structures cannot be separated from delivery structure and risk / responsibility and reward allocation. SFT will consider all these elements in its centre of expertise, funding / financing and delivery priority areas.

During this period SFT will:

- k. Review existing funding and financing approaches, along with their associated delivery models ranging from “treasury” capital funding through to NPD and determine whether a new approach or approaches may deliver enhanced value for money for particular programmes in the current environment;
- l. Appraise and contribute to City of Edinburgh Council’s innovative Tax Incremental Financing proposals, determine whether this could be a valuable model elsewhere in Scotland and recommend a course of action to Scottish Government;
- m. In collaboration with other interested parties, work-up, and assess options to increase the efficiency of funding for Scottish Water, whilst retaining public ownership, that could be considered by Scottish Ministers;
- n. Plan a programme of work on cross-public sector asset management and realisation to determine the scope and potential value that could be gained from more active estate management and asset optimisation / value realisation / asset disposal, to be implemented in a future business planning period;
- o. Advise Scottish Government on the ongoing re-financing of the Aberdeen Schools NPD project, and other PPP project re-financings;
- p. Identify infrastructure classes and particular assets that could be delivered in a value for money manner without a requirement for public sector capital funding, and ensure such structures are actively considered in options appraisals;
- q. Provide advice and support to public bodies with particular complex infrastructure financing requirements, for example in the housing and renewable energy sectors;

5.5. Delivery

At this stage in the development of the SFT organisation there is a focused delivery role and this role is anticipated to grow as programmes where the Company can add value are identified. SFT has identified three broad ways in which it will be involved in project and programme delivery dependent on how it can best add value:

- **As an agent** – acting for public bodies with an infrastructure requirement, in the centre of expertise role, as a procuring or potentially finance raising agent, promoting best practice and collaboration between bodies where it is pragmatic to do so.

- **As part of governance arrangements** – deploying SFT skills and experience to enhance the governance structures on significant infrastructure investment projects, in some cases through taking a seat on project or programme boards. It is important to ensure clarity of governance where SFT is involved in projects.
- **As a participant** – in some cases, overall value could potentially be enhanced through SFT taking a structural role in projects or programmes, potentially as an asset owner, aggregation vehicle or financing conduit. This could potentially involve establishing subsidiary or joint venture entities and will only be considered where the particular characteristics of SFT could add value in this role.

SFT has particular delivery responsibility for the *hub* programme, and will act to accelerate its development and launch pilot territory procurements. In other infrastructure sectors, SFT will plan for a delivery role, particularly in the procurement of significant stand-alone projects or programmes where the SFT's capability, skills and experience can add value.

During this period, SFT will:

- r. Assimilate the *hub* programme delivery office, taking responsibility for funding, governance, resourcing and delivery. The development of the *hub* model has been accelerated. SFT will engage advisors for the procurement phase and work with public sector partners in the identified pilot territories to launch procurements for delivery partners;
- s. Plan for a delivery role in a schools estate investment programme, such that once funding is identified should such a programme receive funding priority, there would be no delay in implementation;
- t. Take an active role in the governance of a range of ongoing projects through project / programme Board membership but only where such membership will make a difference. Engage with public bodies with operational, or in-construction PFI/PPP/NPD projects to determine whether SFT could add value by including in future Business Plans an advisory role in optimising the performance of operational projects.

5.6. Validation

SFT can add value and confidence in outcomes through validation and third-party assurance on projects and programmes. This role will increase the probability of intended outcomes being delivered while reviewing that risks are appropriately and actively managed. SFT has agreed with the Scottish Government to undertake a number of validation roles and will explore opportunities with stakeholders to more widely reform infrastructure investment project / programme governance and validation practices.

During this period SFT will:

- u. Review the Forth Replacement Crossing and Borders Rail projects at strategic intervals;

- v. Advise on the methodology for, and review the outcome of value for money analyses at various stages of infrastructure investment projects where agreed with project owners or Scottish Government;
- w. Act on behalf of Scottish Government to facilitate and review the outcome of Key-Stage-Reviews of ongoing project procurements, making any necessary recommendations and observations to project owners and Scottish Government;
- x. Act on behalf of Scottish Government to review and give approval where appropriate, to standard form derogations for NPD projects.

6. Operations and Resources

6.1. Operational Establishment

SFT was established as a limited company on 10 September 2008. The following sections note the status and plans for key aspects of organisational development over the business plan period.

6.1.1. Governance

The primary governance document between SFT and Scottish Government is the Management Status and Financial Memorandum (MSFM) which is under discussion. The SFT Board is complete, with all Board members appointed for interim terms of one-year. In June, consideration will be required of the Chairman's role for which Sir Angus Grossart's term completes in September. The terms of the four non-executive Directors will also expire in the business plan period and require consideration at the appropriate time.

The Board has formed audit and remuneration sub-committees whose terms of reference will be finalised during this business plan period.

An interim system of internal control has been established by the Board to ensure probity over public funds under the custody of SFT, including delegated authority limits and bank reconciliation processes.

6.1.2. Accommodation

SFT has established offices in a serviced office complex at 1 St. Colme Street, Edinburgh. A move to a permanent office location will take place during this business plan period.

6.1.3. Accounting and Finance

SFT will produce accounts as a Company under International Financial Reporting Standards (IFRS), with the ability to report in the format required by Government Accounts. The financial year end will be 31 March, with the first annual accounts being produced for the partial period to 31 March 2009.

6.1.4. Audit

SFT will be externally audited as required by the Companies Act (not applying the small companies' exemption). SFT is tendering currently for audit services. A requirement for internal audit services will be considered during this business plan period by the audit committee of the Board.

6.1.5. Human Resources Processes

SFT has established terms and conditions of employment for its permanent staff and has in place an employment handbook with a code of business conduct and a data security policy.

SFT is working towards gaining admitted body status in the Local Government Pension Scheme.

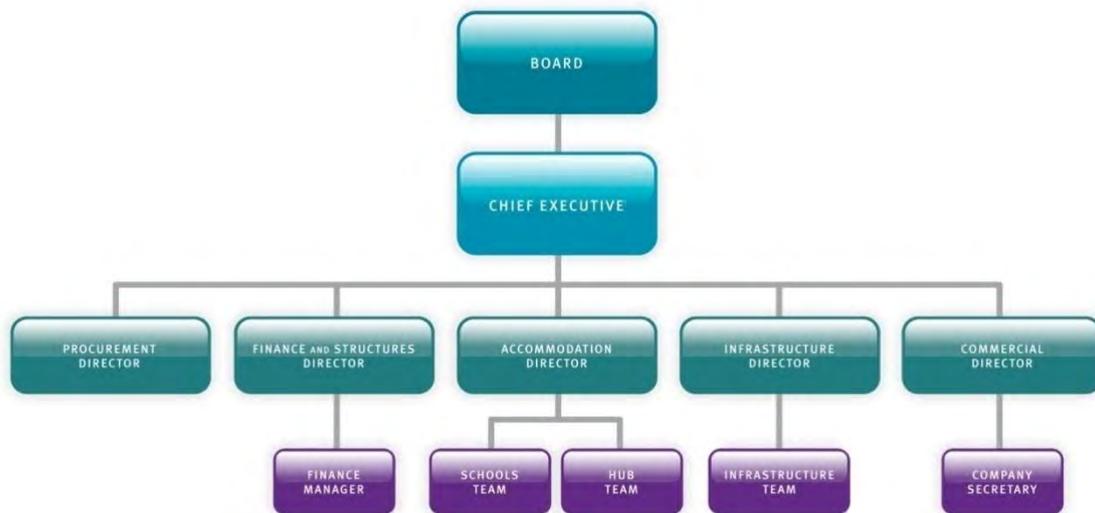
6.1.6. Website and Openness

Following a competitive procurement, SFT has selected a website developer. The web site will be developed before the end of June 2009 at www.scottishfuturestrust.org.uk.

SFT is subject to the Freedom of Information (Scotland) Act 2002. A publication scheme has been submitted to the Information Commissioner for approval and the website will be used for document publication.

6.2. People and Resources

SFT has an interim team in place to deliver the priority actions discussed in Section 2. Recruitment is underway to provide a permanent team with the following structure:



6.3. Resourcing Principles

The business model of SFT will be to resource according to the following principles:

- The first priority will be to build a sustainable high-quality internal team where there is likely to be an ongoing requirement for certain skills and experience to deliver the core business activities of SFT. The core team of staff will ensure retention of knowledge for the benefit of infrastructure investment in Scotland and will be developed to work across the priority areas of centre of expertise, funding and financing, collaboration and aggregation, delivery and validation. The team will be recruited from amongst the best in the market for any given set of skills and experience and will be remunerated to enhance retention and incentivise performance.
- SFT will use secondees appropriately from the public and private sectors to augment internal experience and add specific skills and capacity as required to meet specific demands. SFT will specifically aim to build experience in relevant public sector organisations through strategic inward secondments from time to time.

- c) External advisors / consultants will be used for specific tasks where there is not a business case to maintain the breadth, depth or currency of skills internally. Advisors may also be used for project / programme roles where a discrete range of tasks, particularly those with short-term high-workload requirements can best be delivered by appropriately skilled and resourced advisors.
- d) If particular delivery requirements arise, then SFT may consider the use of temporary workers / contractors. During this Business plan period SFT will consider the establishment of advisory framework contracts to cover the most likely areas of support required.
- e) SFT may, in time, seek to recover some of its costs from the users of its service. This is unlikely in 2009/10, or even 2010/11 as SFT will be building its capability. It may be that as demand for SFT support grows that value for money can be supported through a larger SFT team with an element of cost recovery agreed with public sector bodies for particular tasks. This would only be introduced where demand for support had grown substantially and where public sector bodies were inviting SFT support.

7. Key Risks

High-level risks have been identified to delivering the priority activities during this business plan period, along with potential mitigating actions. The main risks relate to recruitment and retention of key staff, establishing relationships with public sector bodies, misunderstanding of SFTs role and the timing/conditions of funding. These are summarised in *Annex 3*.

Risks will be reviewed regularly by the team and Board.

8. Budgets

8.1. Principles

Budgets have been prepared for 2009/10 as part of the business planning process. At this stage of the organisational development, the budgets are based on a number of assumptions and will require further review throughout the period. A formal mid-year review in September 2009 is a minimum requirement.

The budgets have been developed using the following assumptions:

- a) All costs are shown net of VAT as it is assumed (following advice received from KPMG) that SFT will charge for its services on a gross basis, with VAT being reclaimable by Scottish Government under Contracted Out Services regulations.
- b) Costs cover the delivery of the core SFT activities set out in this Business Plan. Should SFT be tasked with any other significant activities, such as for example any substantive delivery roles other than the *hub* programme and the schools pilot project, then additional costs may be incurred and would have to be negotiated as amendments to this Business Plan.
- c) Staff and non-staff costs are shown separately, with the non-staff costs comprising principally corporate overheads and advisory support.
- d) The budget does not include any capital funding for infrastructure investment. All such funding lies with the public body sponsoring the investment.

8.2. 2009/10 budget

The total revenue operating budget for 2009/10 is £3,063,723 for the core SFT services plus £953,000 for the *hub* programme delivery office, making **£4,016,723** in total.

The budget is based on the following assumptions:

- a) TUPE transfer of a single SG employee into SFT early in the period;
- b) An assumed pace of recruitment through July to September;
- c) An advisory budget determined to meet currently anticipated priority work streams as described in Section 3;
- d) *hub* programme delivery office budget for secondees and central advice is included.

ANNEX 1. Priority Activity and Objectives 2009/10

Overview

The major activities detailed below are all in line with the SFT board's priorities. The action plan in Section 3 of the business plan highlights other areas that will be investigated and potentially developed throughout the year. However, as an embryonic business, a focussed approach on the major priorities will underpin SFT's success. SFT must be effective rather than ubiquitous.

The table below summarises current major activities which will continue this year and be built on as the permanent team is established.

| SFT Active Projects | Delivery | Aggregation & Collaboration | Funding & Finance | Centre of Expertise | Validation |
|--|----------|-----------------------------------|-------------------------|---------------------------|------------|
| <i>hub Partnership</i> | X | X | X | X | X |
| Schools programme development (incl pilot project) | X | X | X | X | X |
| Scotland waste management | | X | | X | |
| Scottish Water – efficiency of finance | | | X | | |
| TIF (Tax Incremental Financing) | | | X | | |
| Spending landscape /IFRS | | | X | X | |
| Borders Rail | | | | | X |
| Forth Crossing | | | | | X |
| Aberdeen Schools refinancing plan | | | | X | X |
| Tayside Mental Health | | | | X | X |
| Moray Schools | | | | X | X |
| Western Isles Schools | | | | X | X |
| Orkney Schools | | | | X | X |

The following sections discuss SFT's key activity programme.

Hub Partnership

SFT will lead on the delivery of the *hub* programme with the primary objective of launching procurements for partners in the two identified pathfinder areas during this Business Plan period. SFT will promote the use of *hub* for delivery of all community based assets. As *hub* is a new concept further explanation is given in Annex 2 about the composition and purpose of a *hub* partnership.

Objective:

- To have the two pathfinder areas in active procurement.
- To have brought forward a minimum of 4 projects across the two pathfinders.
- Be working with the other areas preparing them for procurement.

Schools Programme Development (incl Pilot Project)

SFT will prepare a business case to demonstrate the value of aggregated procurement and delivery with three local authorities (East Renfrewshire, Midlothian, and Angus Councils) as a pilot project. This business case will serve as a model for SFT involvement in aggregated / collaborative procurement and demonstrate the value that can be added to programmes if funding is made available. This will be bound in with discussions on a wider schools delivery programme.

Work with Scottish Government and COSLA on a new schools estate strategy. SFT will take a supporting interest in development of the strategy from a funding and delivery perspective, but will not take a view on educational or school estates policy / prioritisation. If an investment need / programme is identified then SFT will expect to move into a leading role in its co-ordination and delivery across Scotland (including financing where appropriate).

Objective:

- Develop a pilot schools project and have it in procurement.
- Support the development of a wider schools investment programme.
- Develop a delivery mechanism for the wider schools investment programme.

Waste Management

A role for SFT has been discussed in co-ordination of investment in waste treatment facilities across Scotland to support meeting the EU diversion from landfill targets in place for 2010, 2013 and 2020. A survey of activity and action planning in the waste sector has been undertaken in May 2009. It is unlikely that a formal waste programme could be formed so SFT will work with a number of targeted projects where available resource and willingness from the local authorities can bring about the biggest effect. Other projects will be assisted through providing a centre of expertise resource.

Objective:

- To be supporting two waste collaborative procurements.
- Provide a centre of expertise resource in waste to assist in other procurement.

Scottish Water

SFT will work with other stakeholders in Scottish Government, the Water Industry Commission for Scotland (WICS) and Scottish Water (SW) on the development of viable and increasingly efficient financial arrangements for Scottish Water. A suitable structure may or may not be possible within existing constraints, but work to evaluate what might be achieved while retaining public ownership is desirable as this could enable public spending to be diverted to other infrastructure investment.

Objective:

- To agree with stakeholders that an evaluation can be carried out and on what terms.

TIF – Tax Incremental Financing

Tax incremental financing is an innovative (in the UK) financing technique for core enabling infrastructure that would release private sector investment in regeneration of specific areas. It aims to hypothecate future tax take from the regenerated area to service debt raised to fund the up-front core infrastructure works. This approach may have applicability across Scotland, with initial potential having been identified in Edinburgh, Glasgow, Ravenscraig in North Lanarkshire and around the A96 at Inverness. City of Edinburgh Council has undertaken a pilot study and SFT is reviewing the work completed so far to determine future support and requirements.

Objective:

- Support City of Edinburgh Council in developing their tax incremental financing structure in a deliverable form.
- Develop the TIF structure so that it is replicable in other suitable areas of Scotland.

Spending Landscape / IFRS

Working with the Scottish Government to develop appropriate programmes and structures given both the adverse effect of IFRS on additionality of NPD/PPP projects and the anticipated pressure on public finances throughout the UK.

Pursue new and different models of infrastructure investment that recognise public bodies' needs, accounting / budgeting arrangements, market conditions and fiscal constraints – not being bound by existing structures, and looking to apply models in different sectors where they could deliver enhanced value for money. Review options for implementing an asset management strategy.

Objective:

- Develop and share a clear picture of funding sources and the potential impact of the changing landscape.
- Develop options for SFT's role in future financing of infrastructure investment.
- Analyse and explain the adverse impact of IFRS on spending capacity and the possibility of applying recently published Treasury guidance to positive effect in Scotland.

Borders Rail Project

Borders Railway is a complex project encompassing NPD, linking to the existing rail network, interface with a rail operator and improving or replacing a large number of structures along the line. SFT will engage with Transport Scotland to carry out strategic reviews of the project.

Objective:

- Undertake a validation review of current proposals.
- Carry out strategic reviews at key stages of the project and agree action plans from recommendations.

Forth Replacement Crossing

The Forth Replacement Crossing is the major infrastructure project in Scotland, as well as being one of the largest in Europe, and is of such scale that the successful delivery and maximisation of value for money on that single project will have a substantial impact on overall value achieved from the planned infrastructure investment plan. Transport Scotland will continue to take the lead role in this procurement with SFT providing timely and strategic support.

Objective:

- Undertake a validation review of current proposals.
- Carry out strategic reviews at key stages of the project and agree action plans from recommendations.

Aberdeen Schools Refinancing

The NPD project for Aberdeen Schools, which is currently in the construction phase, is facing significant challenges following the failure of its Icelandic senior funder Landsbanki, which also had a significant interest in the ownership of the junior debt holder / operator and the facilities management provider. This is a unique position for such projects and may create precedent in how it is resolved, principally on the private side of the transaction but with the involvement of Aberdeen City Council which has had to provide interim support to the project and may be asked to change elements of the project agreement. SFT provides advice and represents the Scottish Government's financial and commercial interests as a provider of revenue support grant.

Objective:

- Review the commercial and financial position reached by the Project Team and provide support to the Council in achieving a sustainable outcome.

Ongoing NPD and Schools Projects

This covers: Tayside Mental Health Developments, Moray Schools, Western Isles Schools and Orkney Schools projects.

SFT has a role advising on the NPD model of infrastructure investment in relation to a number of ongoing procurements. Scottish Government has asked SFT to represent its interests in revenue support funding, maintenance of and derogations from standard contract structures, and delivery validation through Key Stage Reviews. In some cases this involves SFT taking a seat on Project Boards.

Objective:

- Have an agreed engagement strategy on these projects with local and national stakeholders.
- Perform a diligence role on all projects and be in a position to recommend acceptance or otherwise, of derogations from standardised contract forms.
- Act as the central owner and developer of the NPD model.

Business Process Activities in 2009/10

The key business process activities to be carried out in this business plan period are:

| Activity | Objective |
|---|---|
| Develop a measurement regime for value for money benefits in infrastructure delivery | Value for money enhancements to be measured at the appropriate stages in a project life cycle |
| Appointment of Directors as they come up for re-election | Appointment process to be carried out and appointment to take place on time |
| Finalise MSFM | Agreed by end August 2009 |
| Review of interim operating procedures and update to reflect any requirements in the final MSFM | Agreed and implemented by end October 2009 |
| Recruitment of staff | To have no more than 20% of staff on secondment by the year end |
| Set up permanent base | Find and move into permanent office prior to 31 March 2010 |
| Communications | Website up and running by end June 2009 |
| Communications | Infrastructure conference to be held in 2009 |
| Production of 5-year corporate plan | Produce by September 2009 |

ANNEX 2. Hub Synopsis

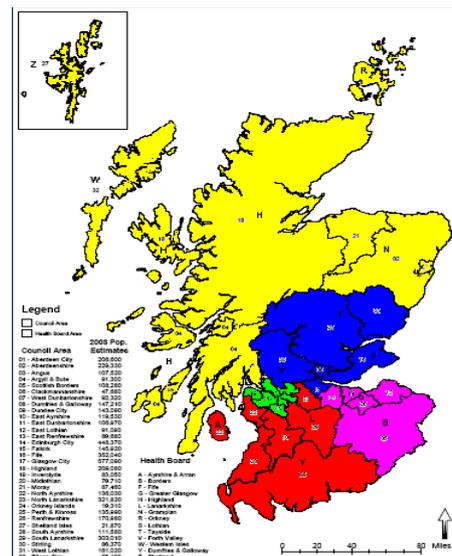
Objectives

The overarching objective of *hub* is to improve the efficiency of community infrastructure delivery – with a particular emphasis on supporting the provision of more joint services across local authorities, health boards and other community partners. In Scotland there are good examples of joint premises development, but these tend to be one-offs and do not offer a model for the long term strategic planning of joint premises development and joint services delivery. *hub* should provide a systematic approach to service delivery, from a model predicated on continuous improvement in both cost and quality. This can be achieved by the public sector by working in close partnership with a private sector partner, where both the public and private sector stakeholders have a financial interest in a successful outcome.

Structure

Across Scotland five regions have been identified as shown in the map below:

| | |
|---------------------|------------------|
| West | (pop. 1,178,000) |
| South West | (pop. 1,089,000) |
| East Central | (pop. 1,030,000) |
| South East | (pop. 888,000) |
| North | (pop. 901,000) |



The two pilot regions are the North and the South East. Taking the South East as an example the membership of the *hub* is: City of Edinburgh Council, East Lothian Council, Lothian and Borders Fire and Rescue, Lothian and Borders Police, Midlothian Council, NHS Borders, NHS Lothian, Scottish Borders Council and West Lothian Council.

A *hub* joint venture, “*hub Co*”, will be formed between the public and private sector. The *hub Co* will provide partnering services to the public sector parties in relation to the investment needs of the locality initially within the sphere of health and social care. Although the core service will concentrate on the planning, development and delivery of new infrastructure

projects for community use in health and social care, the documentation will allow for these services to be extended (at public sector discretion) both :

- in terms of scope – to include libraries, primary education, police services, fire services etc, and
- and in terms of range of service to include estate management, service planning, property development, regeneration activities.

The ongoing provision of partnering services is linked to the achievement of improvements in the way that community facilities are delivered, through improved designs, reductions in the cost of construction and buildings maintenance and faster delivery.

The two pathfinder territories in the North and South East have identified a number of early projects that they would like the *hub Co* to develop. An outline description of some of these projects is set out below.

South East

1. 9,000m² joint development between NHS Lothian and City of Edinburgh Council providing a range of joint services including 2 GP practices, podiatry, physiotherapy, community nursing, community mental health, community dentistry, children and family services, health and social care services and a drugs action group.
2. 5,000m² joint development between West Lothian Council and NHS Lothian providing a GP practice, community nursing, community mental health, community dentistry, paediatric services, physiotherapy, podiatry, speech and language therapy, learning disability service, sports facilities, library, community information services and a community centre.

North

1. A development between Aberdeen City Council, Grampian Police and NHS Grampian to create a city diagnostic and treatment service. The health services to be provided include radiology, outpatient suite / minor surgery, cardiac rehabilitation, podiatry, speech and language therapy, dietetics, dentistry and family planning.
2. A 1,600m² joint development between NHS Grampian and Aberdeen City Council to provide a GP practice, community dentistry, physiotherapy, speech and language therapy and social work offices.

ANNEX 3. Risk Summary

This is the risk summary referred to in Section 7.

| Risk | Description | Mitigation |
|-------------------------------|--|--|
| Recruitment | The recruitment plan to build a team following CEO recruitment will be steep. Any delay in this process will lead to delay in implementing priorities or a requirement to use higher-priced consultancy support. | Structure and recruitment plan is a priority. Recruitment is underway. |
| Staff Retention | Following recruitment the ongoing development and retention of a core team is an important part of delivering better value. | Making SFT an attractive and well respected place to work. |
| Project Funding/Timing | If funding is not certain for particular projects or programmes or timing is altered then SFT will have to reprioritise its activity. | Early consideration with stakeholders, both SG and project owners over funding requirements and timing to avoid invalid work. |
| Secondments | Several key staff members in SFT (both the core team and <i>hub</i> programme team) are secondees from industry. Loss of continuity prior to permanent staff recruitment would lead to delay. | Enter early negotiations with seconding employers to attempt to ensure continuity. Seek alternative secondments at an early stage if extending secondment is not possible. |
| Independence | SFT must be able to operate independently of SG in order to maximise the value it delivers. | Strong Board of Directors and Chief Executive providing leadership on this issue. |
| Misunderstanding of SFTs Role | There is a misunderstanding of SFTs role and what is possible with the existing accounting constraints. | Communication plan with the public and private sectors. |

| Risk | Description | Mitigation |
|---------------------------------|--|---|
| Stakeholder support | SFT relies on collaboration with stakeholders in SG and other public bodies to deliver value. | Recruiting high quality staff with a consistent and unwavering support of value for money while understanding constraints in stakeholder organisations . |
| Availability / terms of finance | Some of the innovative financing structures that SFT could implement or champion may include raising debt or other finance from the private sector. There are likely to be structural and pricing constraints in the current markets. | Deploy current market knowledge to ensure that any structures developed and implemented are attractive to the required markets in the time scales in which they will be used. |
| <i>hub</i> programme delay | The launch of delivery partner procurements for the pathfinder areas on the <i>hub</i> programme is an early deliverable milestone for SFT. Delay in finalising the structure or in achieving approval from all relevant public authorities and therefore in launching procurement could delay delivery. | Concentrate Board resources on the programme and support <i>hub</i> programme team in preparing the pilot areas for procurement and ensuring that a project pipeline exists. |
| Board Continuity | The initial terms of all Board members are set for 1 year. There is a risk that diversion of resources into Board re-appointment and potential discontinuity will lead to delay in priority actions moving into the 2 nd half of 09/10. | Plan early for Board member recruitment. |

ANNEX 4. Budget Breakdown

| | 2009/10 (£ ,000) |
|--|---------------------|
| Board | 38 |
| Staff (inc recruitment & secondees) | 1,214 |
| Office / IT Overhead | 141 |
| Corporate Professional Advice | 76 |
| Accommodation programme support | 500 |
| Infrastructure programme support | 350 |
| Financing programme support | 375 |
| <i>hub</i> Programme | 953 |
| Capital | 34 |
| Contingency | 336 |
| Total for SFT Services | 4,017 |
| VAT (excluded from the above) | 485 |