

SCOTTISH
FUTURES
TRUST

Business Plan 2011-2012

March 2011

The Scottish Futures Trust (SFT) is an independent company, established by the Scottish Government in 2008, with a responsibility to deliver value for money across all public infrastructure investment. SFT operates at arms' length from the Government but works closely with the public sector to seek and deliver improved value for taxpayers.

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This Business Plan covers the year from April 2011 to March 2012.
The Scottish Futures Trust five-year Corporate Plan (2009-14) was published in October 2009.

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1. Executive Summary

This Business Plan sets out the work to be undertaken and the key operational objectives for the Scottish Futures Trust (SFT) in the year to 31 March 2012.

SFT is an independent company, established by the Scottish Government in 2008, with a responsibility to deliver value for money across all public infrastructure investment. SFT operates at arms' length from the Government but works closely with the public sector to seek and deliver improved value for taxpayers.

Since its incorporation in 2008, SFT has successfully established a structural framework, management and governance structures to build its current operational capability. SFT has already delivered significant benefits for the taxpayer but given the current challenging financial climate there is a growing need to deliver yet more efficiencies and savings.

SFT's Corporate Plan 2009-2014, which was published in October 2009, committed SFT to delivering an initial £7 of benefits and savings for every £1 spent on the organisation. SFT surpassed this by delivering £111m savings and benefits from its work during 2009-2010. These £111m savings and benefits were net of SFT's £3m operating costs and were within the £100-150 million per annum of benefits originally anticipated when SFT became fully operational. This business plan sets out the areas of

work for SFT in 2011/2012 with associated objectives in order for SFT to deliver savings and benefits within the £100-150 million range.

The fall in the capital budget available to the Scottish Government by more than 40% in real terms from its peak of almost £4bn in 2009/10 reinforces the necessity of achieving improved value for money and innovative financing of additional investment.

The Independent Budget Review (IBR) report in July 2010 recommended an enhanced role for SFT in order to help achieve the greatest effect from the available budgets. Following the IBR report the Scottish Government's recent budget asked SFT to: manage a £2.5 billion programme of additional investment; pilot a new asset management approach; and develop improved ways of managing risk and contingency in projects. These, together with operational PPP management, are key tasks that SFT will develop during the period of this business plan. In leading the financing and efficient procurement of the £2.5 billion revenue financed programme SFT will work in partnership with the Scottish Government, local government, NHS Boards and other public bodies. This investment includes £1 billion of transport schemes, £750 million in health projects and a further £750 million in education projects in schools and further education colleges.

SFT has also brought the opportunity for additional investment by working with Scottish Government and local authorities to deliver affordable housing for rent through the National Housing Trust (NHT) initiative. Phase 1 of NHT is in procurement and during 2011-2012 SFT will seek to develop wider opportunities for the delivery of affordable housing.

Scotland continues to lead the UK in Tax Incremental Financing (TIF). Used frequently in the US to fund regeneration, SFT has developed the approach in Scotland and is working with 3 pilot projects, the first of which was approved by the Cabinet Secretary for Finance and Sustainable Growth in September 2010. SFT will develop further pilot projects during 2011-2012.

In the past year work has started on site on a series of SFT projects. The first project in the national hub programme, Drumbrae Library and Community Hub, started on site and a series of further projects will begin work on site during 2011-2012. Hub, which is being managed by SFT on behalf of the Scottish Government, will deliver better public buildings to support better and more cost effective public services. As part of the 2011-2012 Budget, a £200 million portfolio of revenue financed healthcare projects is to be developed through hub. The hub programme will continue to pursue actively opportunities for SME involvement

"The Scottish Government should consider a central role for the Scottish Futures Trust in addressing the significant task of prioritising and maximising benefit from the capital investment programme."

Independent Budget Review

across the wide range of projects. SFT manages the £1.25bn Schools for the Future programme. The first school, Pumpherston and Uphall Primary School, in West Lothian, will be ready for use in October 2011. This school will be the first of 35 schools in phase one of this programme to be completed. Across the programme SFT has already achieved significant savings which will mean five high-quality, sustainable schools can be built for the cost of four previously.

Around £1bn of waste treatment infrastructure will be needed in Scotland during the next decade. SFT has become a centre of expertise in waste procurement and during 2011-2012 SFT will support the waste infrastructure needs of local authorities that account for at least 40% of all household waste in Scotland.

Given the economic challenges and growing need for savings in the public sector, there is a clear need for a comprehensive approach to property asset management to minimise costs and maximise value. There is also significant and potentially realisable financial value in most of the public sector property estate. SFT is seeking benefits from improved asset management along with new approaches to risk and contingency management which will lead to tighter budgetary controls of projects. SFT is also working with the

Infrastructure Investment Board (IIB) on all major infrastructure projects to ensure that projects are scrutinised at an early stage.

At the time of the last business plan, in April 2010, the value of projects SFT was managing and supporting was £5.5 billion. Although at the time this portfolio was predicted to grow to £7.3 billion, SFT is currently managing and supporting a portfolio of £9 billion projects across Scotland. This large increase demonstrates clearly the recognition by Scotland's public sector bodies of SFT's expertise and how SFT can help them achieve greater value for money for their projects. Among this portfolio of £9 billion projects, SFT is leading the financing of £3 billion of investment spending funded in addition to traditional capital spending.

Recommendations from Audit Scotland, the National Audit Office and others have emphasised the importance of commercial skills and strong capital project and programme management; expertise that SFT is providing. This business plan sets out the areas where SFT will bring that expertise to bear in 2011/12. Improving value for money and developing innovative ways to finance infrastructure are imperative, and are at the heart of SFT's contribution towards improving sustainable economic growth in Scotland.

2. Aims, benefits and partners

SFT's key aim is delivering improved value for money on all public sector investment in infrastructure. The aim, as stated in SFT's 2010-2011 Business Plan, remains:

"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."

If there is any doubt about the need for such improvement in the efficiency and effectiveness of infrastructure investment, Lord Sassoon, Commercial Secretary to the Treasury, in the National Infrastructure Plan 2010, highlighted:

"Today, the UK is one of the most expensive countries in which to build infrastructure. For example, civil engineering works cost some sixty per cent more than in Germany."

This followed shortly after the Scottish Government's Independent Budget Review (IBR) panel report was issued last July which called for the role for SFT to be enhanced. The IBR Panel was asked to make recommendations "on options that the Scottish Government and the Parliament should consider in the face of the most challenging public spending environment since the Second World War". The IBR panel made three recommendations about SFT:

- The Panel suggests that the Scottish Government should consider enhancing the role of the Scottish Futures Trust to allow it to lead improvements in capital procurement. Savings derived from better capital procurement should be recycled into additional capital investment.
- The Panel suggests that the Scottish Government should consider tasking the Scottish Futures Trust, in a development of its submission to this Review, to assess and report upon the potential and practicality of all the available financing options to sustain capital

spending at levels supportive of economic recovery and consistent with the Government's longer-term strategic objectives.

- The Panel suggests that the Scottish Government should consider developing the role of the Scottish Futures Trust to establish a centre of expertise in the ownership, management and disposal of public assets. This would operate as a source of independent advice for all public bodies and ensure maximum value for the public purse.

In the 2011-2012 Budget, the Scottish Government has asked SFT to take "forward a new pipeline of revenue financed investment worth up to £2.5 billion" as well as delivering additional benefits from "innovative measures such as Tax Increment Financing and the National Housing Trust". Taken together these total some £3 billion of additional investment over and above capital budgets. This represents one of the biggest investment programmes of this type in Europe. SFT will also take forward a pilot project to assess ways to improve asset management and estate planning across public bodies at a community level and will also develop proposals for the Scottish Government to deliver enhanced value from centrally-held land and property assets and improve efficiency by "developing approaches to optimism bias and contingency management, budgeting and procurement suited to the current economic climate".

In September 2010, SFT announced its first benefits statement describing the £111m of net benefits and savings to infrastructure investment in Scotland, arising as a result of SFT's work during the 2009-2010 financial year. These net benefits and savings were made up of £86m of Efficiency Gains, £27m of Additional Investment and £1m of Avoided Costs and also take account of the £3m operating costs of SFT during 2009-2010. The benefits statement was independently externally

"Today, the UK is one of the most expensive countries in which to build infrastructure. For example, civil engineering works cost some sixty per cent more than in Germany."

**Lord Sassoon, Commercial Secretary to the Treasury,
National Infrastructure Plan, October 2010**

validated by Grant Thornton LLP and by the London School of Economics and Political Science (LSE). SFT works in partnership with many groups across the public sector. The £111m of net benefits is the amount attributable to SFT alone and represents around 50% of the £227m total benefits to infrastructure investment in Scotland achieved from SFT's work with partner organisations during 2009-2010. The £111m of benefits significantly exceeds the commitment in SFT's 2009-14 Corporate Plan to deliver an initial £7 of benefits for every £1 spent on the organisation and is within the range of £100-150m per annum of benefits originally anticipated when SFT became fully operational. For 2011/2012 SFT retains the target of delivering £100-150 million of savings and benefits.

SFT works with many public and private sector bodies across Scotland to further its key aim to deliver value for money on all public sector investment in infrastructure. SFT's aim can only be delivered by such successful collaborative working. Currently through hub, National Housing Trust, Tax Incremental Financing, Scotland's Schools for the Future, as well as large waste, transport and health projects SFT is working with all Scottish councils, all Scottish health boards, emergency services, Transport Scotland, Zero Waste Scotland and other public sector organisations.

SFT also works with contractors, builders, financing and funding organisations, professional bodies and other private sector groups involved in infrastructure. The significance of the construction industry to local and national economies is recognised. In programmes such as hub the employment of local workers and providing training opportunities are very important and will be monitored through key performance indicators. In the face of falling capital budgets the £3 billion of additional investment will help offset the decline in capital budgets and help protect jobs in the construction industry.

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 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.

3. Governance and Operations

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

SFT's Board has seven members: a non-executive Chairman; four non-executive directors; the Chief Executive and the Director of Finance and Structures. During 2010, the board, which had been initially appointed on a short-term basis to allow the company to be established, went through the usual public sector appointment process run by the Office of the Commissioner for Public Appointments in Scotland (OCPAS). During 2010, SFT's Director of Finance and Structures was also appointed to the board of SFT.

SFT's budget for 2011/12 is £5.55 million. The greatest deployment of SFT resources for 2011/2012 will be in hub, schools, waste, housing and financing, which taken together total around two-thirds of the budget. Nearly 20% of SFT's budget for 2011/2012 has been allocated to emerging opportunities. SFT's work streams are described in detail in Section 4 and a breakdown of the budget is detailed in Annex 1.

After the 2011/2012 year end SFT will publish an Annual Report which will include the savings and benefits brought about by the work during the year. Those savings and benefits, as with last year's £111 million net benefits, will be externally validated and reported net of SFT's operating costs.

As of March 2011, SFT employed 33 staff, deployed in four main teams: Accommodation, including schools and hub; Infrastructure, including transport, waste and renewables; Housing; and Financing.

Further details of board members, the Management Statement and Financial Memorandum and further details of SFT staff and how to contact them are available on the SFT website: <http://www.scottishfuturestrust.org.uk>

What SFT does

SFT has five core approaches through which it delivers benefits and savings for the taxpayer. Through these activities SFT delivers improved value for money. In September 2010, SFT announced its first benefits statement which delivered £111m of net benefits and savings to infrastructure investment in Scotland during the 2009-2010 financial year. The net benefits and savings are made up of £86m of Efficiency Gains, £27m of Additional Investment and £1m of Avoided Costs which also take account of the £3m operating costs of SFT during 2009-2010.

a) Delivery

Implementing co-ordinated and well-planned delivery programmes is a key part of SFT's business. The greater the depth of involvement allows the most value to be added. Pragmatism and action are key attributes in supporting delivery. SFT currently manages the delivery of the hub and Scotland's Schools for the Future programme as well as the National Housing Trust.

b) Aggregation and Collaboration

SFT looks to improve co-operation and collaboration between public bodies that procure or have an interest in infrastructure investment. SFT believes that appropriate aggregation of procurement, finance and life cycle management can deliver significant economies of scale. These efficiencies will be delivered while respecting the individual needs of different procuring authorities. 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 seeks opportunities to retain and share skills across the public sector.

c) Funding and Financing

One of SFT's central roles is to bring additional investment in infrastructure over and above traditional capital budgets. Currently a total of £3bn of projects in SFT's portfolio is additional



investment. As part of the 2011-2012 Budget, SFT has been asked to deliver £2.5 billion worth of projects in partnership with the Scottish Government, local government, NHS Boards and other public bodies from revenue funded investment. SFT has also brought additional investment by working with Scottish Government and local authorities to deliver affordable housing for rent through the National Housing Trust initiative. SFT is also involved in developing and supporting the first Tax Incremental Financing Scheme in the United Kingdom, the Edinburgh waterfront project.

d) Validation

SFT adds value and confidence in outcomes through validation and third-party assurance on projects and programmes. For example, SFT has worked with Transport Scotland to provide validation for some of Scotland's largest transport schemes, including the Forth Replacement Crossing and the Borders Rail project. Such work deploys the skills and experience available at SFT to enhance the governance structures on significant infrastructure investment projects, in some cases through taking a seat on project or

These are the projects due for validation during 2011-12. In most cases there will be more than one review in line with the procurement timetable and a total of 17 are currently planned during the period of this business plan.

- Hub DBFM (Design, Build, Finance and Maintain) projects
- Forth Replacement Crossing
- Borders Rail
- NPD (Non-Profit Distributing) pipeline projects
- Glasgow Residual Waste Project
- Zero Waste - Food and Residual Waste Project
- Ayrshire Councils' Food and Residual Waste Project

programme boards. Previously outsourced to consultants, SFT has taken ownership of the Key Stage Review process and has brought its implementation largely in-house, retaining knowledge and expertise within the public sector. For further details on validation see Chapter 4.11.

e) Centre of Expertise

SFT is developing its role as the centre of expertise in infrastructure investment in Scotland by collaborating with others to develop new and better ways of doing things, and is not bound by existing structures or methodologies. Through developing and retaining knowledge not often easily accessible to the public sector, SFT provides an infrastructure investment centre of expertise that is available to all public sector bodies. SFT now has a team with wide expertise and specialist knowledge across many areas of public sector infrastructure.

Through these activities, SFT is improving value for money. In its Corporate Plan 2009-2014, published in October 2009, SFT committed to delivering an initial £7 of benefits for every £1 spent on the organisation.

In September, 2010, SFT announced it had delivered £111m of net benefits and savings to infrastructure investment in Scotland during the 2009-2010 financial year. These net benefits and savings were made up of £86m of Efficiency Gains, £27m of Additional Investment and £1m of Avoided Costs, and also took account of the £3m operating costs of SFT during 2009-2010. The benefits statement was independently externally validated by Grant Thornton LLP as well as a team of academics from the London School of Economics and Political Science (LSE).

3 Governance and Operations (continued)

	Delivery	Aggregation & Collaboration	Funding and Financing	Validation	Centre of Expertise
Revenue Funded Investment	●	●	●	●	●
Scotland's Schools for the Future	●	●	●	●	●
hub	●	●	●	●	●
Colleges		●	●	●	●
Health		●	●	●	●
National Housing Trust	●	●	●	●	●
Social Housing Collaborative		●			●
Borders Rail			●	●	●
Forth Replacement Crossing				●	
Aberdeen Western Peripheral Route			●	●	●
Edinburgh-Glasgow rail improvement				●	
M8 bundle			●	●	●
Tax Incremental Financing (TIF)			●		●
Waste		●	●	●	●
Asset management		●	●		●
Optimism bias/Risk management		●			●
Operational PPP Management		●	●		●
Renewables		●	●		

4. Work streams

4.1 Additional Investment

The Scottish Government receives funding from the UK Government in two main budget elements. Capital budgets fund investment in infrastructure and other assets (building things that last) and Revenue budgets fund ongoing service delivery (paying salaries of public servants and other operating costs). The capital budget available to the Scottish Government will fall by nearly 50% in real terms from a peak of £4bn in 2009/10 to around £2.1bn in 2013-14 all at 2010/11 prices. This cut is significantly deeper and faster than the cut in revenue budgets (i.e. investment is being cut by more than service delivery).

It is widely recognised that investing in infrastructure is important to supporting growth in the economy as well as supporting the construction industry.

One of SFT's central roles is to innovate in the provision of, and lead the financing of, additional investment in infrastructure over and above traditional capital budgets to help deliver these wider economic objectives. The principle structures through which SFT will deliver this "additionality" of investment are:

- A pipeline of investment projects funded from future revenue budgets on a pay as you use basis - Revenue Funded Investment - discussed further in Section 4.2.
- The funding of infrastructure which unlocks private sector investment in economically viable commercial developments directly from the tax revenues that are generated by the development - Tax Incremental Financing - discussed further in Section 4.9.
- The funding of affordable housing over a 5-10 year period from mid-market rental incomes using an innovative mixture of government guaranteed local authority debt and private sector equity - the National Housing Trust - discussed further in Section 4.7.

- Making better use of public sector physical, industrial and intellectual property assets to potentially deliver income for investment in infrastructure - Asset Management - discussed further in Section 4.12.

4.2 Revenue Funded Investment

In order to address the steep cut in capital budgets, and its potential negative impact on the economic recovery, the Scottish Government intends to allocate an element of future revenue budgets over a period of approximately 25 years to pay for infrastructure built over the coming few years on a "pay as you use" basis to supplement capital budgets. An allocation of around 1% of future revenue budgets will provide at least £250 million of annual revenue support, which will be used to fund up to £2.5 billion of capital investment. This use of future revenue budgets to pay-as-we-use for infrastructure is known as "revenue funded investment".

SFT will deliver this £2.5bn of investment in a series of individual projects in partnership with the Scottish Government, local government, NHS Boards and other public bodies.

SFT's role is to:

- Co-ordinate the timing of projects between different procuring Authorities (Health Boards, Local Authorities, Transport Scotland, etc) and maintain communication with the market so that interested parties know what opportunities are coming when;
- Maintain a common commercial approach across sectors to avoid duplicating effort and make letting contracts, bidding for them and managing them in the future simpler and cheaper;
- Ensure the affordability of the programme within the determined budget;

4.2 Revenue Funded Investment (continued)

- Improve overall value for money by assessing appropriate projects for revenue funding; focusing on buying what we need and not what we want; ensuring procuring bodies bring well-structured projects to the market and have appropriately resourced project teams; and working with procurers to get the best possible overall deal for the project including its financing;
- Provide a centre of expertise in revenue funded projects to support individual procuring bodies at key stages of their project, in particular to shorten procurement time scales and reduce bureaucracy.

SFT has to date led the development of the two structures that will be used to deliver the revenue funded projects:

- SFT has managed the hub programme, which includes an option to use a revenue funded structure known as Design, Build, Finance and Maintain (DBFM) - see Section 4.4;
- SFT has been the keeper and developer of the Non-Profit Distributing (NPD) model for revenue funded projects, which caps the profits to the private sector project deliverer, returns surpluses to the public sector client body, and allows more transparent public sector oversight of the project.

SFT will draw on this background in its role managing the current £2.5bn programme of revenue funded projects over the coming years.

In 2010/11 SFT will take the important steps to set the revenue funded investment programme off in the right direction. SFT will build a clearer picture of the projects in the programme, including values, critical technical information and timing. SFT will develop a standard contracting approach to use across the majority of the programme and SFT will work with the early projects to get them into procurement.

Objectives for 2011/2012

- To have published a clear and regularly updated programme for the revenue funded investment pipeline of projects;
- To have published a standard contract (including appropriate elements of standardised specification) for hub DBFM and NPD projects in the accommodation sector;
- To have developed guidance on the value for money assessment of revenue funded projects;
- To reduce transaction costs by ensuring there is a framework of advisors in place for procuring bodies to use in developing and procuring revenue funded projects;
- To be supporting at least six revenue financed projects in procurement;
- To manage the programme within set affordability limits;
- To have challenged costs in Business Cases and through procurement demonstrating focus on delivery of needs not wants; and
- To make improvements in the financing terms of revenue funded investment projects.

4.3 Scotland's Schools for the Future

During 2011/12 the focus of the schools programme will shift significantly towards the delivery of the 'phase one' schools. There are 35 schools included in phase one of the £1.25 billion Scotland's Schools for the Future programme. In 2011/12, at least seven further schools will start construction; the first school started on site during 2010/11.

The first project in the programme to commence on site was the new facility for Pumpherston and Uphall Station Primary School in West Lothian.

The pilot secondary schools project, which is a joint project between Midlothian Council and East Renfrewshire Council, is progressing through procurement. The two new secondary schools, for Lasswade High School and Eastwood High School should commence on site in January 2012. They will be ready for occupation in August 2013. Initial concept schemes have been prepared by the Councils and their design team. These concepts will be further refined by the selected construction team who will bring their construction, materials selection and supply chain management expertise.

Case study

Pumpherston & Uphall Primary School, West Lothian

The new Pumpherston & Uphall Station Primary School in West Lothian is a single stream primary school with a 30 place nursery.

The new school will be ready for occupation in October 2011.

Designed by West Lothian council's in-house design team, the building features sports facilities and a community library.

The picture is taken at the official ground breaking ceremony in September 2010. The new school will be ready for occupation in October 2011.



4.3 Scotland's Schools for the Future (continued)

SFT has created a 'Programme Delivery Office' (PDO) to manage this programme. This is a team which is actively engaged in: co-ordinating the procurement arrangements for the programme; creating templates to drive consistency and efficiency; being at the centre to provide knowledge and best practice across the programme; managing Government grant support, consultation and the promotion of the programme across the public and private sectors; and being the catalyst for change and continuous improvement.

Through this programme, and working in partnership with the local authorities, the strategic intent is to deliver good, well-designed, sustainable schools at a competitive price. The cost framework set for the programme will achieve at least a 20% cost saving compared to previous programmes, whilst meeting increasing sustainability targets.

Objectives for 2011/2012

- Achieve occupation of first primary school and undertake initial post project evaluation to understand lessons learned.
- Commence construction of pilot secondary schools joint project.
- Demonstrate common approach to specification, deliverability of sustainability targets and cost efficiency arising from joint working and when compared to general construction market.
- Consolidate learning from pilot project and disseminate this across the local authority network.
- Establish sound benchmarks and illustrated case study material for achieving sustainability targets.
- Review cost limit parameters, learning from work being developed elsewhere.
- Develop the first revenue funded projects which will be procured through hub model.

SCOTLAND'S SCHOOLS FOR THE FUTURE

Inspiring learning, aspiring nation 

The list of schools in phase one is noted below. Those which are expected to commence or be on site during April 2011-March 2012 are marked with an *.

Secondary Schools:

Aberdeenshire - Ellon Academy
Aberdeenshire - Mearns Academy
Angus - Brechin High School
Dumfries and Galloway - Dalbeattie High School
Dundee - Harris Academy
East Renfrewshire - Eastwood High School *
Edinburgh - James Gillespie's High School
Fife - Auchmuty High School
Highland - Wick High School
Midlothian - Lasswade High School *
North Ayrshire - Garnock Academy
North Lanarkshire - Clyde Valley High School
South Ayrshire - Ayr Academy
West Dunbartonshire - Dumbarton Academy *

Primary / SEN Schools:

Aberdeen City - Bucksburn Primary School; Newhills Primary School
Argyll & Bute - Dunoon Primary School; Kirn Primary School; St Mun's Primary School
Clackmannanshire - St John's Primary School; Claremont Primary School
East Ayrshire - Gargieston Primary School *
East Dunbartonshire - Lairdsland Primary School
East Lothian - Haddington Infants School; St Mary's Primary School *
Eilean Siar - Daliburgh Primary School
Falkirk - New RC Primary School *
Glasgow - 3 projects: Garrowhill Primary School; Glendale Primary School; St Brendan's Primary School
Inverclyde - Lilybank; Glenburn Special Schools
Moray - Milnes Primary School
Orkney - Evie Primary School
Perth & Kinross - Invergowrie Primary School *
Renfrewshire - St James Primary School
Scottish Borders - Duns Primary School
Shetland - Happyhansel Primary School
South Lanarkshire - Spittal Primary School *
Stirling - Riverside Primary School
West Lothian - Pumpherston & Uphall Station Primary School *

4.4 hub

The hub programme is a national initiative which will bring about a significant change to the methods used by public sector organisations when implementing their construction and maintenance projects. In doing this it seeks to raise the bar in producing better public buildings, to support the delivery of better public services, in a more cost efficient manner. It will also create a new organisational platform and huge opportunity for public bodies located in a geographical area to work better together.

The hub programme received a major boost in the 2011-2012 Budget with a portfolio of healthcare projects to the value £200 million earmarked for development through hub over the next five years. This demonstrates just some of the tangible benefits arising from the flexibility of the hub model. These are projects that may otherwise not have happened because of the decline in available capital. hub delivering these community projects will provide opportunities for SMEs and help protect jobs.

Another positive outcome of recent work is the shared understanding that has been developed on the expected nature of hub supply chains and how they should work. Now with relative ease, compared with some current practices, public sector organisations can, through their hubCo partner, secure an appropriate designer and contractor for their project a lot more quickly. The importance of flexibility is fully recognised and a proportionate response for projects will provide opportunities for local SME design practices and building contractors. Such local suppliers will also benefit from a reduced level of bureaucracy for project bidding.

The hub programme has adopted the approach of testing methodologies, commercial arrangements, organisational structures and developing standardised documentation through two pilot areas and this has proved extremely beneficial. Several reviews have been undertaken to learn

lessons, as well as extensive consultations with the public and private sectors, all with the purpose of refining and improving the programme.

The programme divides the country into five geographical 'territories', each with a population of approximately one million. The public sector participants presently engaged in the development of the programme include Local Authorities, NHS Boards, Fire & Rescue Services, the Scottish

Objectives for 2011/2012

- Reach financial close on East Central territory and West territory.
- Launch procurement of South West territory and develop a good level of market interest.
- Demonstrate in the first projects that they are commercially on, or better than, general construction market terms in terms of cost efficiency - providing a sound platform for future development.
- Maintain continuous improvement regime to demonstrate improved value for money.
- Support the efficient and effective procurement of the first revenue funded projects delivered through the hub's DBFM (Design, Build, Finance and Maintain).
- Support the live hub territories to develop good working arrangements - demonstrate that opportunities for joint working and joint asset planning have been identified.
- Demonstrate that SMEs (small and medium enterprises) are getting opportunities to become part of the hub supply chain.
- Develop and implement a central performance monitoring system.
- Increase activity on the wider promotion of the programme across the country, to highlight in particular the opportunities that exist for the public sector participants and also for local companies who wish to be involved in the delivery of projects.

"The hub initiative in Scotland, a programme of the SFT, is representative of the type of shared asset developments which will become essential for public bodies in Scotland going forward... The Scottish Futures Trust (SFT) is well placed in Scotland to develop strategic innovative solutions for implementation at a local level."

CIPFA (The Chartered Institute of Public Finance & Accountancy)

Ambulance Service, and urban regeneration companies. There are now more than fifty organisations involved.

SFT has created a 'Programme Delivery Office' (PDO) to manage the programme. This is a team which is actively engaged in: co-ordinating the setting up of the new organisational arrangements; providing support and guidance to the public sector participants; creating templates to ensure consistency of operation; being at the centre to provide knowledge and best practice across the programme; managing Government grant support, consultation and the promotion of the programme across the public sector and with industry; and being the catalyst for change and continuous improvement.

During the last business planning period (2010/2011) the programme moved forward considerably with two territories now established - the South East and the North. Two other territories (the East Central and the West) are now active in the tendering phase for their respective private sector partners.

The first project, the Drumbrae Library project in Edinburgh, started on site in January 2011.

As SFT moves into the new business plan period (2011/12) the programme shifts gear upwards.

There are going to be three tendering phases in play (the East Central, West and South West), the programme is also transposing into live operational mode - in the South East and the North. The projects that are likely to move through the project development phases during this period are:

Construction Start:	
South East Territory • Gullane • Craigmillar • Wester Hailes • Haddington Primary and Infants School	North Territory • Aberdeen Health Village • Tain • Forres
Stage 1 (Outline Business Case) moving to Stage 2 (Full Business Case):	
South East Territory • Firrhill • North West Edinburgh Partnership Centre • Galashiels Surgery • Lauder Surgery	North Territory • Woodside • Ardseileach Core and Cluster • Dun Berisay/Dun Eisdean replacement

Key dates to note (as anticipated at the time of publishing) are:

Hub procurement timescale	East Central	West	South West
OJEU issued	September 2010	February 2011	May/June 2011
Pre qualification submissions	November 2010	April 2011	June/July 2011
Shortlist announced	February 2011	May 2011	September 2011
Competitive dialogue	March - July 2011	June - September 2011	September - February 2011
Final tenders submitted	August 2011	November 2011	March/April 2012
Preferred bidder recommendation	October 2011	December 2011	July 2012
hubco formed	December 2011	March 2012	August 2012

4.4 hub (continued)

Case study

Drumbrae Library and Community Hub, Edinburgh

In February 2007 the City of Edinburgh Council agreed to provide £3.5 million capital funding for a new library at Drumbrae, with the selected site at Rannoch Terrace in Drumbrae. Health and Social Care, as part of the re-provisioning programme within the West area, sought to co-locate day centre services from the Tower and Clermiston at the new library, allocating an additional sum of £656,000 within the capital programme. In addition, the Health and Social Care capital contribution to the project has been increased by a further £110,000 to include a space for adults with learning disabilities.

As part of the Fit For Future programme and the rationalisation of council accommodation, the West Neighbourhood Management Team will be required to vacate Chesser House by 2014. Services for Communities identified the development of the library and Day Centre at Rannoch Terrace as an opportunity to provide the West Neighbourhood with more appropriate office accommodation within the West Neighbourhood geographical area and to expand and enhance the range of services that could be provided from this site. An additional £1.5million has been agreed through the Corporate Asset Management Group to allow Services for Communities to provide further customer reception facilities and office



accommodation on the Drumbrae library site. This means that, when the new facility opens, residents will have access not only to a library, day care centre, and adult learning space but a range of other locally-managed council services including Community Safety, Housing, Roads and Task Force. It is also expected that the police Safer Neighbourhood Team will be co-located with the West Neighbourhood Management Team when they move to Drumbrae. SFT allocated £787,000 of start-up funding for Drumbrae Library as part of a £6.5 million package for initial hub projects.

The picture above is taken at the official ground breaking ceremony, which was attended by: Jim Mather MSP, Minister for Enterprise and Energy; Councillor Jenny Dawe, Leader of City of Edinburgh Council; Paul McGirk Director of Business Development, Galliford Try and Director of South East HubCo; and Colin Proctor Accommodation Director at SFT and Programme Director for the hub programme.

4.5 Colleges

Three further education (colleges) projects were included in the Scottish Government 2011-2012 draft budget as revenue funded projects:

Modernisation of the Glasgow college estate	circa £200m
Improvements to the Inverness College estate) together circa £100m
Improvements to the Kilmarnock College estate	

All of these projects have been developed by the relevant institutions and the Scottish Funding Council (SFC) to date as the highest priority major projects in their capital investment pipeline. Funded through the NPD (Non-Profit Distributing) model, these projects will be able to go ahead within the tightly constrained capital budget environment where SFC is not able to fund them from its capital allocation for the foreseeable future.

SFT's role is to manage the introduction of the NPD model into the further education sector where it has not been used before. SFT will support the individual colleges in delivering value for money by challenging costs robustly and bringing well-structured projects to the market with an appropriately resourced team. Working across the three projects, SFT will reduce transaction costs by bringing common elements of process and documentation to the projects where appropriate. SFT will balance the commercial expertise in the private sector with negotiation support to get the best possible commercial deal and will ensure that the key elements of the overall revenue funded programme are maintained in this sector.

Inverness College



During 2011/2012 SFT will work with the Scottish Funding Council and the three colleges to develop and scope the projects to be suitable for NPD procurement. SFT will define elements of Business Cases that need to be developed specifically for revenue funding and assist colleges in understanding how to complete them. Subject to the development of clear affordable and value for money cases, SFT will support all three projects into procurement.

Objectives for 2011/2012

- Bring all three revenue funded college projects into procurement.
- Develop a standard contract and appropriate standard specification elements for NPD in the further education sector.
- Define business case requirements for revenue funded projects in the sector.
- Broker collaboration through sharing knowledge between the three projects and produce a plan of what tasks can best be done by the three working together and what is best done individually to maximise value for money.
- Work with the Scottish Funding Council to challenge project costs robustly and bring a demonstrable focus to delivery of needs not wants.

4.6 Health

The Scottish Government's draft budget included significant values of health projects to be revenue funded over the coming years. These were broken down as £300m of acute health projects (hospitals) likely to be procured as a series of individual NPD (Non-Profit Distributing) projects and £200m of primary care projects (GP practices, health centres, etc) likely to be procured through the hub programme. One single, large project was identified—the Royal Hospital for Sick Children and Department of Clinical Neurosciences in Edinburgh. Other individual projects have yet to be identified and SFT is working with Scottish Government Health Directorate and individual Health Boards to identify priority projects that would be suitable for revenue funding.

Given the reduction in capital available to the Scottish Government the projects identified for this revenue funded investment programme will be able to proceed and be built and opened earlier than if they had to wait for capital budgets to be available. The use of revenue finance will therefore accelerate delivery of a substantial number of important projects within the current budgetary constraints.

The delivery of primary care health projects through the hub programme is discussed in more detail in Section 4.4.

Acute healthcare projects are not included in the scope of the hub programme and are often larger individual projects based around the re-provision, re-development or enhancement of hospital sites. These larger projects are suited to stand-alone procurement as NPD projects, such as has recently been completed for the Tayside Mental Health Project, which is based around the Murray Royal hospital in Perth. NPD projects are led by the relevant Health Board as part of an overall investment programme in the health estate co-ordinated by the Scottish Government Health Directorate. SFT's role is to support the Scottish Government Health Directorate to co-ordinate this sector as part of the overall revenue funded investment programme, manage centrally the NPD contract and provide support to procuring

Health Boards in delivering the best possible value for money for their projects.

During 2011/2012 SFT will work with Health Boards and the Scottish Government Health Directorate to bring priority projects forward for revenue funding and publish more details on individual projects, values, key technical features and timescales. SFT will further develop the standard contract form for use in the acute health sector under an NPD model and will maintain that contract as it is used on successive projects. SFT will work with individual procuring Health Boards to bring well-structured projects to the market with appropriately resourced teams to get the best possible deal. SFT will benchmark across the sector and share best practice, focusing on needs not wants to assist Boards in developing projects that are fit for purpose, sustainable and have affordable lifecycle costs.

SFT will also continue to provide commercial support to major and complex health projects however they are financed.

Objectives for 2011/2012

- Bring the Sick Children's Hospital project into procurement with NHS Lothian Health Board.
- Develop the standard contract form and standard specifications for NPD procurement in the acute health sector.
- Broker collaboration between Health Boards procuring NPD (Non-Profit Distributing) projects.
- Work with the partners to produce a standard affordability model for the sector.
- Work with the Scottish Government Health Directorate and procuring Health Boards to challenge project costs robustly and bring a demonstrable focus to delivery of needs not wants.
- Develop and publish a clear programme of NPD projects in the sector.
- Support the New South Glasgow Hospitals Project as a member of the project board.

"This initiative (NHT) is another example of the progressive thinking that is required in the new economic environment both public and private sectors are now having to operate in."

Jonathan Fair, Chief Executive of Homes For Scotland

4.7 Housing

National Housing Trust initiative

Against the background of the difficulties facing the housing sector in Scotland, the National Housing Trust initiative seeks to deliver affordable housing for rent in areas where there is a shortage of appropriate accommodation.

SFT is working with the Scottish Government and a number of local authorities in a challenging financial climate on the implementation of the first phase of the initiative. The SFT project team, alongside the Scottish Government, has been responsible for developing the model and has devised a procurement strategy that reflects the formal consultation with the private sector (including private sector funders). The first phase of NHT was formally launched in September 2010 and is scheduled to complete in spring 2011.

NHT homes will be let on short assured tenancies and will be available for rent for a period of between five and ten years, after which they will be sold, in consultation with the participating local authorities and the private sector developers. Tenants of the NHT homes will be offered an opportunity to purchase their homes, and the proceeds of the sales will be used to repay funding and provide a return on the private sector partners' investment.

A further phase of NHT has been announced by the Scottish Government and a significant number of local authorities have expressed interest in participating in this expansion. The lessons learnt from the first round of the initiative will therefore inform the development of both the NHT model and the introduction of further affordable housing structures.

Objectives for 2011/2012

- Deliver homes for intermediate rent under the first phase of the National Housing Trust initiative.
- Provide support to the special purpose partnerships set up under the National Housing Trust initiative.
- Develop the next phase and oversee the evolution of the National Housing Trust model with the Scottish Government.
- Work with the Scottish Government and the private sector to develop alternative models for the delivery of affordable housing.
- Explore alternative funding approaches for NHT and other housing models.

4.7 Housing (continued)

Case study

National Housing Trust



The National Housing Trust initiative contains a number of "firsts". Twelve local authorities across Scotland sought to procure houses at the same time - SFT acted as a central purchasing body. The procurement strategy involved the setting up of a framework of developers within each participating local authority area - this strategy was chosen to allow local developers to tender and to help support local employment.

The National Housing Trust initiative is the first project that involves the setting up of joint venture vehicles (public/private sector) for the provision of nationwide housing. The authorities will use the same standard documentation across all areas.

Social Housing - Collaborative Working

The Scottish Government in its recent Homes Fit for the 21st Century, The Scottish Government's Strategy and Action Plan for Housing in the Next Decade: 2011-2020 policy paper confirmed that the amount of subsidy payable towards new units of social housing is to be reduced. The challenge now for Registered Social Landlords (RSLs) is to create efficiencies through collaboration and aggregation across the sector adopting new and innovative approaches to procurement and financing.

A number of different models that represent a varying degree of collaboration in different regions are currently being piloted. These range from shared frameworks and using lead-developer type arrangements to the formal setting up of joint resources. During 2010-2011 SFT facilitated the development of a collaborative procurement model involving a number of housing associations in Tayside. The participating housing associations are seeking to deliver significant revenue and capital efficiencies through aggregation, collaboration and the sharing of resources. Discussions among the Tayside groups continue. It is recognised that the development landscape has changed with the introduction of the national Investment and Innovation Fund, however, with the benefit of the Tayside experience, and capturing best practice across the UK, SFT has made available hands-on guidance and standard-form documentation to help other groups of RSLs to explore opportunities and identify the most appropriate structures for collaboration.

Objectives for 2011/2012

- Offer support to groups of housing associations wishing to use the model developed for the Tayside region to explore options for collaboration.
- Offer support consortia in the development of procurement strategies and in putting in place arrangements for driving efficiencies and improving value for money.
- Update the guidance notes and publish the standard documentation to reflect any lessons learnt.
- Raise awareness of the opportunity for collaborative working and disseminate the learning through seminars/conferences during the year.

4.8 Transport

The three transport projects described below were included in the Scottish Government draft budget as revenue funded projects all to be procured by Transport Scotland:

- The Borders Railway, a new rail link that will connect the Scottish Borders with the centre of Edinburgh. The project is currently in procurement and it is anticipated the contract will be awarded in May 2012.
- The M8 bundle which comprises the M8 between Baillieston and Newhouse, the M74 Raith Interchange and the M8 Associated Network Improvements (a series of upgrading measures around the M73, M74 and M8 required to manage traffic from the M74 Completion and the proposed M8). The project is anticipated to commence procurement in 2011.
- The Aberdeen Western Peripheral Route (AWPR) bundle comprises the AWPR and the A90 Balmedie-Tiperty upgrade; the route will act both as a local distributor road, providing access to key locations in the city of Aberdeen and as a bypass for strategic traffic. The project is currently subject to a Court appeal process, and as a result procurement commencement is uncertain at this stage.

SFT has already provided support to the Borders Railway project through participation in the Project Board, the development of an appropriate NPD model for the rail sector and development of improved financing for the project; SFT will continue to provide support throughout the procurement process.

On the M8 and AWPR, SFT will support Transport Scotland in delivering value for money by challenging costs robustly and bringing well-structured value for money and affordable projects to the market with an appropriately resourced team. Working across these projects SFT will reduce transaction costs by bringing common

Objectives for 2011/2012

- On Borders Railway, the M8 bundle and AWPR bundle:
 - Support the projects as member of the Project Board.
 - Support the continuing development of the NPD (Non-Profit Distributing) structure.
 - Work with Transport Scotland to continue developing a financing structure to deliver significant financial benefit over 25-30 years.
- Work with the Infrastructure Investment Board in providing challenge on major transport projects and agree action plans from recommendations.

elements of process and documentation to the projects where appropriate. SFT will work to ensure that the key elements of the overall revenue funded programme are maintained in this sector. Subject to the development of clear affordable and value for money cases, SFT will support all projects into procurement.

SFT is working with the Infrastructure Investment Board (IIB) on other transport projects across a range of sectors include maritime, rail and road. SFT's support to IIB is to provide the appropriate challenge to procurers and sponsors of projects in the early stages of development with the aim to improve overall value for money; focusing on buying what we need and not what we want; ensuring procuring bodies develop robust business cases; and are taking well-structured projects to the market and have appropriately resourced project teams.

4.9 TIF

Tax Incremental Financing (TIF) is a way of funding infrastructure investment that unlocks regeneration from the future tax revenues that will flow from an area once it has been re-developed. It allows a Local Authority to keep the incremental non-domestic rates that arise in an area following their investment in enabling infrastructure to repay debt that the Local Authority will have to raise to pay for this infrastructure to be built.

SFT worked throughout 2009-2011 to develop the TIF model for Scotland along with City of Edinburgh Council (CEC). In September 2010, the Cabinet Secretary for Finance and Sustainable Growth followed SFT's recommendation to approve in principle CEC's business case for a TIF project in the waterfront area of Edinburgh. This represents the first establishment of TIF in the UK, allowing Scotland to progress with this exciting model for funding regeneration ahead of the rest of the UK.

Following that approval, in December 2010, enabling legislation was passed for up to six TIF pilot projects to be developed across Scotland including the Edinburgh waterfront development. SFT is working with North Lanarkshire Council on a project for the Ravenscraig site and Glasgow City Council for a project in the city centre Buchanan Quarter as two of those pilots. SFT is in dialogue with other Local Authorities to seek to bring forward business cases to be considered as the remaining three pilots. It is estimated that the first three pilots will bring £250 million of public sector investment and further unlock more than £1.5bn of private sector investment.

Objectives for 2011/2012

- To have approval in principle for all six TIF pilot projects.
- To have reached detailed agreement with three of the six pilot projects.
- To have developed an operational monitoring regime seeking to prove the effectiveness of TIF as an investment structure to unlock sustainable economic growth.

SFT's role is to develop the TIF structure for Scotland, work with Local Authorities to explain the structure and help them bring forward appropriate projects, then scrutinise Business Cases and recommend acceptance as appropriate to the Cabinet Secretary. As TIF moves into operation with the Edinburgh Project, SFT will finalise and document the operational model and detailed agreement between Government and the Local Authority, and monitor the pilot projects in their operational phases.

4.9 TIF (continued)

Case study **Edinburgh TIF**

The City of Edinburgh Council received provisional approval from Scottish Ministers to use Tax Incremental Financing (TIF) to fund the Edinburgh Waterfront regeneration project, the first of its kind in the UK, in September 2010. This is one of three pilot projects SFT is currently working on. The project is key to unlocking the potential of the Edinburgh Waterfront and will see public sector investment of



£83m unlock more than £600m of private sector investment, create nearly 5,000 full-time equivalent jobs and deliver additional economic growth of c. £140m per annum.

From the outset of TIF, SFT has played several important roles in its development, evolution and delivery. SFT has:

- shaped TIF, including the development of its structure, provided guidance for key partners and stakeholders, and ultimately created a model that can deliver across Scotland;
- undertaken a key diligence role to ensure that projects are ready to proceed, and ultimately, are capable of acceptance by Scottish Government and that key public sector investors understand the risks associated with TIF and how they can be addressed;

- adopted a partnering approach to TIF. SFT has sought to support the pilot projects, both prior to and after the submission of any business case. SFT will also have a long-term involvement in projects, so it can draw upon the lessons learned for future proposals, as well as bring its commercial capability and understanding to bear for the benefit of the project; and

- looked at how the model can evolve i.e. what types of assets and projects TIF could support. For example, how could it be used to support the renewables sector.

Overall, SFT will continue to develop TIF, working closely with others to do so, to ensure a model that can deliver economic growth and regeneration in Scotland where most needed.

4.10 Waste

It is estimated that up to £1bn of investment in waste treatment infrastructure will be required in Scotland over the next 10 years. There are undoubtedly significant challenges in the waste sector: evolving policy following the publication by the Scottish Government of the Zero Waste Plan; legislative requirements; planning; and the need for strategic solutions to underpin the significant investment required. SFT has developed a pool of commercial expertise to assist public sector bodies to address these challenges.

During 2010/2011, SFT has been working with Clyde Valley Strategic Waste initiative, North, South and East Ayrshire Councils, as well as Edinburgh and Midlothian Councils to support the development and delivery of their collaborative residual waste and food waste treatment projects. SFT has also been working with Glasgow City Council and West Lothian Council on their residual waste projects.

For Glasgow, the North, East and South Ayrshire collaborative project, the Edinburgh and Midlothian collaborative project, and the Clyde Valley Waste initiative, SFT has been a member of the project board and is working alongside the Councils' project teams. Together these projects will deal with more than 40% of Scotland's household waste. For West Lothian Council, SFT is providing a centre of expertise resource for the project team.

In addition, SFT is also working in partnership with Zero Waste Scotland, COSLA and the Scottish Government on a number of actions. In particular, SFT has supported the preparatory activity to establish a food waste treatment programme.

SFT has also led, as part of the development of its centre of expertise role, a waste procurement forum to share and disseminate best practice and lessons learnt and set up training sessions for local authority waste officers on commercial issues relating to residual waste.

Objectives for 2011/2012

- Support the waste infrastructure needs of local authorities who account for at least 40% of all household waste in Scotland.
- Support the current portfolio of local authority waste infrastructure projects as they move through the procurement phase.
- More specifically support:
 - Glasgow City Council to achieve contract award of its residual waste project;
 - The Ayrshire Councils to conclude their business cases for their food and residual waste projects; and
 - Edinburgh and Midlothian Councils commence their residual waste project and in concluding dialogue on their joint food waste treatment project.
- Work with Scottish Government and Zero Waste Scotland by providing commercial capability to establish a food waste collection and treatment programme for Scotland and liaise with local authorities to assess the potential for the development of strategic food waste treatment facilities.
- Work with the Clyde Valley authorities under the banner of the Clyde Valley shared services review to identify and commence the procurement of new collaborative waste infrastructure services.
- Continue encouraging collaboration and shared best practice in the waste sector on procurement and commercial issues through the management of the Waste Procurement Forum and targeted training and workshops.

4.11 Validation

Validation, scrutiny, due diligence and assurance are different terms with the same purpose. They are aimed at ensuring that appropriate planning has been carried out, reviewing that risks are appropriately and actively managed, and thereby improving the probability of a successful outcome. The principal aim of validation is to improve, through support or targeted Key Stage Reviews (KSRs), the likelihood of projects reaching successful outcomes. This is achieved by an approach that brings with it an active, independent and sceptical mindset to question and challenge existing practice.

As part of SFT's remit to deliver value for money, SFT carries out project validations across a number of sectors (e.g. schools, health, waste and transport). SFT staff are well-placed to provide this scrutiny, bringing to the public sector the perspective and rigour of private sector commercial specialists.

KSRs currently form the backbone of SFT's validation function providing an opportunity to carry out an independent review of projects at critical stages of the procurement process. On other major projects the validation can be carried out by being a member of the project board. In addition, on all major infrastructure projects, SFT is working with the Infrastructure Investment Board (IIB) to ensure that projects are scrutinised at the point of inception.

Over the last calendar year SFT has undertaken 16 such reviews across different sectors. A total of 17 reviews are forecast for 2011/12.

Previously outsourced to consultants, SFT has taken ownership of the validation process and has brought its implementation in-house, retaining knowledge and expertise within the public sector.

Objectives for 2011/2012

- Follow up on final strategic reviews at key stages of the Forth Replacement Crossing and agree action plans flowing from recommendations.
- Provide progressive assurance to the Edinburgh to Glasgow Rail Improvement Programme.
- Validate the current portfolio of Local Authority waste projects as they move into procurement.
- Perform a validation role on large scale or complex and all revenue funded projects.
- Continue to work with the Scottish Government to strengthen the integrated approach to validation and assurance.

4.12 Emerging opportunities

Asset Management

In July 2010, the Scottish Government's Independent Budget Review panel had reported: "The Panel suggests that the Scottish Government should consider developing the role of the Scottish Futures Trust to establish a centre of expertise in the ownership, management and disposal of public assets. This would operate as a source of independent advice for all public bodies and ensure maximum value for the public purse."

In the 2011-2012 Budget, SFT was asked to "take forward a pilot project through the South East hub territory to assess ways to improve asset management and estate planning across public bodies at a community level and develop proposals by the end of the year for the Scottish Government to deliver enhanced value from centrally-held land and property assets".

SFT is developing proposals that will lead to action. A clear and comprehensive approach to property asset management needs to be an integral part of public sector strategic business and financial planning. It is about minimising costs and maximising value; value includes financial value as well as value to the community.

There is significant and potentially realisable financial value in most of the public sector property estate. It is also evident that, if these assets are managed well and linked to new ways of working, this will make a significant contribution not only to reduced asset running costs but also to the efficient delivery of operational services. The opportunity also exists for public sector bodies to collaborate and to realise the potential of working across organisational boundaries to achieve their own and common goals.

This approach provides the opportunity to generate direct financial benefit from, for example: selling surplus assets to free resources for new investment; transferring ownership of assets to the private sector where this secures better value for money through access to new funding and skills, or

by placing risk where it can be better managed; and identifying and capitalising hidden assets. In addition, proactive asset management could also realise significant "knock on" financial and operational efficiencies and benefits through use of shared accommodation and co-location, exploring alternative organisational structures and business models and encouraging more collaborative procurement.

Beyond land and buildings the public sector also owns corporate assets. SFT will continue to examine options in line with the recommendations made by the Independent Budget Review.

Objectives for 2011/2012

- Work with Scottish Government and other public bodies to implement and manage improved approaches to asset management.
- Consider options for corporate assets where there could be the opportunity to release value.

Optimism Bias/Risk Management

As part of the Draft Budget 2011-12, and following on from the budget recasting exercise undertaken by SFT during 2010, SFT (through its centre of expertise role) has been asked by the Scottish Government to develop approaches to optimism bias and contingency management.

Optimism bias should, as a project progresses, start to taper off and to the extent not needed, be excluded from the project budget. There is a risk that optimism bias, included in the affordability envelope, becomes de facto part of the budget. This should not necessarily be the case. In addition, whilst risk contingency is undoubtedly a necessary part of all projects it may be best to manage lower probability impact risks on a portfolio basis across the capital programme rather than retaining individual pockets of such risk contingency on every project. The concept of leaving higher probability risk contingency in

4.12 Emerging opportunities (continued)

projects but managing lower probability risk contingency at a portfolio level has been adopted successfully by some major private sector infrastructure investors and the Olympic Delivery Authority.

The aim of this activity will be to assess and develop proposals to improve this aspect of project management that could lead to tighter project budgets, more transparent accounting for risk and optimism bias and overall allow a greater pipeline of projects to progress. It is important in these challenging times that a consistently understood and transparent approach to optimism bias and risk is adopted by all public sector bodies.

Objective for 2011/2012

- Work with Scottish Government and other public bodies to implement and manage improved approaches to optimism bias and contingency management.

Operational PPP contract management

During 2010/2011, SFT carried out a review of operational PFI/PPP contracts to assess whether there are any savings which can be realised. Potential areas for realising savings include maximising the usage of assets, tailoring the level of service provided as part of the contract and taking advantage of market testing provisions as well as optimising risk transfer.

A key conclusion of the review is that SFT believes that significant savings can be achieved by more effective contract management. In the case of Health Boards and Local Authorities, the most effective way to improve the management of PPP contracts would be to adopt a shared service collaborative approach. This structure would more easily allow investment in resources and training and reduce modestly the overall cost of contract monitoring. One area which would be considerably improved by the creation of a collaborative contract management resource is the operation of

the insurance premium risk sharing provisions in many contracts. SFT has contacted Authorities to gauge interest in this sort of collaborative approach and SFT proposes to undertake a pilot for this structure within South East Scotland during the coming months. SFT will also continue to act as a centre of expertise in this area, providing ongoing support on existing contracts.

Objective for 2011/2012

- Work with Scottish Government and other public bodies to implement and manage improved approaches to PPP contract management.

Case study

Operational PPP Insurance

During the course of our review, SFT has seen a number of PPP contracts where an insurance saving has been due to the procuring body but this has not been received. Since many of the more recent PPP contracts were signed, the market for insurance has become significantly more competitive, leading to a significant reduction in premiums for a given level of insurance risk.

There is a sharing mechanism for such savings in many contracts, which should lead to an annual sum payable to the procuring authority. However some authorities are not aware of these provisions or even if made aware, may not be achieving the level of saving that is due. In some cases the amount due to the Authority can run into hundreds of thousands of pounds.

More widely, SFT has contacted all Authorities with PPP Contracts to recommend that they carry out a review of the sharing position and to provide assistance on how that could be carried forward.

Renewables

Scotland is currently committed to achieve a headline target of 20% of total Scottish energy use coming from renewables sources by 2020. Specific targets include 50% of electricity demand, a 10% target for renewable transport and a 11% target of heat demand. Scotland's Renewables Action Plan sets out a framework for action in the specific area of renewable energy. SFT is committed to exploring ways in which it can support development in this strategically important sector. In 2010/2011 SFT supported Scottish Enterprise and Highlands and Islands Enterprise in the development of the National Renewables Infrastructure Plan Phase 2 Report which established a framework for future public sector investment in the sector. SFT was also a member of the Delivery Group that supported the Scottish Low Carbon Investment Project, the highlight of which was the International Conference held in Edinburgh in September 2010.

Objectives for 2011/2012

- Work with public bodies to develop commercial structures for renewable energy generating infrastructure on their estates or assets.
- Work with Infrastructure UK and other stakeholders to provide support to Scottish Government in the development of potential financing and regulatory structures for the energy sector.

Annex 1 Budget summary

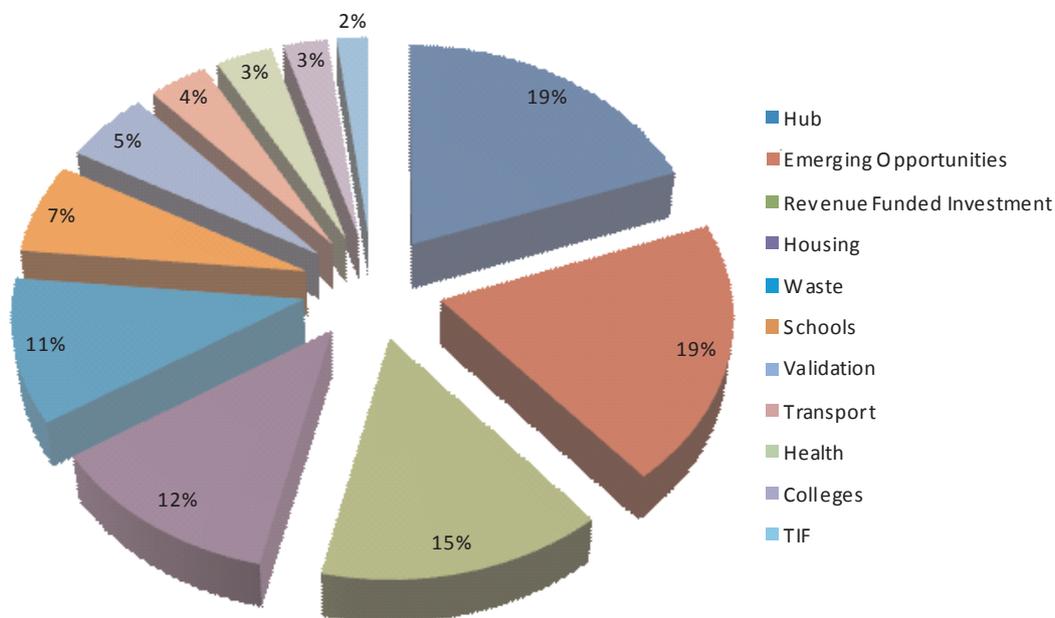
The SFT Budget for 2011/12 is made up of funding from Scottish Government as follows:

Core Budget: £ 4.70m

hub Budget: £0.85m

TOTAL: £5.55m

This has been allocated between the activities discussed in the Business Plan as follows:



Business Area	Budget (£ thousands)
Hub	1,080
Emerging Opportunities	1,080
Revenue Funded Investment	820
Housing	680
Waste	590
Schools	370
Validation	290
Transport	200
Health	190
Colleges	150
TIF	100
TOTAL	5,550

Annex 2 Portfolio of projects

The portfolio of projects which SFT is involved in managing or supporting at March 2011:

Schools for the Future Programme

- Aberdeenshire - Ellon Academy/Mearns Academy
- Angus - Brechin High
- Argyll & Bute - Campbeltown Grammar
- Dumfries & Galloway - Dalbeattie High
- Dundee - Harris Academy
- East Renfrewshire - Eastwood High
- Edinburgh - James Gillespie's High & Boroughmuir High
- Fife - Auchmuty High
- Highland - Wick High
- Midlothian - Lasswade High
- North Ayrshire - Garnock Academy
- North Lanarkshire - Clyde Valley High
- South Ayrshire - Ayr Academy
- West Dunbartonshire - Dumbarton Academy Primary/SEN Schools
- Aberdeen City - Bucksburn Primary/ Newhills Primary
- Argyll & Bute - Dunoon Primary/Kirn Primary/St Munn's Primary
- Clackmannanshire - St John's Primary/ Claremont Primary
- East Ayrshire - Gargieston Primary
- East Dunbartonshire - Lairdsland Primary
- East Lothian - Haddington Infants School/ St Mary's Primary
- Eilean Siar - Daliburgh Primary
- Falkirk - New RC Primary
- Glasgow - Garrowhill Primary/Glendale Primary/new primary
- Inverclyde - Lilybank/Glenburn Special Schools
- Moray - Milnes Primary
- Orkney - Evie Primary
- Perth & Kinross - Invergowrie Primary
- Renfrewshire - St James Primary
- Scottish Borders - Duns Primary
- Shetland - Happyhansel Primary
- South Lanarkshire - Spittal Primary
- Stirling - Riverside Primary
- West Lothian - Pumpherston & Uphall Station Primary

Education

- Kilmarnock College
- Inverness College
- City of Glasgow College

Housing

- National Housing Trust
- Social Housing Collaborative initiative

Tax Incremental Financing

- Edinburgh waterfront
- Buchanan Quarter, Glasgow
- Ravenscraig, North Lanarkshire

hub programme

- Aberdeen Health Village
- Ardseileach Cluster Resettlement
- Blackburn Partnership Centre
- Drumbrae Library and Community Hub
- Firrhill Health and Social Care Centre
- Gullane Surgery and Day Care Centre
- North West Edinburgh Partnership Centre
- Tain Replacement Health Centre
- Wester Hailes Healthy Living Centre
- Woodside Medical Group

Transport

- Borders Railway
- Forth Replacement Crossing
- Aberdeen Western Peripheral Route
- Edinburgh Glasgow improvement programme
- M8 Baillieston to Newhouse, M74 Raith Junction and M8, M73 & M74 improvements

Health

- New South Glasgow Hospitals
- The Royal Sick Children's Hospital and Department of Clinical Neurosciences in Edinburgh
- Individual hospital projects, health centres and mental health facilities across Scotland

Borders Railway
Kilmarnock College
Eastwood High School
Aberdeen Health Village
Buchanan Quarter, Glasgow
Aberdeen Western Peripheral Route
Gullane Surgery and Day Care Centre
Drumbrae Library and Community Hub

SCOTTISH
FUTURES
TRUST

Pumpherstons & Uphall Station Primary School
Edinburgh Glasgow improvement programme
The Royal Sick Children's Hospital
New South Glasgow Hospitals
Forth Replacement Crossing
National Housing Trust
Lasswade High School
Edinburgh waterfront
Inverness College