

# Statement of Benefits 2011-2012

July 2012



# Summary

*For the third consecutive year SFT has delivered substantial benefits, with 2011/12 being the most successful year to date. Over the past 12 months, £131.4m of net benefits and savings have been achieved, made up of a variety of elements including efficiency gains, additional investment, avoided costs and by undertaking regular reviews of projects to bring about better value for money. SFT conservatively estimates that the £131.4m value attributable to it is in fact only half the total benefit achieved by working together with various bodies across the public sector in response to the need to deliver infrastructure in a more efficient way.*

*Delivering value for money has never been more important than it is today. Across the UK, capital budgets are being reduced and in Scotland this means that available finance for future infrastructure projects will fall by over one third. How can SFT achieve a material counter effect to this? SFT's ability to finance additional investment and to improve value for money are vital strengths in tackling this challenge, in partnership with all other public sector partners.*

*The various programmes of 'additionality' SFT is delivering, either through the recent award-winning NHT programme, or through the NPD and TIF initiatives, brings over £3bn of increased infrastructure investment to support vital public services, protect construction jobs and aid economic growth. Taken together, these represent in relative terms, one of the largest investment programmes over and above capital budgets in Europe.*

*In infrastructure delivery, much of the long term benefit is secured in the planning and commissioning phases well before spades hit the ground. SFT works collaboratively with Scotland's public sector bodies to help identify what infrastructure is required and how best that can be delivered. In addition, through sourcing innovative funding routes within rigorous procurement guidelines and delivering quality and sustainable design, SFT's objective has always been and will continue to be, to deliver value for money, thereby creating benefits and savings at every stage of a project's journey through to completion.*

*Such has been the success of SFT's focus on high quality sustainable design at a competitive price that within the Scotland's Schools for the Future programme for example, enough money has been saved to build an additional 12 schools, increasing the total number from 55 to 67.*

*Further additional benefits include the significant employment opportunities that will be created within the construction industry when these schools are built, as well as increasing the number of pupils and communities across Scotland who will benefit from well designed and energy efficient schools.*

*After submitting two reports on public sector asset management in September 2011 on the Local and Scottish Government Civil Estates, SFT has recently been tasked to champion a more collaborative approach to property asset management within the public sector. Working with public sector partners, this initiative is expected to realise cost efficiencies of over £500m as a direct result of a five year programme, as well as leading to improved service delivery, reducing the carbon footprint and releasing land for other uses.*

*Importantly, SFT's work also delivers many non-financial benefits, including the creation of employment opportunities. As well as creating access to a wide range of modern public services SFT's work addresses environmental issues such as waste prevention and carbon reduction.*

*As specific examples, the NHT initiative is supporting over 700 jobs in the house building sector and the hub programme is opening up many opportunities for SMEs to get involved in building new public sector facilities (with over 80% of the work at the Drumbrae hub in Edinburgh going to local companies).*

*SFT's independence of operation, being arms' length from Government, allows its commercial skills and knowledge to be deployed in facing the current economic and financial challenges. Those skills, combined with working in partnership with other public sector bodies, are vital in stretching the effectiveness of the public pound and in securing long-term benefits. This statement of benefits, independently validated by Grant Thornton and the London School of Economics, demonstrates the good progress being made but also notes that more remains to be done in facing the current challenging climate.*

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SFT’s Benefit Methodology as well as all supporting material and calculations are available in the following documents:

“Scottish Futures Trust, Quantitative Benefit Methodology”,  
 “Scottish Futures Trust, Statement of Benefits 2011-12 - Supporting Material” and  
 “Scottish Futures Trust, Statement of Benefits 2011-12 - Calculations”,

all of which are on SFT’s website at:

[www.scottishfuturestrust.org.uk/publications/benefits](http://www.scottishfuturestrust.org.uk/publications/benefits)

Benefit Type	Examples of SFT Activity in 2011/12	Value (2011/12)	Value (2010/11)
<b>Additional Investment</b> Investment over and above traditional capital budgets.	Leveraging new investment through the development of Tax Incremental Financing (TIF) for regeneration and the National Housing Trust (NHT) for affordable homes.	<b>£48.2m</b>	£38m
<b>Efficiency Gains</b> Managing the <b>delivery</b> of programmes that SFT is responsible for.	Effective programme management of the hub and Schools for the Future Programmes, including "needs not wants" challenge.	<b>£41.8m</b>	£17m
<b>Efficiency Gains</b> <b>Centre of Expertise</b> for joined up asset management and infrastructure investment.	Establishing a centre for joined up asset management across the public sector and providing expertise in eg. Public Private Partnerships (PPP) contract management and waste treatment infrastructure.	<b>£33.8m</b>	£42m
<b>Efficiency Gains</b> Maximising the long-term value of <b>funding and financing</b> arrangements.	Supporting the delivery of NPD projects to reduce procurement costs, optimise specification and get the best possible financing terms.	<b>£6.6m</b>	£15m
<b>Avoided Cost</b> Reducing the dependency on use of external advisers.	Providing public sector commercial skills to work with partners in exploring and developing new initiatives such as street lighting, renewables and broadband.	<b>£3.5m</b>	£2m
<b>Efficiency Gains</b> Through periodic <b>validation</b> and review of projects.	Undertaking 11 Key Stage Reviews (like MoT tests) to ensure that value for money is maintained on the infrastructure projects that SFT supports.	<b>£2.3m</b>	£19m
Total Benefit		<b>£136.2m</b>	£133m
Cost of Operations		<b>- £4.8m</b>	- £4m
<b>Net Benefit</b>		<b>£131.4m</b>	£129m

The statement of benefits has been validated by Grant Thornton LLP (GT), a leading financial and business advisor with relevant experience in infrastructure investment, and by the London School of Economics and Political Science (LSE).

# 1.0 Introduction

SFT is an independent company, established by but operating at arms' length from the Scottish Government with a responsibility to deliver value for money across all public infrastructure investment in Scotland.

SFT's aim and primary targets, as set out in the company's Management Statement and Financial Memorandum (MSFM), are:

**Aim:** *"To improve the efficiency and effectiveness of infrastructure investment in Scotland by working collaboratively with public bodies and commercial enterprises, leading to better value for money and providing the opportunity to maximise the investment in the fabric of Scotland and hence contribute to the Scottish Government's single overarching purpose to increase sustainable economic growth"*

**Primary Financial Target:** *"The primary financial target of the SFT once fully operational is to release between £100m and to £150 million each year for increased investment in Scotland's infrastructure"*

SFT's Corporate Plan 2009-14, written as the company was establishing its team, set out the methodology for calculating the benefits secured by SFT's work and committed SFT to delivering an initial minimum of £7 of benefits for every £1 spent on the organisation. This initial minimum target has been exceeded in each of the first three years covered in the five-year plan.

SFT also delivers substantial non-financial social, community and environmental benefits. In many cases, these benefits can be just as important as those quantified as pure financial benefits in that they support longer term sustainable growth. Consequently, for 2011/12, alongside the reported financial benefits, SFT has reported the qualitative benefits that the programmes and projects it is involved with will bring.

This paper has been prepared by SFT as part of its 2011/12 year end process to demonstrate the financial and qualitative benefits delivered and secured by its work in 2011/12. It sets out:

- Section 2 - the nature of the activities that SFT undertakes and how they drive value for money through the delivery of both quantitative and qualitative benefits;
- Section 3 - the quantitative methodology originally developed in 2009/10 and how this continues to be used to calculate the 2011/12 financial benefits;
- Section 4 - the quantitative benefits outcome for 2011/12 including breakdowns by benefit type and sensitivity analysis;
- Section 5 - a description of the qualitative benefits identified and promoted by SFT that complement the financial benefits and support sustainable economic growth; and
- Section 6 - a description of the validation work undertaken by Grant Thornton and London School of Economics along with their primary conclusions.

SFT believes in openness and this document has been prepared, along with the information on our website, to give full transparency of our assessment of the benefit that SFT, in collaboration with others, has delivered to infrastructure investment in Scotland.



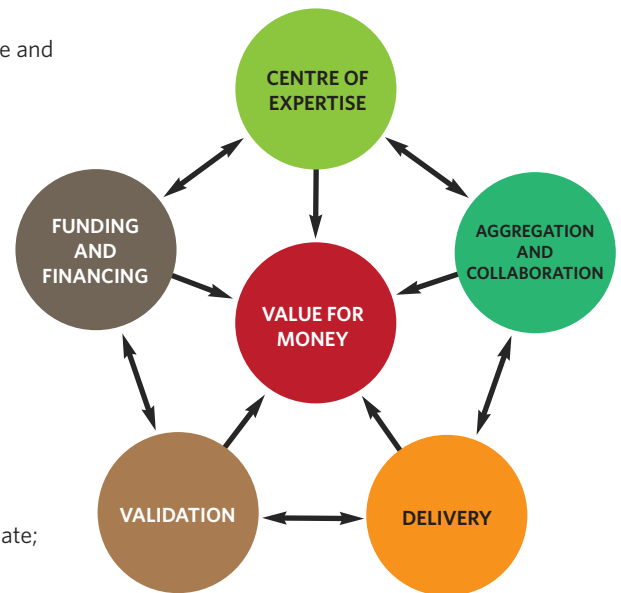
## 2.0 Value for Money Drivers and Benefit Types

### 2.1 Value for Money Drivers

SFT acts across all phases of the infrastructure investment cycle, from estate and asset planning, needs identification and options investigation, through investment appraisal, procurement, financing, and design, and on to construction, life cycle management / maintenance and disposal. It has a particular focus on infrastructure planning, financing and procurement.

The key objectives it pursues in order to improve value for money in infrastructure investment include:

- Identifying common ground and brokering and improving collaboration between public bodies;
- Being innovative and bringing fresh approaches and models for infrastructure investment;
- Acting as a focal point for public sector infrastructure investment in Scotland;
- Acting as a central development / delivery body where this is appropriate;
- Seeking and promoting opportunities for appropriate aggregation or common approaches to aspects of infrastructure investment; and
- Identifying and implementing opportunities to reduce the cost of funding for infrastructure.



In line with these key objectives, SFT has identified five key themes for its activities set out in the figure above.

### 2.2 Benefit Types

The activities undertaken by SFT deliver both:

- Quantifiable benefits - those to which a monetary value can be reasonably attached, sometimes described as financial benefits; and
- Qualitative benefits - those which represent a clear and tangible benefit to a stakeholder or society as a whole, but cannot easily have a monetary value attached sometimes described as non-financial benefits.

*Initiatives such as the National Housing Trust (NHT) programme not only provide a way to finance additional homes but also provide wider benefits through the creation of construction jobs, opportunities for families to access affordable high quality homes and contributing to the environment through the provision of more energy efficient homes.*

#### 2.2.1 Quantitative Benefits

As per SFT's previous Benefit Statements, the quantitative benefits identified focus on SFT's main aim to improve the efficiency and effectiveness of infrastructure investment in Scotland through working collaboratively with the public and private sectors.

The main classes of benefit identified in 2011/12 remain unchanged from previous years. These include:

- Avoided Costs - generally where SFT undertakes activities that would previously have been undertaken by significantly more expensive external consultants. Compared to efficiency gains and additional investment, this benefit is relatively small, however it brings the added benefits of retaining knowledge and experience in the public sector, and of the activity being undertaken by individuals with sufficient specific experience and influence to drive through the actions identified.

*In 2011/12, SFT commenced a pilot street lighting project to establish the potential financial and carbon savings that could be captured through the introduction of modern technology relating to more efficient lamps and control systems. SFT is working with East Dunbartonshire Council and West Dunbartonshire Council to develop Business Cases to assess the potential of this, and to develop a toolkit to assist other councils to take forward similar schemes.*

- Efficiency Gains - where through the intervention of SFT there is a saving made in relation to infrastructure investment (whether getting more at the same cost, or the same for lower cost).

*Working in partnership with other public bodies, SFT's work in the asset management sector is on-going to identify opportunities for improving property asset management within the Scottish public sector and the potential to realise cost efficiencies of over £500m as a result of a five year change programme.*

- Additional Investment - where through a structure or technique developed or promoted by SFT, additional investment in infrastructure, over and above that limited by capital budget allocations is made possible. This benefit recognises the economic impact of infrastructure investment, and the benefit of increasing the level of investment possible within budget allocations by opening up additional funding sources.

*During 2011/12, SFT worked with a number of local authorities as well as the Scottish Government to agree contracts for over 600 affordable homes for rent through the NHT initiative - homes that were built without government grants and would otherwise not have been built - attracting £100m of additional investment.*

The first two of the above benefits represent 'savings' to the public purse, avoided cost representing in-year savings and efficiency gains generally representing opportunities created to deliver savings in the future. The third class of benefit is not a 'saving' but represents additionality of investment that has been enabled over and above existing budgets.

## **The National Housing Trust**

*"SFT has been a tremendous force driving the NHT initiative forward. Without SFT, this initiative would just not have happened."*

**Jonathan Fair, Chief Executive of Homes for Scotland**



### 2.2.2 Qualitative Benefits

In SFT's 2010/11 Benefit Statement, SFT captured some of the qualitative benefits that arise from its actions. This was reported under the overarching qualitative benefit of increasing sustainable economic growth, which in turn was broken down against five key headings of jobs, training, environment, knowledge and community.

Throughout 2011/12, SFT has continued to embed the principles that under-pin sustainable procurement into its projects, programmes and initiatives to ensure that the qualitative as well as the quantitative benefits are realised.

The Sustainable Procurement Task Force has defined sustainable procurement as *"a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment."*

SFT recognises that all its projects, programmes and initiatives have a role to play in supporting sustainable procurement. Building on the work done in 2010/11 SFT has, for 2011/12, captured its qualitative benefits under the headings of social, community and environmental benefits.

*By way of example, SFT's work on the Scottish Government's Scotland's Schools for the Future programme has not only delivered a significant efficiency gain by enabling 67 schools to be built for the price of 55 (an extra 12 schools); but in doing so, it has created significant opportunities for additional jobs in the construction industry across Scotland as well as enabling a wider spectrum of pupils to benefit from modern, well designed energy efficient schools.*

Further details of SFT's reported qualitative benefits for 2011/12 are given in Section 5.

## The hub Programme

*"The strategic support services provided by North hubCo to Grampian Fire and Rescue Services have been an essential part of our ongoing property management. What's really impressed me about hubCo is the speed of service, the open accounting and value engineering that we have experienced. As a Facilities Manager where every day is different and often challenging, hubCo offers me the tools and expertise to assist me to deliver the Fire Service's asset management expectations on time and in budget, now and in the future."*

**Stephen Davies, Facilities Manager, Grampian Fire & Rescue Service**



## 3.0 Financial Benefit Methodology

The core methodology adopted by SFT to determine its quantitative benefits for 2011/12 remains unchanged from last year. The principles behind the methodology were set out in SFT's original 2009/10 Benefit Statement and these are restated in a separate document "SFT's Quantitative Benefit Methodology," a copy of which is on SFT's website:

[www.scottishfuturetrust.org.uk/publications/benefits](http://www.scottishfuturetrust.org.uk/publications/benefits)

In SFT's 2009-2014 Corporate Plan and 2009/10 Benefits Statement there was a commitment to revisit projects and programmes incorporated in past Benefit Statements and analyse the extent to which previous benefits need to be re-evaluated to reflect delivery in practice. Each year SFT therefore determines the aggregate benefit position since April 2009 and nets off the aggregate benefit reported for each of the previous years. In doing so, SFT revisits each previously reported benefit in terms of the assumptions and dependencies, confidence level, the percentage attributable to SFT and the year(s) in which the benefit is forecast to be delivered; revising each benefit up or down as appropriate.





## 4.0 Quantitative Benefit Results

### 4.1 Summary

SFT has delivered £131.4m of net benefits to infrastructure investment in Scotland through its activities during the financial year 2011/12. This is a slight increase in the £129m reported by SFT for 2010/11 and represents a 27:1 benefit to cost ratio for SFT.

The net benefit is calculated as a most likely estimate of £383.8m of cumulative benefit delivered for the three years 2009/10, 2010/11 and 2011/12 less the £247.6m gross benefit reported for 2009/10 and 2010/11 periods. This makes a gross 2011/12 benefit of £136.2m. Deducting operating costs of £4.8m gives the £131.4m net benefit reported.

In 2011/12, SFT has reported 36 benefits, two of which are new (the National Housing Trust phase 2 and the Energy Efficient Street Lighting Model) and 34 represent on-going programmes of work. As set out in SFT's Corporate Plan, SFT's methodology forecasts the benefits arising from its work and then monitors the actual benefit delivered. This means in some cases, should a project change in scope or procurement cease, a previously reported benefit may be reduced resulting a negative number being reported for some of benefits each year. This is illustrated by the figures in Annex 3 that state the value of each of the 36 benefits declared for 2011/12.

As per SFT's Statement of Benefits for 2009/10 and 2010/11, SFT's reported benefit for 2011/12 is within the range of £100-£150m per annum of benefits anticipated from the organisation in full operation and again significantly exceeds the commitment in the Company's 2009-14 Corporate Plan to deliver an initial £7 of benefits for every £1 spent on the organisation.

SFT works in partnership with many public sector organisations and as such, we have recognised that collaborative working has delivered a significant element of our benefits. The 2011/12 benefit attributable to SFT represents just under half of the £280m total estimated benefit to infrastructure investment in Scotland. SFT's partner organisations such as the five territory programme teams in the hub initiative, local authority project teams on individual schools and waste projects, the Scottish Funding Council, three Colleges and five Health Boards on the NPD programme as well as the Scottish Government in the TIF and asset management programme, to name but a few, have all played a pivotal role in securing the above financial benefits.

Back up information and further detail on each individual benefits identified and reported on are available from the following document: "Statement of Benefits 11/12 - Supporting Material". Each of these individual benefits feed into a spreadsheet ("Statement of Benefits 11/12 - Calculations"), which has been used to determine the overall quantitative benefit position. All documents are available on SFT's website.



## 4.2 Split by Benefit Type

In summary, the benefits fall into the categories outlined in the table below and as further described in sections 4.2.1 to 4.2.6 that follow.

Benefit Type	Examples of SFT Activity in 2011/12	Value (2011/12)	Value (2010/11)
<b>Additional Investment</b> Investment over and above traditional capital budgets.	Leveraging new investment through the development of Tax Incremental Financing (TIF) for regeneration and the National Housing Trust (NHT) for affordable homes.	<b>£48.2m</b>	£38m
<b>Efficiency Gains</b> Managing the <b>delivery</b> of programmes that SFT is responsible for.	Effective programme management of the hub and Schools for the Future Programmes, including "needs not wants" challenge.	<b>£41.8m</b>	£17m
<b>Efficiency Gains</b> <b>Centre of Expertise</b> for joined up asset management and infrastructure investment.	Establishing a centre for joined up asset management across the public sector and providing expertise in eg. Public Private Partnerships (PPP) contract management and waste treatment infrastructure.	<b>£33.8m</b>	£42m
<b>Efficiency Gains</b> Maximising the long-term value of <b>funding and financing</b> arrangements.	Supporting the delivery of NPD projects to reduce procurement costs, optimise specification and get the best possible financing terms.	<b>£6.6m</b>	£15m
<b>Avoided Cost</b> Reducing the dependency on use of external advisers.	Providing public sector commercial skills to work with partners in exploring and developing new initiatives such as street lighting, renewables and broadband.	<b>£3.5m</b>	£2m
<b>Efficiency Gains</b> Through periodic <b>validation</b> and review of projects.	Undertaking 11 Key Stage Reviews (like MoT tests) to ensure that value for money is maintained on the infrastructure projects that SFT supports.	<b>£2.3m</b>	£19m
Total Benefit		<b>£136.2m</b>	£133m
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#### 4.2.1 Avoided Costs

This year SFT has consolidated each of the avoided cost benefits that have a reported value of less than £1m into a single consolidated cost avoidance benefit. This work in general represents the avoided cost of having to commission the same or similar activities from external consultants. During 2011/12, the range of activities undertaken by SFT that fall into this category includes:

- Centre of Expertise – e.g. Providing on-going support to local authority waste projects.
- Development Work:
  - > Renewables – e.g. SFT, working with the Convention of Scottish Local Authorities (COSLA), prepared a detailed report to assess the commercial structures available for public bodies to generate renewable energy as well as working with other stakeholders to explore new financing opportunities in the energy efficiency sector.
  - > Street Lighting – e.g. In 2011/12, SFT commenced a pilot project in relation to street lighting to establish the potential financial and carbon savings that could be captured through the introduction of modern technology relating to more efficient lamps and central management systems.

#### 4.2.2 Efficiency Gain: Funding and Finance

SFT has continued to undertake extensive work during 2011/12 to maintain an efficient and effective NPD programme to help secure more efficient procurements and value for money in the delivery of future revenue funded projects. 2011 marked the start of the first flow of deals through the £2.5bn programme, with six projects, including the recently launched procurement of City of Glasgow College (c.£200m) and Inverness College (valued c.£50m), in the early stages of procurement. SFT has been working hand-in-hand with all parties concerned to ensure all NPD projects and project teams are well-structured and well-resourced. Additionally, by applying a challenge to projects at Business Case stage, SFT has encouraged organisations to think about their 'needs' not their 'wants' when specifying their project requirements so that available budgets are used efficiently and deliver value for money.

### **The City of Glasgow College New Campus Project**

*“By providing clear guidance on the Scottish Government's requirements, constructively challenging proposals, and offering an experienced sounding board for emerging ideas, SFT has added significant value to our project.”*

**Iain Marley, Project Director, City of Glasgow College**

In the delivery of the NPD programme, SFT is supporting both the public and private sectors by simplifying contracts, shortening the procurement processes and publishing a clear project pipeline to allow businesses plan ahead and resource accordingly, thereby minimising the cost and time involved in getting projects into the ground.

Steps taken in previous years include simplifying contracts and clarifying risk positions which will assist in attracting pension fund investment and during 2011/12 SFT has actively worked to bring pension funds and other long-term investors in to the financing of NPD projects.

#### 4.2.3 Efficiency Gain: Validation

SFT looks to add value and confidence through its work in validation and third-party assurance on a wide range of education, health, waste and transport projects.

In carrying out this validation function, SFT not only works with project teams and contributes at project board level, but also carries out key stage reviews (KSRs) at specific project milestones. The aim of these KSRs is to improve efficiency in the delivery of revenue funded projects and to increase the likelihood of achieving successful procurement and operational outcomes for such projects. KSRs provide a critical but constructive assessment of each project's readiness to progress. They are also a helpful tool for identifying any issues that might need to be addressed or resolved before the project proceeds to the next stage. In 2011/12, SFT undertook 11 separate key stage reviews.



#### 4.2.4 Efficiency Gain: Delivery (including Aggregation and Collaboration)

During 2011/12, SFT has had an on-going involvement in the delivery of the hub programme, the schools investment programme, as well as the local authority residual waste treatment programmes.

For the Scottish Government's £1.25bn Scotland's Schools for the Future programme, SFT's work during 2011/12 has been to manage the programme and help local authorities achieve value for money for the investment in their new schools. By focussing on the delivery of 'needs' rather than 'wants', achieving savings through collaborative working and carefully managing the programme budget, SFT's work has enabled the number of schools to be built within the programme to be increased from 55 to 67 - an extra 12 schools.

A major milestone in the Schools programme in 2011/12 was the opening of the first school - Pumpherston and Uphall Station Community Primary School in West Lothian. Additionally, more than £125m of construction contracts have been signed with eight other schools now being built.

The joint schools pilot project, involving Midlothian and East Renfrewshire Councils, which is delivering two secondary schools, continues to be a successful collaboration, with both schools on target to open in 2013. Best practice and lessons learnt from the early projects are being shared across the rest of the schools programme.

#### **East Renfrewshire and Midlothian Councils' Pilot Project**

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*"The joint-working programme between Midlothian Council, East Renfrewshire Council and SFT to build two secondary schools is a perfect example of the considerable benefits which can be achieved. This project has proven local authorities can be based on opposite sides of the country and still secure the advantages of working together with the SFT."*

**Councillor Derek Milligan, Leader of Midlothian Council**

In relation to the hub programme, in addition to the south-east and north hub territories, a development partner has now been secured for the east-central region. In addition, the preferred bidder was announced for the west hub territory and the south-west hub area progressed to the final stages of procurement.

The first completed hub development at Drumrae in Edinburgh opened to the public in February 2012 and a further three community projects are on site. The first hub project has successfully demonstrated hub's approach to delivering work to local firms.

Finally, in relation to the waste sector, SFT has supported four local authorities in the development and implementation of formal joint working and governance arrangements to enable them to collaborate in the procurement of their future residual waste treatment needs.

#### 4.2.5 Efficiency Gain: Centre of Expertise

During 2011/12, SFT has maintained its position as a recognised centre of expertise in Scotland for the development and delivery of complex infrastructure projects. SFT's role as a centre of expertise has helped increase the capability and the capacity of the public sector to consider new innovative approaches to project delivery. It has also increased the ability of the public sector to effectively structure projects, bring them to the market and manage procurements in a manner that drives competition by making Scotland an attractive place for contractors and service providers to invest.

As part of its centre of expertise capability, SFT is a member of the Scottish Government's Infrastructure Investment Board (IIB). The IIB was established by the Scottish Government to take on an executive role in infrastructure governance, working alongside individual portfolio investment boards. The IIB provides senior level scrutiny and challenge across the range of major government-led infrastructure projects in Scotland. Through its role on the IIB, SFT supports selected projects in a number of ways, including strategic review at the initial stage of major project development as well as periodic review of the governance of individual elements of the programme, satisfying itself that arrangements are robust and, where relevant, make recommendations for improvement.

SFT undertook two pilot exercises which reported to Scottish Government in September 2011. The reports identified opportunities for improving property asset management within the Scottish public sector and the potential to realise cost efficiencies of over £500m as a result of a five year programme of proposed change. SFT has agreed with the Cabinet Secretary for Infrastructure and Capital Investment to work collaboratively across the public sector to add value and take forward a programme management role for improving property asset management across the whole of the Scottish public sector. The benefit delivered during 2011/12 recognises the early stages of development of this asset management work stream.

## Waste

*"Glasgow City Council is very appreciative of the significant support it has received from SFT over the past two years in the procurement of its residual waste treatment project. This has been a major undertaking for Glasgow and SFT's support has helped us deal with many of the complex issues relating to waste infrastructure projects. SFT's on-going commitment to support our project in the lead up to contract award is most welcome."*

**Ian Telford, Glasgow City Council Waste Strategy and Logistics Manager**

#### 4.2.6 Additional Investment

Building on the work started in 2009/10, and working alongside Scottish Government and local authorities, SFT has continued to develop and implement activities on the TIF and NHT initiatives.

TIF is another way in which infrastructure investment can be funded. TIF 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'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 Scottish Ministers.

TIF is a tool that can be used, not only to deliver additional investment, but also to help bring about growth, and in turn, protect and create jobs.

## TIF

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*“Recognising the huge growth potential within the renewables sector, SFT’s help has and will be hugely significant in assisting us to shape our initial thoughts and ideas to develop a robust TIF Business Case for Energy Park, Fife. When implemented it will help unlock further future investment and it’s estimated that 1,000 new jobs could be created on the Energy Park when fully developed, thereby helping support our region and Scotland.”*

**Ronnie Hair, Lead Officer, Business Land and Property Enterprise, Planning and Protective Services, Fife Council**

During 2011/12, SFT has continued to work on the development of TIF pilot projects in Edinburgh, North Lanarkshire and Glasgow and in June 2011 SFT, on behalf of the Scottish Government, invited local authorities to apply for the next phase of the TIF initiative. Such was the level of interest that 16 applications were received for additional pilot projects. In conjunction with Scottish Government, applications from Argyll & Bute, Aberdeen, Falkirk and Fife Councils were chosen to progress to full Business Case. At a time when traditional sources of public and private sector funding are under pressure, the appeal of TIF to attract additional funds is such that for every £1 invested by the public sector, a further £5 could be unlocked from the private sector.

The National Housing Trust (NHT) initiative has been designed for local authorities in Scotland to use as part of the “toolbox” to help create more new affordable homes available for rent, on a mid-market or intermediate basis, in areas where there is demand for affordable housing. Since its launch, 24 tenants have now moved into the first completed NHT development in Stirling, and so far, SFT has signed contracts with developers to build over 600 affordable homes for rent across 12 sites, from the Borders and Edinburgh to Stirling and the Highlands; homes that would not otherwise have been built. In Edinburgh alone it has been estimated by the Scottish Government that the 422 approved homes will generate around £66m of investment and support approximately 650 jobs.

SFT continues to play an important role in developing and driving forward the NHT initiative and has, in the process, helped protect many construction jobs across Scotland.

Building on the success of the past 12 months, procurement of phase 2 of the initiative was launched in late 2011 and the coming year should see the number of homes to be contracted for under NHT increase to over 1,000.





### 4.3 Top Ten Benefits

The top-ten benefits for 2011/12 identified by benefit type and value are outlined in the table below:

Benefit Title	Benefit Type	Value
▪ TIF - Development of Model	Additional Investment	£30,967,803
▪ Schools Programme - Needs Identification - Addition Benefit Secondary Schools	Efficiency Gain: Delivery	£26,050,115
▪ Asset Management	Efficiency Gain: Centre of Expertise	£23,313,725
▪ NHT - Phase 2 - Development of Model	Additional Investment	£10,324,425
▪ NHT - Phase 1 - Development of Model	Additional Investment	£6,950,926
▪ Budget Recast - Initial Benefit Identification	Efficiency Gain: Centre of Expertise	£5,411,676
▪ Hub Programme - Reduced Procurement Time	Efficiency Gain: Delivery	£4,796,982
▪ NPD Programme - Needs not Wants - Scrutiny & Challenge	Efficiency Gain: Centre of Expertise	£4,242,012
▪ NPD Contract - Optimal Risk Transfer	Efficiency Gain: Funding and Finance	£3,709,429
▪ Hub Programme - Bid Cost Savings	Efficiency Gain: Delivery	£3,698,238

A full list of the individual benefits reported for 2011/12 is given in Annex 3.



#### 4.4 Sensitivity Analysis

In order to understand the potential range of benefits delivered in terms of upper, lower and most likely, the following sensitivities have been developed:

Sensitivity	Future Benefits Recognised	Confidence Factor
<ul style="list-style-type: none"> <li>Upper Benefit Range (Scenario 1)</li> </ul>	All future benefits recognised	Evaluated confidence factor used
<ul style="list-style-type: none"> <li>Most Likely Benefit (Scenario 2)</li> </ul>	Future benefits capped at 10 years	Evaluated confidence factor used
<ul style="list-style-type: none"> <li>Lower Benefit Range (Scenario 3)</li> </ul>	Future benefits capped at 10 years	Reduce confidence factors by 20%
<ul style="list-style-type: none"> <li>Most Likely Benefit-variant (Scenario 4)</li> </ul>	Future benefits capped at 10 years (except for benefits where unless there is a secure rationale to support the forecast benefit extending beyond 10 years)	Evaluated confidence factor used

These sensitivities are more fully described in SFT's Quantitative Benefit Methodology. The sensitivity analysis (more fully described in Annex 2) shows the following results.

Sensitivity	Net Benefit
<ul style="list-style-type: none"> <li>Upper Benefit Range</li> </ul>	£219.3m
<ul style="list-style-type: none"> <li><b>Most Likely Benefit</b></li> </ul>	<b>£131.4m</b>
<ul style="list-style-type: none"> <li>Lower Benefit Range</li> </ul>	£99.1m
<ul style="list-style-type: none"> <li>Most Likely Benefit - Variant</li> </ul>	£262.6m

In order to maintain comparability with previous years, the most likely value of £ 131.4m net benefit is the figure used throughout this report.

## 5.0 Qualitative Benefits

### 5.1 Background

In addition to the benefits which have been quantified in Section 4, SFT delivers substantial qualitative benefits that cannot be given a monetary value to our stakeholders and the wider Scottish society.

Throughout 2011/12, SFT has been embedding many of the principles that under-pin sustainable procurement into its projects, programmes and initiatives to ensure that the qualitative as well as the quantitative benefits are realised. SFT recognises that all its projects, programmes and initiatives have a role to play in supporting sustainable procurement and the qualitative benefits relating to society, communities and the environment require equal consideration in addition to the quantitative benefits of avoided cost, efficiency and additional investment.

Sustainable procurement in the widest sense is a key driver for SFT when developing infrastructure and delivery solutions. SFT aims to ensure that economic, environmental and social sustainability are addressed in the early stages of project development to ensure that all the projects and programmes it supports:

- Facilitate sustainable economic growth locally and nationally;
- Are developed to minimise adverse environmental impacts; and,
- Are developed to promote sustainable communities.

This “triple bottom line” approach is illustrated in the diagram above.

Building on the work done last year, SFT has, for 2011/12, captured its qualitative benefits under the following headings:

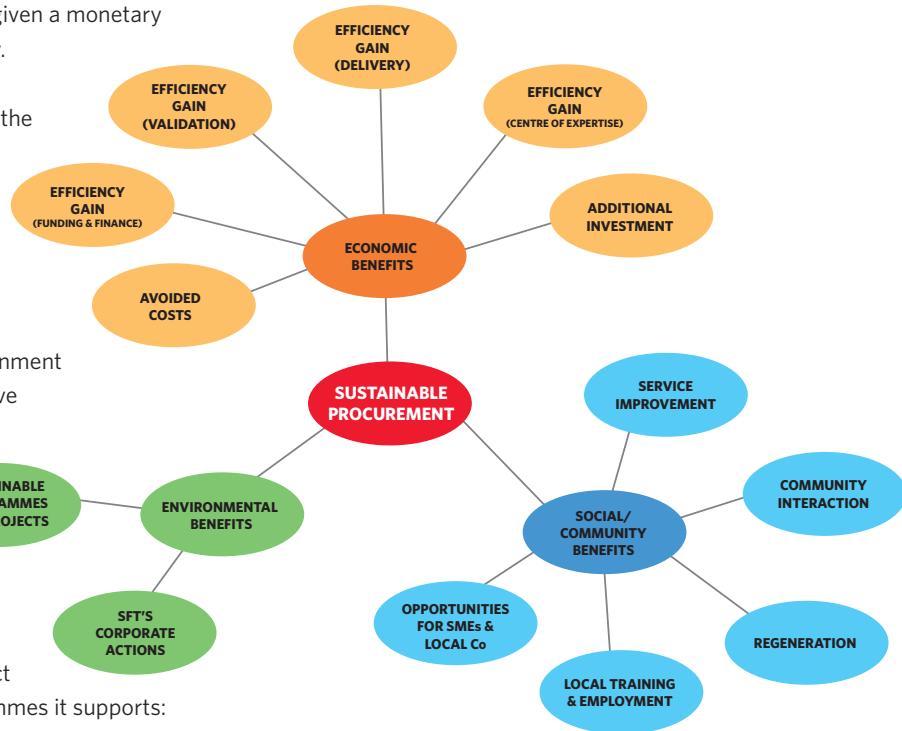
- Social and Community Benefits; and
- Environmental Benefits.

### 5.2 Social and Community Benefits

#### 5.2.1 Opportunities for SMEs & Local Companies

The types of SMEs and local companies that provide services in the infrastructure sector include:

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>▪ Building trades contractors (e.g. plumbers, electricians, etc.);</li> <li>▪ Specialist contractors (e.g. piling specialists, specialist wall cladding installers, etc.);</li> <li>▪ Designers (e.g. architects, civil, structural, mechanical &amp; electrical engineers);</li> <li>▪ Specialist advisers (e.g. environmental consultants, acoustic consultants, etc.);</li> <li>▪ Cost consultants (Quantity Surveyors);</li> <li>▪ Property advisers;</li> </ul> | <ul style="list-style-type: none"> <li>▪ Building supply companies;</li> <li>▪ Property developers;</li> <li>▪ House builders;</li> <li>▪ Lawyers; and</li> <li>▪ Financial advisers</li> </ul> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



In Scotland, SMEs are directly engaged in the physical delivery of the vast majority of construction projects. Even if projects are large scale it tends to be SMEs who provide, through sub-contracted services to the larger main contractors, the bulk of the required services. On smaller scale projects (say £3 million to £5 million), smaller all-trades building companies are more prevalent, but even these organisations do a lot of subcontracting.

The construction statistics provided by the Office for National Statistics<sup>1</sup> in August 2011 suggest that over 90% of firms engaged in construction in Scotland are SMEs.

Public spending on construction activities helps maintain employment, principally in private sector businesses. Given the significant downturn in private sector construction in recent years, industry commentators have observed that maintaining public investment is essential to retain a regional skilled workforce in the construction sector. Faced with a reduction from the UK Government in capital budgets for 2011-12 of 25%, SFT is taking forward a major pipeline of transport, education and health infrastructure projects, worth up to £2.5 billion through the NPD and hub Design, Build, Finance and Maintain (DBFM) programmes. Adding the TIF and NHT initiatives, which are also being taken forward by SFT to this revenue funded programme brings a total of some £3bn of additional investment in Scotland over and above current capital budgets. This represents one of the largest investment programmes of its type in Europe by population, and SFT is playing an important role in developing the economic environment in which such a wide-ranging and comprehensive investment programme can be implemented successfully.

In the face of falling capital budgets, this £3bn of additional investment will help offset the decline in public sector construction and help protect jobs in the construction industry. Using Scottish Government's statistical data<sup>2</sup>, a conservative estimate is that every £1m of spend in the construction industry has the potential to support 10 jobs and deliver an extra 70% indirect investment in the local economy.

By way of example, the NHT initiative focuses on the housing sector as a whole, but in particular those SMEs active in the industry who are finding conditions more challenging than the established large scale, volume house builders. NHT allows such developers access to finance and allows them to build at a time of limited demand for private sector housing, whilst providing a return for the developer over the life of the NHT initiative.

Phase one of NHT will see over 600 units of affordable housing delivered across Scotland, over half of them developed directly by SMEs. The 600 units will lead to around £100m of additional investment in Scotland and support in the region of 700 jobs in the construction sector.

Case Study 1 below sets out how SFT is promoting opportunities for SMEs and local companies through the hub initiative.

#### **CASE STUDY 1 - PROMOTING OPPORTUNITIES FOR SMEs & LOCAL COMPANIES**

SFT ensures that the supply chain arrangements which each hubCo is contractually bound to implement are in line with the following requirements:

- The supply chain is reviewed and refreshed regularly having regard to the potential future projects.
- As each project comes forward, hubCo is required to discuss the project with the sponsoring participant and, if necessary, consider the appropriateness of including other suppliers on hubCo's supply chain.
- New suppliers can contact hubCo at any time to express an interest in joining the established supply chain; and.
- Each hubCo is required to competitively tender a minimum of 80% of work packages.

These contractual commitments are set out in a formal Partnering Agreement.

SFT is collecting subcontractors data (successful and unsuccessful bidders) including information on SMEs, local companies and new jobs created. For example, in the Drumbrae library hub project 100% of the sub-contracts awarded by the main contractor were to SMEs who had businesses in Scotland. Those contracts amounted to circa 80% of the construction cost of this project.

<sup>1</sup> *Construction Skills Statistics Annual 2011- ONS*

<sup>2</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Input-Output/IOAllFiles2007>

### 5.2.2 Local Training & Employment

SFT has a commitment to realising community benefits from the projects and programmes it is involved with. SFT has incorporated recruitment and training targets in all the projects and programmes it leads and manages, as well as encouraging the incorporation of such targets in projects where it has a supporting role. For the hub programme, minimum recruitment and training benchmark targets have been incorporated into the contract and partnering documents for each of the five hubCos across Scotland which will be measured and monitored by SFT.

Such recruitment and training opportunities form part of each hubCo's continuous improvement programme and detailed method statements set out how the hubCos will deliver the level of training required for each new project.

SFT has also been working closely with CITB-ConstructionSkills to provide support to the hubCos' provision of appropriate training and recruitment opportunities. Through funding support from ConstructionSkills, each hubCo will be able to fund a Project Skills Coordinator to assist with delivery and monitoring of community benefit targets.

The hub initiative also has a procedure within the long-term partnership agreements with each hubCo that requires main contractors to commit to stepping down recruitment and training targets in their tender processes for each work package, so as to establish a consistent approach throughout their supply chain to recruitment and training.

Case Study 2 below provides a sample of typical recruitment and training targets for a typical hub territory, which will be regularly monitored by SFT through its role in supporting each hub territory in managing its partnership with each hubCo.

#### CASE STUDY 2 - SAMPLE OF TYPICAL RECRUITMENT AND TRAINING TARGETS

hub Territory Projects	D&B Project 1	D&B Project 2	D&B Project 3	DBFM Project 1	DBFM Project 2
<b>New Work Placements</b>	4	2	2	6	6
<b>Curriculum Support</b>	1	1	1	4	4
<b>Graduate Recruitment</b>	0	0	0	1	1
<b>Apprentice Starts</b>	0	1	1	4	4
<b>Existing Apprentices</b>	2	1	1	3	3
<b>Apprentice Completions</b>	0	0	0	1	1
<b>Jobs Advertised</b>	2	3	3	6	6
<b>N/SVQ Starts</b>	1	1	1	5	5
<b>N/SVQ Completions</b>	1	1	1	4	4
<b>Training Plans Adopted</b>	4	2	2	3	3
<b>Supervisor Training</b>	2	3	3	5	5
<b>Leadership Training</b>	1	1	1	3	3
<b>Health &amp; Safety Training</b>	2	4	4	4	4

### 5.2.3 Regeneration

The delivery of new infrastructure and community facilities acts as a catalyst to wider regeneration, stimulates local economy, provides local employment, supports the maintenance of sustainable communities, actively encourages community based activities and provides a focal point for the local community.

SFT leads the UK with its TIF initiative, which will unlock infrastructure for major regeneration schemes in Scotland. There will be up to seven TIF pilot projects in Scotland, with the first three (the Edinburgh Waterfront Development; the Buchanan Quarter in Glasgow; and Ravenscraig) now either approved in principle or well developed. It is estimated that the first three pilots will bring c.£250m of public sector investment and further unlock more than £1.25bn of private sector investment.

Case Study 3 below gives an example of how infrastructure delivery can play a role in regenerating local communities.

#### **CASE STUDY 3 - REGENERATING LOCAL COMMUNITIES**

##### **North Lanarkshire / Ravenscraig TIF Project**

The former Ravenscraig steelworks closed in 1992 and its redevelopment is one of the largest urban regeneration projects in Europe. The ultimate scale of the redevelopment is comparable with the creation of a small new town and will result in significant benefits at both a local, regional and national level. The overall development is expected to create some 12,600 jobs and attract in excess of £1.4 billion of private sector investment over a 20 - 30 year period.

Phase 1 of the regeneration project was completed in 2008 and comprised site servicing and infrastructure works. This enabled the delivery of a £70m campus for Motherwell College, a new £31m Regional Sports Facility, and 850 new homes. Phase 2, which the TIF proposals is centred on, is based around the creation of a new town centre likely to result in a total private sector investment of c.£425million. Consideration has previously been given as to how the project could be progressed, with TIF offering a good fit and a strong potential to move the project forward.

The TIF scheme for Phase 2 envisages three main infrastructure projects estimated at approximately £73million, which includes:

- The upgrading and dualling the A723;
- The upgrading and dualling Airbles Road to the M74; and
- Strategic site infrastructure works and land acquisitions.

The use of TIF to support the infrastructure investment funding requirement of £73million, will enable the Phase 2 infrastructure plan to be developed and deliver further private sector development. It is also expected to achieve the following outcomes:

- In the short term - 500 construction jobs at a Scotland level employed during the four year construction period with associated construction Gross Value Add (GVA) of £25million.
- In the longer term - 4,266 net additional full-time equivalent (FTEs) employed at a regional level and an annual GVA of some £112 million at a regional level.

The infrastructure plan associated with this TIF project are fundamental to the wider development of the Ravenscraig site due to the nature of the enabling works and connections to the wider urban corridor. It would enable the site to be accessed from both the M8 and M74, greatly increasing the connectivity of the whole area of Motherwell and Wishaw and prospects for commercial development and private sector investment.



### 5.2.4 Community Interaction and Service Improvement

Improved outcomes for communities will be delivered not just by the projects themselves, but by the way in which the projects are delivered.

Completed projects will allow public services to be delivered to communities in a more joined up way (e.g. hub); deliver affordable housing in high-cost housing areas to allow individuals and families to continue to live in their communities (e.g. NHT) and bring economic activity to disadvantaged areas (e.g. the Ravenscraig TIF project).

Delivering projects will increasingly involve communities as stakeholders and include local employment opportunities to SMEs in supply chains as included as a key performance indicator in the hub programme.

One of the objectives of the hub initiative is to increase the scale of joint service working and integration across Scotland resulting in better outcomes at the point of service delivery. This will be delivered through service redesign supported by the hubCos and the provision of services from fit for purpose facilities located where the service delivery is required and which will be properly maintained.

Case Study 4 below gives an example of how the Drumbrae Library Hub in Edinburgh is delivering a better platform for engaging with the local community and enhanced access to a wide range of public services.

#### CASE STUDY 4 – COMMUNITY BENEFITS AND SERVICE IMPROVEMENT

The wider areas surrounding the Drumbrae Library Hub in Edinburgh have benefited from the delivery of this new facility in a number of ways. It not only provides a new library and community facility but it acts as a catalyst for further investment and regeneration. This facility offers easy access to a wide range of Council services and associated benefits which address key neighbourhood priorities expressed in the community planning process, including:

- Health information and local day care services;
- An enhanced range of activities and resources for young people;
- Opportunities for increased participation by young people in their community through partnership work with other organisations;
- Opportunities for positive work with young people to reduce the number of people at risk of anti-social behaviour; and
- Creating an attractive facility in a remodelled green space;
- It will help build a healthy, sustainable community where people can lead more independent lives.



## 5.3 Environmental Benefits

### 5.3.1 Background

Scotland is committed to achieving challenging statutory emissions reduction targets by 2020 as set out in the Climate Change (Scotland) Act 2009. Part 4 of this Act places a specific duty on public bodies to act:

- In the way best calculated to contribute to the delivery of the targets set in or under Part 1 of the Act;
- In the way best calculated to help deliver any programme laid before the Scottish Parliament under section 53 of the Act; and
- In a way that it considers is most sustainable.

SFT is fully committed to operating in a manner which is consistent with the requirements of the Act and in exploring innovative ways in which it can support investment within this strategically important sector. During 2011/12 our approach to these environmental targets can be classified within our internal operating environment and our involvement in supporting the environmental aspects of infrastructure delivery within the wider realm of our activities.

### 5.3.2 SFT's Environmental Performance

SFT has adopted a proactive approach to managing the impact of its activities upon carbon emissions and the wider environment. SFT has recently committed to the Scottish Public Bodies Sustainability Reporting Standards and will publish its first report with its Annual Report for 2012/13.

SFT has adopted a proactive approach to managing its environmental impact including adopting an:

- Expenses Policy: which requires employees to take public transport where available;
- Mileage rates: which decrease over time to reflect assumed higher vehicle efficiency in terms of miles to the gallon; and
- Recycling initiatives: which have culminated in SFT recycling<sup>3</sup> 1,458kg of materials and reducing its carbon footprint by 2,281kg of CO<sub>2</sub>

SFT also sought to approach its office move in 2010/11 in a sustainable manner with office furnishings purchased from second hand sources.

### 5.3.3 Promoting Sustainable Programmes and Projects

SFT adopts a proactive approach to ensuring that the projects, programmes and initiatives that it is involved with support wider environmental and sustainable objectives. This has included SFT signing up to Zero Waste Scotland's commitment to halve the level of construction waste going to landfill.

*We commit to playing our part in halving the amount of construction, demolition and excavation waste going to landfill by 2012. We will work to adopt and implement standards for good practice in reducing waste, recycling more, and increasing the use of recycled and recovered materials.*

More specifically, during 2011/12, SFT has been actively involved in the Renewables, Carbon Reduction and Energy Efficiency Sectors. Case Studies of our involvement in such sectors are given on the following pages.

## Renewables

*"SFT's Renewable Energy report for COSLA clearly evidenced the options available for local authorities given a recent change in legislation and was the centre piece for the COSLA/SLAED/SCDI Empowering Scotland conference discussing opportunities for public sector production."*

**George Eckton, Team Leader - Environment and Regeneration, COSLA**

<sup>3</sup> Data recorded by Changeworks Recycling

#### **CASE STUDY 5 - THE RENEWABLES SECTOR**

In January 2010, the Crown Estate announced "Round 3" Offshore Wind Developments around the UK with potentially 1,000 offshore wind turbines be erected in the North Sea from 2014 onward.

As part of this national investment in renewables, Fife has been identified, through the National Renewable Infrastructure Plan (N-RIP), as a key strategic location for the renewable energy sector.

Fife Council is currently working with SFT and Scottish Enterprise to develop a TIF proposal with a Renewable Energy focus. This proposal relates to an Energy Park in Fife. The overall benefits of this proposal will not only arise from new renewable energy developments in the Energy Park, but through attracting further investment in new developments throughout the Levenmouth area as the overall regeneration and economic benefits are delivered.

The Energy Park therefore provides an excellent location for the private sector to invest but it is currently constrained by various aspects such as access to site and land available for development. Fife Council, with support from SFT and Scottish Enterprise, is developing the TIF project to deliver the following public sector enabling assets (worth c. £18m) in order to attract significant private sector investment in renewable construction, commissioning, maintenance, training and development:

- Improved vehicle and marine access to the Energy Park including land reclamation and quayside construction essential for manufacturing large wind turbines, blades and sub-sea platforms;
- Site remediation to allow existing land to be incorporated into the Energy Park; and
- Delivery of the Levenmouth Low Carbon Investment Park.

This TIF proposal is in line with the Scottish Government's Renewable Action Plan and in addition to the direct impact stated above, this TIF project will:

- Make a real contribution to the Scottish Government achieving its ambition of establishing Scotland as a centre of excellence for the renewable industry;
- Help Scottish Government meets its climate change objectives;
- Ensure that Fife can contribute to achieving the Scottish Government's national objectives for sustainable economic growth; and
- Create around 1,000 new jobs directly employed in the renewable sector.



#### **CASE STUDY 6 – CARBON REDUCTION & ENERGY EFFICIENCY**

In terms of carbon reduction and energy efficiency, SFT's programmes, projects and initiatives aim to ensure the highest environmental standards are achieved.

A recent example of where actual carbon savings have been realised relates to the Drumbrae Library Hub delivered through the hub initiative. This project secured a BREEAM rating of Very Good, built in a renewable heating system which resulted in a CO<sub>2</sub> emissions reduction of circa 11 tonnes per annum, anticipated energy cost savings of £1,700/yr and renewable heat incentive payments of £4,600/yr. In addition the project includes electric car battery charging points which will help support others contribute to the overall carbon reduction agenda.

In the asset management sector, in addition to financial savings, SFT's work in this sector also seeks to capture the carbon impact of buildings within wider government estate. As part of the overall strategy to develop a coherent and efficient approach to estate management, SFT is working with the Scottish Government to monitor and manage the carbon impact of its estate and how to reduce this to meet future carbon reduction targets. Indications are that over 15,000 tonnes of carbon per annum can be saved from the central estate and over 100,000 tonnes per annum from the local civil estate across Scotland.

Additionally in 2011/12, SFT commenced a pilot project in relation to street lighting to establish the potential financial and carbon savings that could be captured through the introduction of modern technology relating to more efficient lamps and central management systems. SFT is working with East Dunbartonshire Council and West Dunbartonshire Council to develop Business Cases to assess the potential of this, and to develop a toolkit to assist other councils to take forward similar schemes. Each Council could potentially save around 25,000 tonnes of CO<sub>2</sub> emissions over the 25-year project appraisal period leading to a system over 50% more carbon efficient than existing.

## 6.0 Benefits Validation

SFT arranged for independent validation of this 2011/12 Statement of Benefits from both Grant Thornton as a leading financial and business advisor with relevant experience in infrastructure investment in Scotland, and by academics from the London School of Economics and Political Science.

### 6.1 Grant Thornton

In undertaking its validation of SFT's Statement of Benefits for 2011/12, Grant Thornton reviewed the underlying assumptions used in relation to each of the benefits and sought back-up as available and discussed the rationale for the individual assumptions with SFT. This allowed Grant Thornton to confirm that it considered the methodology adopted by SFT to be reasonable and that it had been consistently applied across each benefit heading. Grant Thornton also recognised the importance of an ongoing mechanism to assess previously projected benefits and noted that this exercise has been completed by SFT.

Grant Thornton was satisfied that the claims made regarding the Qualitative Benefits appear to be reasonable based on the case study evidence provided.

### 6.2 London School of Economics

In undertaking its validation of SFT's Statement of Benefits for 2011/12, LSE stated:

*"In our view the structures of the methodology used to record and report benefits are sound, and reflect a well-judged set of principles for including degrees of confidence and sensitivity of benefit estimates. Specifically, the methodology allows the revisiting of benefits estimates year-on-year and supports sensitivity analysis using a benefits classification (Range and Sensitivity) that recognises an upper, lower and most likely level of benefit."*

LSE also commented on SFT's approach to working with other public bodies and stated in its validation letter:

*"From our meetings this year and last with a number of SFT's public sector partners we can confirm that there is strong and effective collaboration between SFT and other public sector bodies and that SFT's expertise and ability to provide input to individual projects is held in high regard."*

LSE concluded that *"the methodology is working as it should."*

LSE also encouraged SFT to build on the lessons learned from three years of recording financial and qualitative benefits *"...to formally review the performance of the methodology and its estimates against outturns,"* and to continue to promote the benefits realised to a wider community as *"In times of financial stringency such community involvement becomes even more essential."*



## ANNEX 1 – Backup Documents

This summary of SFT's benefits is accompanied by the following documents:

1. "Scottish Futures Trust's Quantitative Benefit Methodology"
2. "Scottish Futures Trust, Statement of Benefits 2011-12 - Supporting Material"; and
3. "SFT Statement of Benefits 2011-12 - Calculations"

The supporting material is available on the 'publications' section of the SFT website at [www.scottishfuturestrust.org.uk/publications/benefits](http://www.scottishfuturestrust.org.uk/publications/benefits)

## ANNEX 2 – Sensitivity Analysis

BENEFIT TYPE	SCENARIO 1 Upper	SCENARIO 2 Most Likely	SCENARIO 3 Lower	SCENARIO 4 Variant
<b>Avoided Cost</b>	£3,481,209	£3,530,562	£2,851,745	£4,281,066
<b>Additional Investment</b>	£48,980,430	£48,243,155	£36,345,150	£48,243,155
<b>Efficiency: Funding &amp; Finance</b>	£15,483,123	£6,561,124	£4,482,726	£51,812,002
<b>Efficiency: Delivery</b>	£91,783,611	£41,788,346	£35,738,626	£108,787,431
<b>Efficiency: Validation</b>	£1,047,939	£2,345,735	£1,968,881	£2,716,771
<b>Efficiency: Centre of Expertise</b>	£63,357,609	£33,771,179	£22,541,930	£51,504,195
<b>Total</b>	<b>£224,133,923</b>	<b>£136,240,101</b>	<b>£103,929,057</b>	<b>£267,344,620</b>
<b>Cost of Operations</b>	<b>£4,785,230</b>	<b>£4,785,230</b>	<b>£4,785,230</b>	<b>£4,785,230</b>
<b>Net</b>	<b>£219,348,693</b>	<b>£131,454,871</b>	<b>£99,143,827</b>	<b>£262,599,390</b>

## ANNEX 3 – SFT’s 2011/12 Benefits

The table below lists the value of each individual benefit reported for 2011/12. The figures below represent the aggregate benefit value for the two-year period 2009/10 and 2010/11 less value of the benefit reported in 2009/10.

Detailed calculations supporting each individual benefit are available in the supporting calculation spreadsheet – “SFT Statement of Benefits 2011-12 Calculations” which is available from SFT’s web site [www.scottishfuturestrust.org.uk](http://www.scottishfuturestrust.org.uk)

Ref	Title	Value
A1	SFT Consolidated Avoided Costs	£3,611,155
A2	Waste - Avoided Future Contract Variation	-£80,592
B1	TIF - Development of Model	£30,967,803
B2	NHT - Phase 1 - Development of Model	£6,950,926
B3	NHT - Phase 2 - Development of Model	£10,324,425
C1	Western Isles and Orkney Schools Projects - Finance Structure	£2,077,295
C2	Borders Rail Lower Financing Costs	£0
C3	Borders Rail Competition	-£2,342,949
C4	Orkney Schools Projects - Business Case Diligence	£57,878
C5	RHSC/DCN Procurement Strategy and Increased Competition	£845,308
C6	NPD Contract - Saved Procurement Time	£871,723
C7	NPD Contract - Optimal Risk Transfer	£3,709,429
C8	NPD Programme - Reduced Cost of Capital	£1,211,513
C9	hub - Return on Working Capital Investment	£130,927
D1	Hub Programme - Reduced Procurement Time	£4,796,982
D2	Hub Programme - Capital Costs Continuous Improvement	-£1,044,899
D3	Hub Programme - Bid Costs Savings	£3,698,238
D4	Hub Programme - Public Sector Investment Returns	£1,291,434
D5	Hub Programme - Reduced Rates of Return	£2,972,611
D6	Hub Programme - Dialogue Stage Public Sector Savings	£22,387
D7	Schools Programme - Pilot Project Savings	£262,794
D8	Schools Programme - Needs Identification	£2,453,171
D8a	Schools Programme - Needs Identification - Addition Benefit Secondary Schools	£26,050,115
D9	Schools Programme - Continuous Improvement Savings	£1,285,513
E1	Validation - Non-Standard Civils Projects (FRC)	£1,766,760
E2	Validation - Standard Accommodation Projects	-£705,307
E3	Validation - CMAL	£1,601,920
E4	Validation - Non-Standard Civils Projects (Borders Railway)	-£317,638
F1	Operational Projects Support	£1,586,435
G1	Waste - Procurement Timetable Benefits - Avoided Disposal Costs - Projects other than Clyde Valley	-£64,078
G2	Waste - Service Cost Benefits (Reduced Gate Fees) - Projects other than Clyde Valley	£455,905
G3	Waste - Reduced Gate Fees - Clyde Valley	-£2,233,770
G4	Budget Recast - Initial Benefit Identification	£5,411,676
G5	Asset Management	£23,313,725
G6	NPD Programme - Needs not Wants - Scrutiny & Challenge	£4,242,012
G7	Energy Efficient Street Lighting Model for Local Authorities	£1,059,276
<b>TOTAL</b>		<b>£136,240,101</b>

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**Statement of Benefits**  
2011-2012

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## Statement of Benefits 2011-2012

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