

**Scottish Futures Trust**  
**Statement of Benefits**  
**2009/10**

**September 2010**

**SCOTTISH  
FUTURES  
TRUST**

### Statement of Benefits - 2009/10

Scottish Futures Trust has delivered £111m of net future benefit to infrastructure investment in Scotland through its activities the Financial Year 2009/10.

This net benefit represents a most likely estimate of £114m of benefit delivered, net of £3m of operating costs.. Benefits have been delivered as a combination of:

- £ 86m | **Efficiency Gains** – where through the intervention of SFT there is a value for money improvement made in relation to infrastructure investment. This benefit class is spread across the five themes of SFT activity;
- £ 27m | **Additional Investment** – where through a structure or technique developed or promoted by SFT, additional investment in infrastructure, over and above that limited by 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; and
- £ 1m | **Avoided Costs** – generally where SFT resources undertake activities that would previously have been undertaken by significantly more expensive external consultants. Benefit is generally achieved as an in-year saving. Added qualitative benefit of retaining knowledge and experience in the public sector.

This benefit is within the range of £100-150m per annum of benefits anticipated from the organisation in full operation and 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 the benefits and this has been taken into account in our calculations. The £114m of future benefit is that attributable to SFT itself, and represents only around 50% of the £227m in total benefit to infrastructure investment in Scotland that our work with partner organisations during 09/10 will bring.

While it is important to recognise that SFT's work brings long term benefits much of the effect will be felt relatively quickly. £73m in real terms of the £114m will impact before the end of the 4 year spending review that will be prepared this Autumn.

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

Grant Thornton finds that as a reflection of the future benefit that activities undertaken by the SFT during FY 09/10 is expected to deliver, both the methodology adopted, and the approach to quantifying individual benefits are reasonable.

LSE academics have concluded that the methodology adopted is sound in its structure and important rules have been applied regarding confidence and sensitivity of benefit estimates. The team reviewed the justification of individual benefits but not the detail of the source figures. Overall they concluded that the use of a simple methodology and transparent estimation procedures is appropriate at this juncture, and in the future can be a sound basis for further enhancements.

The top ten benefits by value in 2009/10 were:

<b>Benefit Value</b>	<b>Benefit Type</b>	<b>Project – Benefit</b>
£69m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Schools Programme – Needs Identification
£20m	Additional Investment	TIF – Development of Model
£7m	Additional Investment	NHT – Development of Model
£5m	Efficiency Gain: Validation	Validation – Non-Standard Civils Projects
£2m	Efficiency Gain: Funding and Finance	Western Isles and Orkney Schools Projects – Finance Structure
£2m	Efficiency Gain: Centre of Expertise	Waste – Service Cost Benefits
£2m	Efficiency Gain: Funding and Finance	Borders Rail – Competition
£1m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Schools Programme – Continuous Improvement Savings
£1m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Hub Programme – Reduced Rates of Return
£1m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Hub Programme – Capital Costs Continuous Improvement

**Total  
£110m**

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The other £4m arose from 17 other individual benefits, many of which have the ability to increase in significance in 2010/11 and the future.

**Scottish Futures Trust  
2009/10 Statement of Benefits**

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Supporting material and calculations are available in the document  
“Scottish Futures Trust, Statement of Benefits 2009/10, Supporting Material”  
on SFTs website at [www.scottishfuturestrust.org.uk](http://www.scottishfuturestrust.org.uk)

## Glossary

£/t	Cost per tonne for waste treatment / disposal
Capex	Capital (construction) cost
CEC	City of Edinburgh Council
D&B	Design and Build – form of infrastructure procurement paid for from capital budgets as the asset is built
DBFM	Design, Build, Finance and Maintain – form of infrastructure procurement including asset maintenance and financing, with payment over time as the asset is used.
DEFRA	Whitehall Department for Environment Food and Rural Affairs (with responsibility in England and Wales for waste)
ESA95	European Union publication detailing the public versus private classification of assets and expenditure for national accounting purposes
FBC	Full Business Case – produced for major infrastructure investments prior to contract award
FC	Financial Close – the contract award of a complex project
FRC	Forth Replacement Crossing project
GCC	Glasgow City Council
HMT	Her Majesty's Treasury
HubCo	The company incorporated as a public private partnership between local participating public bodies (Councils, Health Boards etc) and a private sector partner to deliver the hub programme
IRR	Internal Rate of Return – a way of measuring profit or value
ITPD	Invitation To Participate in Dialogue – a form of invitation to tender for complex projects
IUK	Infrastructure UK – UK national level infrastructure body following discontinuation of Partnerships UK
KSR	Key Stage Review – a multifaceted review of a project carried out at key stages of its development and procurement to recommend improvements and increase confidence in out turn predictions

LAs	Local Authorities
LP	English procurement organisation owned jointly by Government and Local Authorities
MSFM	Management Statement and Financial Memorandum – the SFT’s governance document with Scottish Government as its Shareholder
NHT	National Housing Trust – an innovative procurement of affordable housing using Local Authority borrowing and private developer equity run by the SFT
NI	Northern Ireland
NPD	Non-Profit Distributing - A form of infrastructure procurement where the asset is paid for as it is used, with profits returned to the public sector
OBC	Outline Business Case- produced for major infrastructure investments prior to launching a procurement
OJEU	Official Journal of the European Union – the document in which public procurements are first advertised to the market
OMR	Operations, Maintenance and Replacement cost
PB	Preferred Bidder – the successful party in a procurement, subject to final negotiation / clarification
PFI	Private Finance Initiative - A form of infrastructure procurement where the asset is paid for as it is used, with profits returned to the private sector
ph	Per hour
PPP	Public Private Partnerships - A generic term for infrastructure procurement where an asset is paid for over time, or services procurement where public and private sectors work together
PQQ	Pre-Qualification Questionnaire – a procurement process to select capable bidders from responses to an advertisement
PUK	Partnerships UK – UK national level infrastructure body (to be discontinued)
SFT	Scottish Futures Trust
SG	Scottish Government
SIB	Strategic Investment Board – infrastructure body in Northern Ireland

TIF	Tax Incremental Financing – an innovative form of funding infrastructure to unlock regeneration by hypothecating future property taxes from the economic growth unlocked to repaying debt raised to pay for un-locking infrastructure, led in Scotland by SFT
UC	Unitary Charge – the annual charge made by the private sector partner over a period for the use of assets procured under PPP arrangements
VfM	Value for Money
WRAP	Waste & Resources Action Programme – A body established to help businesses and individuals reap the benefits of reducing waste, develop sustainable products and use resources in an efficient way

## 1. Introduction

Scottish Futures Trust (SFT) has delivered £111m of net future benefit to infrastructure investment in Scotland through its activities the Financial Year 2009/10. This net benefit represents a most likely estimate of £114m of benefit delivered (in a range of £82- £155m), net of £3m of operating costs. Benefits have been delivered as a combination of: £86m efficiency gains; £27m additional investment; and £1m avoided costs. This is within the range of £100-150m per annum of benefits anticipated from the organisation in full operation.

SFT success is based on working in partnership with many public sector organisations. The £114m of future benefit is that attributable to SFT itself, and represents only around 50% of the £227m in total benefit to infrastructure investment in Scotland that our work with partner organisations during 09/10 will bring.

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. This role is particularly important in the current economic climate with public finances certain to be squeezed significantly in the next Spending Review period. The recent Independent Budget Review suggests an increased need to "lead improvements in capital procurement. Savings derived from better capital procurement should be recycled into additional capital investment" and "assess and report upon the potential and practicality of all available financing options to sustain capital spending at levels supportive of economic recovery and consistent with the Government's longer-term, strategic objectives." Specifically, the Panel suggested that "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" and "consider enhancing the role of the Scottish Futures Trust to allow it to lead improvements in capital procurement".

SFT's aim and primary target, 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 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, committed to delivering an initial minimum of £7 of benefits for every £1 spent on the organisation. The Company had a budget of £4.3m in 2009/10 and an out turn cost of £3.2m.

2009/10 was the Company's first full year of operation, having been established in September 2008, recruiting a Chief Executive in May 2009, and building to a full time permanent staff

of 12 by the year end in March 2010. The recruitment and development of the SFT team, taken together with the establishment of strong working relationships with other public sector bodies, has allowed progress to be accelerated and the £111m of benefits for 2009/10 already sits within the range set for the organisation in full operation.

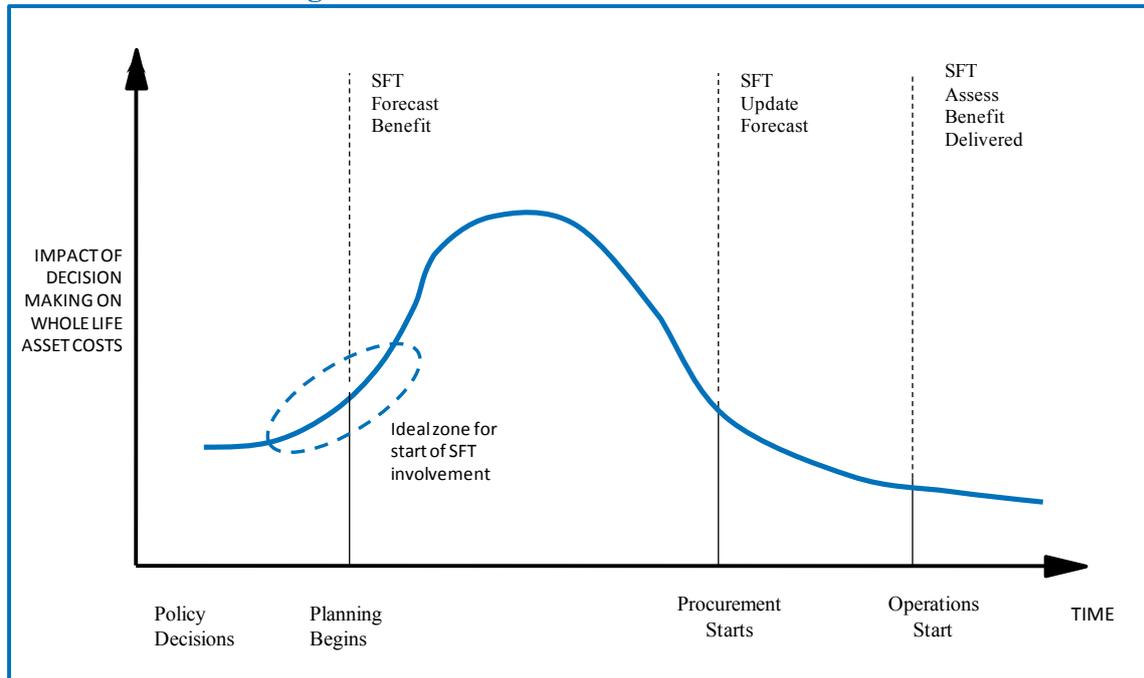
This paper has been prepared by the Company as part of the 09/10 year end process to demonstrate the benefits delivered against the target for this year. It sets out:

- Nature of SFT activities - our interventions that deliver benefits;
- The types of benefit delivered;
- Methodology adopted for quantifying benefits;
- Benefits delivered; and
- External validation undertaken.

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 we have delivered to infrastructure investment in Scotland to any interested parties. We consider that it may be of interest to our partner organisations in infrastructure investment both in the public and private sectors which have collaborated to deliver the benefits we set out, politicians and journalists keen to understand the nature of our work in more detail, and academics both now and in the future studying Scotland's approach to infrastructure investment.

As set out in our Corporate Plan, infrastructure investment is a long-term business. A £100m project typically has, after initial policy decisions are made, at least 12 months preparation pre-procurement, 12 months in procurement and 24 months of on site construction. Early decisions are amongst the most critical in ensuring value for money. The diagram below reproduced from our Corporate Plan shows that SFT's interventions are likely to deliver the highest level of benefit when undertaken at the outset of the planning and procurement phase of an infrastructure project.

## SFT Benefit Forecasting and Measurement



The primary cash benefits arising from SFT’s interventions are likely to come during the construction phase of a project when capital costs may be reduced or additional sources of funding accessed. But we also recognise that benefits may continue to accrue over the asset’s 30-50 year life cycle as operating costs or service delivery costs may be reduced.

In assessing benefits achieved in 09/10, this document sets out how we estimate the most likely impact on that future infrastructure investment of the activities that we have undertaken during the reported year. For example, two years of intensive development work on the „hub“ programme from 2009 to 2011 will establish a programme where procurement and capital cost benefits will be realised from 2010 to 2021 and whole life cost benefits for many years beyond that. The Chartered Institute of Public Finance and Accountancy said in its submission to the Independent Budget Review that: “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.”

It is not possible to wait until all the benefits from our 09/10 activities have been accrued before reporting them, as we would then only be able fully to report in (say) 20 year’s time for our activities today. It is an important discipline for SFT to focus its efforts where it can bring the greatest benefits and therefore it is important that we measure the benefits that our work brings. Additionally interested parties rightly wish to scrutinise our work on a more contemporary basis. Taken together these two drivers led us to the process detailed below for assessing the most likely future benefit, properly discounted according to Government methodologies, of our work today. Then, each year and as set out in our corporate plan, we will re-visit the previous year’s estimates and report on the outturn of the projects and programmes that we are currently working on. Verification of our approach was sought from both LSE and Grant Thornton.

LSE academics have concluded that the methodology adopted is sound in its structure and important rules have been applied regarding confidence and sensitivity of benefit estimates. The team reviewed the justification of individual benefits but not the detail of the source figures. Overall they concluded that the use of a simple methodology and transparent estimation procedures is appropriate at this juncture, and in the future can be a sound basis for further enhancements.

Grant Thornton finds that as a reflection of the future benefit that activities undertaken by the SFT during FY 09/10 is expected to deliver, both the methodology adopted, and the approach to quantifying individual benefits are reasonable.

While it is important to recognise that SFT's work brings long term benefits much of the effect will be felt relatively quickly. £73m in real terms of the £114m SFT benefit will impact before the end of the 4 year spending review that will be prepared this Autumn. Other work being implemented in 2010/11 will increase this effect significantly making a real and positive difference in what are very challenging times with a forecast rapid decrease in available capital for infrastructure. The benefit of £73m is sufficient to build three secondary schools; or a small hospital; or a significant waste treatment facility.

Significant progress has been made by SFT in a relatively short period of time. Our role continues to evolve. The IBR calls for an enhanced role for SFT in response to the forecast of rapidly diminishing capital budgets. SFT is well placed to rise to the challenges that this presents: (i) an emphasis on clear prioritisation of investment in infrastructure to support economic growth; (ii) the requirement to reinvigorate the focus on needs not wants; (iii) enhanced commercial skills driving a better deal; and (iv) bringing forward clear options to support additional investment where required to help address the long term infrastructure needs for Scotland

## 2. Value for Money Drivers & Benefit Types

### 2.1. SFT Activities

SFT's Management Statement and Financial Memorandum establishes that SFT will "act across all phases of the infrastructure investment cycle: needs identification, options investigation, investment appraisal, procurement, financing, design, construction, life cycle management / maintenance and disposal with a particular focus on planning financing and procurement."

"Key objectives across the infrastructure investment cycle are to:

- i. improve value for money in infrastructure investment
- ii. identify common ground and broker and improve collaboration between public bodies;
- iii. innovate and bring fresh approaches and models for infrastructure investment;
- iv. act as a focal point for public sector infrastructure investment in Scotland;
- v. act as a central development / delivery vehicle where this is appropriate;
- vi. Seek and promote opportunities for appropriate aggregation or common approaches to aspects of infrastructure investment;
- vii. Identify and implement opportunities to reduce the cost of funding for infrastructure;"

In line with these established objectives, SFT's Business Plan 2009-10 identified five key themes for SFT activity; Delivery, Aggregation and Collaboration, Funding and Financing, Validation, and Centre of Expertise. The business plan sets out a series of activities to be undertaken by the Company under these headings. The benefits delivered and reported here have been attributed to these activity themes.

### 2.2. Benefit Types

The benefits quantified by SFT all focus on the stated aims of improving efficiency and effectiveness of investment, and maximising investment given the constraints of available budgets. The main classes of benefit identified are

- **Avoided Costs** – generally where SFT resources undertake activities that would previously have been undertaken by significantly more expensive external consultants. The benefit is generally achieved as an in-year saving and will be at a relatively low overall value given the displacement of consultancy charged at 2½ - 3½ times salary costs. 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;

*Eg: SFT staff undertook Key Stage Reviews (KSRs) of the Orkney and Western Isles „hybrid“ style Schools project procurements to identify any issues and report on best practice at key stages of the project procurement process. Benefit A1 shows that there was a cost saving against the previous route of buying-in such reviews from the private sector. A further qualitative benefit is in the retention of that knowledge for application at an earlier stage in future projects.*

- **Efficiency Gains** – where through the intervention of SFT there is a saving made in relation to infrastructure investment (whether getting more for the same cost, or the same for lower cost). This benefit class is spread across the five themes<sup>1</sup> of SFT activity;

*Eg: SFT has enabled the use of the established, efficient aggregated procurement arrangements for the delivery of schools, has reviewed and reported on previous best practice in school design to facilitate better design across all 32 Local Authorities and has promoted collaborative working to make ongoing cost savings*

- **Additional Investment** – where through a structure or technique developed or promoted by SFT, additional investment in infrastructure, over and above that limited by 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, as discussed in the recent Scottish Independent Budget Review.

*Eg: SFT has led the development and implementation of Tax Incremental Financing (TIF) in Scotland. Recognising that, at the end of 2009/10 there is enabling work still to be done the £250m of investment that will not be possible without TIF is adjusted to take into account timing, confidence factors and the fact that close working is required with local authorities to enable it to happen. The methodology for this adjustment, applied to this and all other benefits, is set out below.*

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. It is directly linked to the aims of SFT and represents a clear benefit of the Company’s activity.

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<sup>1</sup> Five themes: Delivery, Aggregation and Collaboration, Funding and Financing, Validation and Centre of Expertise

### 3. Benefit Measurement Methodology

In order to recognise SFTs benefits, a methodology is required to measure the value of benefits delivered. The majority of benefits driven through SFT activities occur in the future; the long-term nature of infrastructure investment and procurement makes this so. Benefits are also driven in-year; these are predominantly savings from avoided costs.

Of the future benefits, a significant proportion are delivered during the next 4-year comprehensive spending review (CSR) period. These have been separately quantified in real terms (today's prices) to allow comparison with available budgets.

The remainder of this Sections sets out the methodology adopted, followed by a worked example. The methodology is based on; (i) identifying the benefit; (ii) calculating a value for the benefit; (iii) applying a confidence factor depending on the stage of development of the initiative; and (iv) applying a sharing mechanism to take into account the partnership working that is involved in delivering the benefit. A sensitivity is then run to determine the most likely and upper and lower bands. Finally there is an undertaking, the same as initially set out in SFT's corporate plan, to refine this measurement each year as initiatives develop. Thus, for example, when we are assessing the 2010/11 benefits the development work carried out on TIF after the 2009/10 year end will allow a higher confidence factor this year than last.

The methodology has been verified by Grant Thornton and LSE as being reasonable – See Section 5.

#### 3.1. Identification

The identification of benefits delivered has been an ongoing process undertaken by all staff throughout the year. The SFT team has focused on the delivery of benefits as a private company would focus on the delivery of profit and shareholder value; it has guided SFT's priorities allowing a focus to be kept on activities that will drive the greatest value. In many instances, activities undertaken have delivered qualitative benefits that staffs have been able to describe, and which have been of significant value to partner organisations. However, this report and the formal capture of benefits has focused at this stage on benefits that can be quantified.

For each quantifiable benefit identified, a proforma has been completed to record the details of the benefit and its quantification including any assumptions made. Annex 1 shows the format of the proforma used. In the case of benefits with complex valuations, or where further backup of assumptions made is required, a document has also been completed with this detailed information. Annex 2 shows a list of the further backup documentation and detailed listing of the benefits.

The quantification from each proforma is then taken into a calculation spreadsheet, where the overall benefit for SFT is quantified using the methodology explained in sections 3.2 to 3.5 below.

### 3.2. Valuation

Long-term benefits have been measured by identifying future cash flow benefits and discounting them back to a present value. Benefits are then attributed to 2009/10 or subsequent years by identifying the percentage of the present value which relates to the work completed in the particular year. For example, a 25 year long project which takes 2 years to procure may have a future cash flow benefit resulting from SFT work over the 25 year life of the project. If SFT activities are split equally during the two year procurement period, 50% of the present value of the future cash flow benefit will be recognised in procurement year 1 and the remaining 50% in procurement year 2.

The valuation of future benefits necessarily involves a series of assumptions around the future financial impact of the interventions made by SFT. These assumptions are fully detailed in the supporting documentation detailed in Annex 2 and published on our website. Section 3.6 details work that we intend to undertake in future years to further validate the assumptions made at this stage. However, as infrastructure investment represents a series of unique projects that are each only ever undertaken once, the counterfactual of an identical project or programme without SFT intervention will never occur. An element of assumption, backed up with appropriate evidence, will always be required in valuing benefits delivered.

### 3.3. Confidence Factors

SFT has limited resources, and a remit to deliver substantial benefits. We assess all of our potential activities and generally only deploy our resources towards those that have a good chance of delivering a tangible benefit. Through the year, we have had to turn down areas of activity suggested to us by partner organisations because of resource limitations and a need to focus on areas which we believe can deliver maximum benefit.

Notwithstanding the above, confidence factors have been applied to each benefit recognising that some of our interventions during the year have some way to go before benefits are delivered, and others require support and input from third parties outside our control in order to deliver. The table below outlines a description of each confidence factor and the associated percentage of benefit recognised. The minimum confidence level of 55% used, representing „moderate“ confidence reflects this prioritisation of our work away from activities that have a lower chance of delivering tangible benefits:

Confidence Factor	Confidence Factor Description	% of Benefit Recognised
A – Certain	Benefit has already been delivered	100%
B – Very Good	Firm, deliverable plans are in place and being progressed for delivery of benefit, but stages remain to be completed	90%
C – Good	Plans are in place to deliver the benefit but some third party commitment remains outstanding and/or significant stages remain outstanding to deliver the anticipated benefit	75%

D – Moderate	Deliverable benefit identified with discussions ongoing with third party(ies) to put firm plans in place for delivery	55%
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### 3.4. Sharing

SFT works in partnership with a number of parties across the public sector to deliver better value for money. The great majority of the benefit that we deliver could not be realised without the commitment and parallel activities of these other parties. Accordingly the measurement of benefits has been shared with other parties. Typically benefits have been measured using one of the following sharing mechanisms:

Sharing Mechanism	% of Benefit Attributable to:		
	SFT	Partner (eg SG or LA)	Partner 2 (eg SG or LA)
<b>1</b>	100%	-	-
<b>2</b>	50%	50%	-
<b>3</b>	33.3%	33.3%	33.3%

By sharing benefits with other parties in our calculation methodology, we are rightly only attributing to SFT a proportion of the benefits accruing from the activities in which we are involved with others. The percentage splits are at a high level, recognising the sharing but not at this stage attempting to quantify any proportionally differing input of the various participants into the benefit delivered. The totality of benefit delivered by the activities with which we are involved is some £227m, meaning that the benefit we attribute to SFT of £114m is just over 50% of that total.

### 3.5. Range and Sensitivity

The measurement methodology recognises that the majority of SFT's activities drive benefits in the future. It is acknowledged that even given the confidence factors and discounting applied, the certainty of benefits delivered several years into the future is lower. It is therefore common practice in economic forecasting to ignore effects more than a set period into the future for sensitivity analysis. It is also possible to undertake sensitivity analysis on the confidence factors applied.

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

Sensitivity	Future Benefits Recognised	Confidence Factor
<b>Upper Benefit Range</b>	All future benefits recognised	Evaluated confidence factor used
<b>Most Likely Benefit</b>	Future benefits capped at 10 years	Evaluated confidence factor used
<b>Lower Benefit Range</b>	Future benefits capped at 10 years	Reduce confidence factors by 20%.

This range and sensitivity analysis incorporates the effect known as “optimism bias” where estimators can tend towards the over optimistic in their assessment of future outcomes. Uncertainty over events further into the future, and allowance for this optimism bias have led to lower estimated for the most likely, and lower level of benefits that might be delivered. It should be noted however that the upper and lower estimates do not represent mathematically an absolute maximum and minimum, they should perhaps be seen statistically as 10<sup>th</sup> and 90<sup>th</sup> centiles of certainty.

All reporting at a high level in this document is based on the **Most Likely** scenario.

It should be noted that where all of the future benefits arise within the 10 year period, the upper and most likely scenarios present the same result.

### 3.6. Future Work

As noted in section 3.2, the valuation of benefits relies on assumptions of the future performance of projects and programmes. In order to maintain confidence in the benefits valuation, it will be necessary in future years to revisit these projects to understand whether the anticipated effects have been delivered. The external validators have also suggested a number of considerations for future years of benefits reporting. Following these useful recommendations, in future years SFT will:

- a) Revisit projects and programmes incorporated in this benefits statement and analyse to the extent possible what the out turn of the benefits estimated at this stage has been. We note that this re-visiting may lead to a complex process of benefits re-evaluation and will consider how this can be transparently incorporated into our analysis;
- b) Consider in more detail and report on the qualitative benefits of the activities that we undertake, noting specifically our remit of „knowledge sharing“ where quantification of the benefit delivered can be difficult but no less important;
- c) Include partner organisations with whom we have worked more closely in the quantification of the benefits that we have delivered in collaboration with them.

Benefit Ref:	D2
Title:	Hub Programme – Capital Cost Continuous Improvement
Description:	Reduction in construction costs (in real terms) via continuous improvement targets for HubCo. The HubCo in each Territory is contractually obliged to meet performance targets - including driving down the cost of constructing community projects and / or improving the specification of buildings. Savings are anticipated to be 1% per annum real cumulative - hence by year 10 to have made a saving of 10% compared to the baseline model.
Quantification:	<p><b>Programme value</b> of hub projects across all 5 territories over the next ten years has been taken from the programme business case:</p> <p>£325m of design and build projects – funded from capital budgets</p> <p>£675m of Design, Build, Finance and Maintain (DBFM) projects funded from revenue budgets over 30 years as they are used.</p> <p><b>Continuous Improvement:</b> on an annual basis of 1% in capital costs has been assumed, taken from the contractual targets for improvement included in the contract and measured through key performance indicators</p> <p><b>Benefits Value:</b> Working through the percentages gives £15.5m total savings on capital funded projects over 10 years and £2.5m per year of savings over 25 years of operation for DBFM projects. The total value of the benefit is estimated at £79m over the coming 37 years.</p>
Sharing:	As each hub territory has collaborative partners, with SFT taking a leading central role, 50% of the benefit is attributed to SFT with 50% to the collaborative partners. Value of SFT benefit is £39m over coming 37 years.
Confidence:	There is good confidence of this benefit being delivered as the South East territory lead procurement has been completed and has the benefits target bound in, though significant process remains to be undergone for other territories to be procured, and projects to be delivered. A 75% confidence factor is applied to the £39m leaving £30m cash benefit attributable to SFT over 37 years.
Discounting:	The likely future value of the benefit is discounted at the Government discount rate of 3.5% to give its current value of £16m.
Phasing	The work done to deliver this benefit will be delivered by SFT in the years 2009/10 to 2012/13. However, as year 2009/10 incorporated the critical establishment of the procurement, 40% of the overall benefit of £16m is attributed to activities undertaken during 09/10. The 09/10 benefit is calculated as £6.6m
Sensitivity	<p>Upper: This sensitivity takes the full value of the benefit at £6.6m</p> <p>Most Likely: This sensitivity omits any benefit delivered more than 10 years into the future as potentially too uncertain to record. Elements of this benefit are reduced payments over 25 year operational periods and are therefore omitted leaving <b>£0.9m</b> as the base-case benefit.</p> <p>Lower: Reducing the confidence factor by 20% to 55% for the lower bound of anticipated benefit, and taking the first 10 years benefit only leads to a minimum £0.7m benefit.</p>

#### 4. Benefit Results

During 2009-10 SFT has identified a £114m of benefits as the most likely level generated. The operational cost of the Company was £3m, and therefore the net benefit delivered is £111m. Annex 2 and the associated calculation sheets and back up information detail the 27 individual benefits identified and reported on.

In summary, the benefits fall into the categories outlined in the table below:

Benefit Value	Benefit Type	Projects
£1m	Avoided Costs	Validation reviews of several projects in procurement; Centre of expertise role in waste sector procurement; Early structuring activities for TIF, NHT and innovative financing, previously bought in as consultancy.
£5m	Efficiency Gain: Funding and Finance	Legacy PPP / NPD Projects Borders Railway NPD project
£5m	Efficiency Gain: Validation	Forth Replacement Crossing project PPP/NPD projects already in procurement when SFT was established Waste projects in procurement
£74m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	hub programme with central SFT programme management Schools programme with central SFT programme management
£2m	Efficiency Gain: Centre of Expertise	Operational PPP Projects knowledge sharing and contract improvement Waste projects central expertise
£27m	Additional Investment	TIF – development of structure and leading implementation NHT – development of structure and central procurement

**Total  
£114m**

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#### **4.1. Avoided Costs**

Avoided cost savings have been generated in two ways. The first, where SFT has undertaken Key Stage Reviews (KSR) on behalf of public agencies, avoids the need to incur external agency costs to complete these reviews. Secondly, as the public sector has access to SFT's in-house expertise, reliance on external advisors has been reduced especially in the early development stages of new ways of working, thus further avoiding costs.

#### **4.2. Efficiency Gain: Funding and Finance**

SFT's involvement in the Borders Rail project led to an enhancement of the competition for this project through using our expertise and influence to develop the non-profit distributing mode, previously used only in accommodation projects, for this sector. The increased competition and further interventions to include opportunities for reducing the cost of finance are expected to deliver future benefits to the procuring authority.

#### **4.3. Efficiency Gain: Validation**

SFT has undertaken a Key Stage Review (KSR) on one of Scotland's most significant infrastructure investment projects, the Forth Replacement Crossing. This review at a critical stage of the project's procurement made a number of recommendations on the procurement and implementation process. As a complex, non-standard civil engineering project, the benefits of external project validation are significant. Additional KSRs have been undertaken on a range of projects already in procurement (including the Tayside Mental Health, Orkney Schools, Western Isles Schools and Moray Schools projects) and waste projects. These projects have also received benefits from external project validation.

#### **4.4. Efficiency Gain: Delivery (including Aggregation and Collaboration)**

SFT is involved in the delivery of the hub programme, schools investment programme and waste programme. Benefits have been delivered in a variety of ways from initial needs identification through to ongoing continuous improvement. Individual benefits statement sheets detail the interventions made by SFT to deliver these ongoing benefits to the programme.

The commencement of procurement for hub territory partners in the South East and North together with development work which will lead to continuous improvement throughout the programme delivery period contribute towards benefits realised in the hub programme.

Needs identification work undertaken, the establishment of a joint pilot project, and development work which will lead to continuous improvement throughout the programme delivery period all contribute towards benefits realised in the schools programme.

The waste programme also benefits from programme development work which will lead to benefits arising throughout the programme delivery period.

#### **4.5. Efficiency Gain: Centre of Expertise**

As a central knowledge resource for public sector bodies, SFT has organised a series of events which focus on how operational projects could achieve better value for money. For example, during 2009-10 insurance training was held with health boards and local authorities to review insurance sharing provisions in order to highlight potential realisable savings.

#### 4.6. Additional Investment

One of the key aims of SFT is to identify innovative financing techniques. Working alongside Scottish Government and local authority colleagues, SFT has undertaken a range of project development activities on Tax Incremental Finance (TIF) and the National Housing Trust (NHT), without which these projects would not have been likely to come to market. These projects are recognised as being of benefit to both public sector bodies and the wider market as a whole.

#### 4.7. Top Ten benefits

The top-ten benefits identified by value are outlined in the table below:

Benefit Value	Benefit Type	Project – Benefit
£69m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Schools Programme – Needs Identification
£20m	Additional Investment	TIF – Development of Model
£7m	Additional Investment	NHT – Development of Model
£5m	Efficiency Gain: Validation	Validation – Non-Standard Civils Projects
£2m	Efficiency Gain: Funding and Finance	Western Isles and Orkney Schools Projects – Finance Structure
£2m	Efficiency Gain: Centre of Expertise	Waste – Service Cost Benefits
£2m	Efficiency Gain: Funding and Finance	Borders Rail – Competition
£1m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Schools Programme – Continuous Improvement Savings
£1m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Hub Programme – Reduced Rates of Return
£1m	Efficiency Gain: Delivery (including Aggregation and Collaboration)	Hub Programme – Capital Costs Continuous Improvement

**Total  
£110m**

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#### 4.8. Sensitivity Analysis

The measurement methodology recognises that the majority of SFT's activities drive benefits in the future. It is acknowledged that even given the confidence factors and discounting applied, the certainty of benefits delivered several years into the future is lower. It is therefore common practice in economic forecasting to ignore effects more than a set period into the future for sensitivity analysis. It is also possible to undertake sensitivity analysis on the confidence factors applied. The sensitivity analysis fully described in Section 2.5 and set out in Annex 3 shows upper, most likely and lower net benefits of £152m, £111m and £79m respectively. The most likely value of £111m net benefit is the figure used throughout this report.

## 5. Benefits Validation

SFT has arranged for independent validation of this 2009/10 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.

### 5.1. Grant Thornton

Grant Thornton (GT) was engaged to undertake an external review of the quantification of benefits, given their understanding of infrastructure investment in Scotland and of undertaking reviews of numerical analyses. They have not formally „audited“ the benefits statement as it is separate from the Company’s Financial Statements and Accounts. GT reviewed drafts of this document along with the spreadsheet calculation of benefits and backing papers. They also held discussions with SFT management on the methodology and underlying assumptions made. GT has reached conclusions on both the methodology adopted, and the reasonableness of the assumptions underpinning the individual benefits quantification. Key extracts of the conclusions are:

**Methodology:** “The intention is to provide a value in the current period Annual Report for benefits which are expected to crystallise in the future based on support and advice provided in the current period under review, and on that basis this appears to be a reasonable methodology.”

**Assumptions:** “Based on our consideration of the reasonableness of the methodology, consistency of its application and the underlying assumptions ..... we consider the approach taken to quantifying individual benefits to be reasonable.”

GT also recommended that the quantification should be reviewed on an annual basis with a statement being produced which highlights any required adjustments in respect of the benefit recognised in previous years. They further recommend that individual elements of the benefits valuation should be reviewed on an ongoing basis to ensure that they remain appropriate and reasonable.

### 5.2. London School of Economics

LSE was asked specifically to review the methodology adopted in valuing and reporting on benefits delivered from an academic standpoint. The team of three academics did not review in detail the source figures for the calculation of benefits but have reviewed the justifications given, recognising that these often represent hard to quantify benefits.

**Conclusion:** “In conclusion we recognise the challenges that you have faced in estimating the net benefits and commend SFT’s efforts in its first full year of operation. We believe that the use of a simple methodology and transparent estimation procedures is appropriate at this juncture, and in the future can be a sound basis for further enhancements.”

LSE also made suggestions for future development of the methodology including the ability for partner organisations to input more directly to the methodology and to record qualitative as well as quantified benefits.

### **5.3. Validation Detail**

The conclusion of both of these independent validation exercises is published in the Supporting Document our website [www.scottishfuturestrust.org.uk](http://www.scottishfuturestrust.org.uk)

ANNEX 1 – Benefit Proforma

**SFT Benefits Recognition Template**

**Part One - Indicators**

**Owner** - Please insert name:

**Reference** - Please leave blank upon initial completion:

**Identification Date** - Please insert initial identification date:

**Review Date** - Bi-annual unless otherwise agreed:

**VfM Driver(s)** - Please mark with an X:

Delivery	<input type="checkbox"/>
Aggregation & Collaboration	<input type="checkbox"/>
Funding & Finance	<input type="checkbox"/>
Validation	<input type="checkbox"/>
Centre of Expertise	<input type="checkbox"/>
Other	<input type="checkbox"/>

If 'Other' please specify...

**Project** - Select from drop down menu:

<input type="text"/>
<input type="text"/>
hub
Schools
Waste
Water
TIF
Investment Strategy
Borders Rail
Forth Crossing
Aberdeen Schools refinancing plan
Tayside Mental Health
Moray Schools
Western Isles Schools
Orkney Schools
Housing
Other

If 'Other' please specify...

**Part Two - Description and Assumptions**

Please enter a **description** of the benefit:

Please enter any associated **assumptions**:

Please enter any **dependencies**:

*We can only deliver this benefit if others...*

Please indicate level of **confidence** of realising benefit

- Select from drop down menu:

A - High  
B - Very Good  
C - Good  
D - Moderate

**Part Three - Nature and Location**

**Is the Benefit...** - Please select from drop down menu:

Continued on next page

More output for same input  
Same output for less input  
More output for less input

- Borders Rail
- Forth Crossing
- Aberdeen Schools refinancing plan
- Tayside Mental Health
- Moray Schools
- Western Isles Schools
- Orkney Schools
- Housing
- Other

If 'Other' please specify...

### Part Two - Description and Assumptions

Please enter a **description** of the benefit:

Please enter any associated **assumptions**:

Please enter any known **dependencies**:

*We can only deliver this benefit if others...*

Please indicate level of **confidence** of realising benefit

- Select from drop down menu:

A - High
B - Very Good
C - Good
D - Moderate

### Part Three - Nature and Location

**Is the Benefit...** - Please select from drop down menu:

More output for same input
Same output for less input
More output for less input

**Budget allocation of benefit** - Select from drop down menu:

SG Budget
LA Budget
SFT Budget
Other

If 'Other' please specify...

### Part Four - Value and Timing

**Capital value of project (£):**

**Benefit recognised (%):**

**Benefit recognised (£):**


**Year(s) of opportunity creation:**

**Year(s) in which benefit is delivered:**


**% of benefit realised attributable to SFT:**

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## ANNEX 2 – Benefits List and Backup Documents

This summary of SFT’s benefits is accompanied by a detailed document: “Scottish Futures Trust, Statement of Benefits 2009/10, Supporting Material”. In this supporting document:

- Each benefit has a separate section detailing the intervention made by SFT and the calculation of its quantification, along with associated assumptions;
- The Benefit Proforma (See Annex 1) for each benefit identified is reproduced;
- The calculation spreadsheet is embedded as an Excel file.

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

The table below shows the most likely value of each of the 27 benefits quantified. The top 10 benefits referred to in Section 4.1 are highlighted.

Reference	Description	Most Likely Benefit
A1	Key Stage Reviews - PUK KSR Costs Avoided	83,996
A2	Waste - Local Partnerships Gateway Review Costs Avoided	15,000
A3	Waste - Data Capture and Market Engagement	50,000
A4	Waste - Programme Support	50,000
A5	Waste - Procurement Cost Benefits	162,000
A6	ESA 95 - Consultancy Costs Avoided	29,156
A7	TIF - Consultancy Costs Avoided	47,344
A8	NHT - Consultancy Costs Avoided	378,600
B1	TIF - Development of Model	19,994,193
B2	NHT - Development of Model	6,879,974
C1	Western Isles and Orkney Schools Projects - Finance Structure	2,454,437
C2	Borders Rail - Lower Financing Costs	255,142
C3	Borders Rail - Competition	1,918,121
D1	Hub Programme - Reduced Procurement Time	895,563

Reference	Description	Most Likely Benefit
D2	Hub Programme - Capital Costs Continuous Improvement	925,947
D3	Hub Programme - Bid Costs Savings	322,470
D4	Hub Programme - Public Sector Investment Returns	161,390
D5	Hub Programme - Reduced Rates of Return	928,714
D6	Hub Programme - Dialogue Stage Public Sector Savings	406,355
D7	Schools Programme - Pilot Project Savings	867,765
D8	Schools Programme - Needs Identification	68,721,740
D9	Schools Programme - Continuous Improvement Savings	1,093,113
E1	Validation - Non-Standard Civils Projects	5,030,002
E2	Validation - Standard Accommodation Projects	195,780
F1	Operational Projects - Insurance Seminar	311,831
G1	Waste - Procurement Timetable Benefits	183,820
G2	Waste - Service Cost Benefits	2,027,552
		<b>114,390,005</b>

### ANNEX 3 – Sensitivity Analysis

Benefit Type	Upper Benefit (£m)		Most Likely Benefit (£m)	Lower Benefit (£m)	
	£m	(%)		£m	(%)
Avoided Costs	£1m	(+0%)	£1m	£1m	(-20%)
Efficiency Gain: Funding and Finance	£17m	(+255%)	£5m	£3m	(-24%)
Efficiency Gain: Validation	£5m	(+3%)	£5m	£4m	(-27%)
Efficiency Gain: Delivery (including Aggregation and Collaboration)	£98m	(+32%)	£74m	£55m	(-26%)
Efficiency Gain: Centre of Expertise	£7m	(+187%)	£2m	£2m	(-27%)
Additional Investment	£27m	(+0%)	£27m	£17m	(-36%)
<b>TOTAL</b>	£155m	(+36%)	£114m	£82m	(-29%)
<b>Cost</b>	£3m		£3m	£3m	
<b>Net Benefit</b>	£152m		<b>£111m</b>	£79m	

*NB: Figures subject to rounding*