

Scottish Futures Trust
Statement of Benefits
2009/10

Supporting Material

September 2010

**SCOTTISH
FUTURES
TRUST**

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

Supporting Material

Introduction

The methodology used to quantify the overall benefit delivered by SFT is set out in the main “Scottish Futures Trust Statement of Benefits 2009/10” document. This supplementary document contains supporting material for each of the individual benefits identified. Each benefit is listed on the following contents page and has a section setting out the nature of the intervention made by SFT that delivered the benefit, and the assumptions and methodologies used in its quantification.

For some benefits, where more detailed backup information is required to fully understand the intervention made and / or quantification, a write-up is included. Other benefits have a simple quantification approach in which case, the completed benefit proforma, referred to in the main document is included.

An annex to this document contains the letters received from Grant Thornton and London School of Economics and Political Science (LSE) following their validation work referred to in Section 5 of the Statement of Benefits.

For completeness and transparency of calculation, the entire Excel workbook containing the calculation methodology is embedded below and can be opened by double clicking on the Excel icon. This workbook contains:

- Title Sheet
- Top-10 Benefits Summary
- Results Summary (by class of benefit including sensitivities)
- Total benefit calculation – Sensitivity 1 – Upper Range
- Total benefit calculation – Sensitivity 2 – Most Likely
- Total benefit calculation – Sensitivity 3 – Lower Range
- Tabulation of confidence factors
- A worksheet for each of the benefits identified



SFT Statement of
Benefits 09_10 Calcul

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A1 – Key Stage Reviews – PUK KSR Costs Avoided

1. Intervention

Key Stage Reviews are an important project assurance and risk management tool. The need for such reviews has been reinforced in Audit Scotland's 2008 report, "Review of Major Capital Projects" where one of the key recommendations to improve project outcomes was to "ensure independent gateway or similar reviews at the key stages in projects". SFT have undertaken two types of review: a standard review for PPP/NPD projects; and a bespoke review for the Forth Replacement Crossing. Such reviews were previously undertaken by Partnerships UK on behalf of the Scottish Government.

2. Calculation – Standard KSR

During financial year 2009-10 six standard reviews were carried out by SFT. Previously PUK had been commissioned to carry out the reviews on a fixed scope fixed fee basis to provide independent commercial readiness review of PPP/NPD projects as they go through key procurement stages. The fee for 2008-09 stands at £5,666 per review, payable by the sponsoring department and projects were normally subject to reviews before an OJEU notice is published, before tender documents are issued, before a preferred bidder is appointed, and before financial close. Reviews consisted of a desktop review of project documentation with a report being submitted to SG FPU for discussion with the project sponsor. The reviews in 2009/10 were:

- Tayside Mental Health Pre-PB and Pre-FC KSR
- Orkney Schools Pre-IFT KSR
- Western Isles Schools Pre-ITN and Pre-PB KSR
- Moray Schools Pre-IFT KSR

Under the previous arrangement with PUK these would have cost $6 \times £5,666 = £33,996$ in total. SFT has undertaken these reviews thereby absorbing the cost within its normal budget and without a charge back to either the projects or programme sponsoring departments. In addition to the traditional desk top review, SFT has further undertaken to interview project teams and to discuss any concerns and/or recommendations directly with projects to ensure satisfactory conclusions.

3. Calculation – Forth Replacement Crossing KSR

Separately SFT has undertaken a significant and bespoke KSR for the Forth Replacement Crossing project prior to the launch of its Invitation to Participate in Dialogue (ITPD). The likely cost of this if contracted externally is calculated and added to the cost saving for undertaking standard KSRs internally.

The Pre-ITPD KSR review carried out by SFT for the Forth Replacement Crossing project was a bespoke review with significantly greater senior level time input than a standard KSR

report. Had this work been undertaken externally as would previously have been the case, it is likely that a one-off assignment would have been agreed with Partnerships UK to undertake the work.

Using Scottish Ministers' Framework Agreement Rates with PUK for 08/09 as a baseline and assuming zero inflation, the likely cost of a review similar to that undertaken by SFT would have been (based on 7 hour days):

Grade	Time Input	Cost
Director	5 days	
Project Director	10 days	
Assistant Director	10 days	
	TOTAL	58,345
	Approximate Discounted 10%	£50,000

4. Total Avoided Cost

The total cost avoided by SFT undertaking Key Stage Reviews internally during 2009/10:

Standard Reviews:	£ 33,996
FRC Review:	£ 50,000
Total:	£ 83,996

Key Stage Reviews - PUK KSR Costs Avoided

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:

A1
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	x
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Other

If 'Other' please specify...

Tayside Mental Health project, Orkney, Western Isles and Moray schools projects & FRC

Part Two - Description and Assumptions

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

KSR reviews carried out by SFT representing saving for SG on budgeted PUK fees £5,666 per review. Tayside Mental Health Pre-PB and pre-FC KSR £11,332; Orkney Schools Pre-IFT £5,666; Western Isles Schools Pre-ITN, pre-PB KSR £11,332; Moray Schools Pre-IFT KSR £5,666. Pre-ITPD KSR review for FRC carried out by SFT representing saving for TS on budgeted PUK agreed framework rate fees. avg £2k per man day. 25 man days.
--

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:

Use SFT expertise to undertake key Stage reviews
A - High

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

247,000,000
83,996

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10
2009/10

% of benefit realised attributable to SFT:

100%

A2 – Waste – Review Costs Avoided

1. Intervention

SFT is supporting local authorities which manage more than half of Scotland's household waste and are implementing projects with a capital cost of around £500 million. Waste treatment is a huge challenge for Scotland given the recent launch of the Scottish Government's Zero Waste Plan, future European targets to be met, as well as the increasing cost of waste collection, treatment and disposal. At the invitation of local authorities, SFT is working directly with project boards and the project teams of Glasgow City Council, Edinburgh/Midlothian Councils, North Lanarkshire and the East/North/South Ayrshire Councils to support the delivery of new waste infrastructure projects. SFT is also providing targeted support for West Lothian, South Lanarkshire, Perth and Kinross and Fife Councils in the development of their future waste treatment projects. SFT is also taking a leading role in the Clyde Valley Strategic Waste Initiative where eight local authorities within the Clyde Valley are collaborating to implement the recommendations of the Clyde Valley Shared Services Review, which was chaired by Sir John Arbuthnott.

SFT undertook a pre-ITPD review on behalf of the Glasgow City Council (GCC) waste project to assure readiness of the project team prior to issue of tender documents.

2. Calculation

As a benchmark cost this is compared to a typical gateway type review costing £15,000 per review. As this provided free of charge to GCC the recognised benefit = **£15,000**.

Supporting Evidence:

See link to Local Partnerships web site below

<http://www.localpartnerships.org.uk/PageContent.aspx?id=242&tp=Y>

Waste - Gateway Review Costs Avoided

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:

A2
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	x
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Waste

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

SFT undertake a pre ITDP review on behalf of the Glasgow City Council (GCC) waste project to assure readiness of the project team prior to issue of tender documents.

Please enter any associated **assumptions**:

Typically gateway type reviews cost £15k per review. As this provided free of charge to GCC benefit =£15k.
--

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

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£):

80,000,000

Benefit recognised (%):

--

Benefit recognised (£):

15,000

Year(s) of opportunity creation:

2009/10

Year(s) in which benefit is delivered:

2009/10

% of benefit realised attributable to SFT:

100%

A3 – Waste – Data Capture and Market Engagement

1. Intervention

SFT is supporting local authorities which manage more than half of Scotland's household waste and are implementing projects with a capital cost of around £500 million. Waste treatment is a huge challenge for Scotland given the recent launch of the Scottish Government's Zero Waste Plan, future European targets to be met, as well as the increasing cost of waste collection, treatment and disposal. At the invitation of local authorities, SFT is working directly with project boards and the project teams of Glasgow City Council, Edinburgh/Midlothian Councils, North Lanarkshire and the East/North/South Ayrshire Councils to support the delivery of new waste infrastructure projects. SFT is also providing targeted support for West Lothian, South Lanarkshire, Perth and Kinross and Fife Councils in the development of their future waste treatment projects. SFT is also taking a leading role in the Clyde Valley Strategic Waste Initiative where eight local authorities within the Clyde Valley are collaborating to implement the recommendations of the Clyde Valley Shared Services Review, which was chaired by Sir John Arbuthnott.

SG's Zero Waste Plan: SG having greater clarity on local authority infrastructure plans as well as developments within the private sector and any bottlenecks to efficient and effective delivery. This will allow SG and local authorities to work together to mitigate the risk associated, and actual or perceived bottlenecks, and increase the probability of projects being aligned to policy objectives.

2. Calculation

Comparable commercial support in other jurisdictions (eg DEFRA, the Welsh Assembly and SIB/DoE) is provided centrally. Costs vary but a benchmark of c.£1m pa for central and local support is reasonable. Data capture approximates to 10% of the total support offered = £100,000.

2009/10 Benefit – 6 months work undertaken by SFT = **£50,000**.

As a cross check of the calculation, if elements of the work were to be procured externally:

1. Opportunity cost of other public body's time to procure this service (scoping commission, running competition, assessing tenders, appointing supplier, managing the contract) – say 2 FTE for 10 days @ £500/day = £10,000.
2. Data collection and verification – 2 FTE @ £500/day for 20 days = £20,000
3. Data interpretation and formatting data – 2 FTE @ £500/day for 5 days = £5,000
4. Presentation of data to key stakeholders – 1 FTE @ £500/day for 2 presentations = £1,000
5. On-going data collection and keep data set updated – say 1 day per week @ £500/day = £13,000.

Waste - Data Capture and Market Engagement Part One - Indicators

Owner - Please insert name:	
Reference - Please leave blank upon initial completion:	A3
Identification Date - Please insert initial identification date:	26/02/2010
Review Date - Bi-annual unless otherwise agreed:	30/09/2010

VfM Driver(s) - Please mark with an X:	Delivery	
	Aggregation & Collaboration	
	Funding & Finance	
	Validation	
	Centre of Expertise	x
	Other	

If 'Other' please specify...

Project - Select from drop down menu:

If 'Other' please specify...

Part Two - Description and Assumptions

Please enter a description of the benefit:	SG's Zero Waste Plan: SG having greater clarity on local authority infrastructure plans as well as developments within the private sector and any bottlenecks to efficient and effective delivery. This will allow SG to work with Local Authorities to mitigate the risk associated and actual or perceived bottlenecks and increase the probability of projects being aligned to policy objectives.
Please enter any associated assumptions :	Comparable commercial support in other jurisdictions (eg DEFRA, the Welsh Assembly and SIB/DoE) is provided centrally. Costs vary but a benchmark of c.£1m pa for central and local support is reasonable. Data capture approximates to 10% of the total support offered = £100,000. 2009/10 - 6 months work undertaken by SFT.
Please enter any known dependencies : <i>We can only deliver this benefit if others...</i>	Accurate and up to date information from local authorities.
Please indicate level of confidence of realising benefit - Select from drop down menu:	A - High

Part Three - Nature and Location

Is the Benefit... - Please select from drop down menu:	Same output for less input
Budget allocation of benefit - Select from drop down menu:	SG Budget
If 'Other' please specify...	

Part Four - Value and Timing

Capital value of project (£):	N/A
Benefit recognised (%):	
Benefit recognised (£):	50,000
Year(s) of opportunity creation:	2009/10
Year(s) in which benefit is delivered:	2009/10
% of benefit realised attributable to SFT:	100%

A4 – Waste – Programme Support

1. Intervention

SFT is supporting local authorities which manage more than half of Scotland's household waste and are implementing projects with a capital cost of around £500 million. Waste treatment is a huge challenge for Scotland given the recent launch of the Scottish Government's Zero Waste Plan, future European targets to be met, as well as the increasing cost of waste collection, treatment and disposal. At the invitation of local authorities, SFT is working directly with project boards and the project teams of Glasgow City Council, Edinburgh/Midlothian Councils, North Lanarkshire and the East/North/South Ayrshire Councils to support the delivery of new waste infrastructure projects. SFT is also providing targeted support for West Lothian, South Lanarkshire, Perth and Kinross and Fife Councils in the development of their future waste treatment projects. SFT is also taking a leading role in the Clyde Valley Strategic Waste Initiative where eight local authorities within the Clyde Valley are collaborating to implement the recommendations of the Clyde Valley Shared Services Review, which was chaired by Sir John Arbuthnott.

Sharing Best Practice and Lessons Learnt and enhancing Public Sector Procurement Capacity: SFT established and facilitates a Waste Procurement Forum to create the platform for LAs to share best practice and lesson learned. SFT is also running a series of contract and commercial workshops free of charge to LAs.

2. Calculation

Comparable commercial support in other jurisdictions (eg DEFRA, the Welsh Assembly and SIB/DoE) is provided centrally. Costs vary but a benchmark of c.£1m pa for central and local support is reasonable. Programme Support approximates to 10% of the total support offered = £100,000.

2009/10 Benefit – 6 months work undertaken by SFT = **£50,000**.

As a cross check of the calculation, if elements of the work were to be procured externally:

1. Opportunity cost of other public body's time to procure this service (scoping commission, running competition, assessing tenders, appointing supplier, managing the contract) – say 2 FTE for 5 days @ £500/day = £5,000
2. Preparation for bi-monthly procurement– 2 No. in 6months - 1 FTE @ £500/day for 2 days = £1,000 x 2 = £2,000
3. Hosting and facilitating bi-monthly procurement– 2 No. in 6months - 2 FTE @ £500/day for 1 days = £1,000 x 2 = £2,000
4. Prep for contract workshop – 1 No every six months – 1 FTE for 3 days @ £500/day = £1,500
5. Hosting contract workshop with 3 senior waste / contracts procurement professionals - delegate rate of comparable conference / event hosted by city and financial £300/delegate (see link

http://www.cityandfinancial.com/conference/local_partnerships_2010) for recent event run for Local Partnerships in England. 17 attendees – $17 \times £300 = £5,100$

6. Working with six local authority projects to share best practice and lessons learned – 6No. x 1/2day per week on average each @ £500/day for 6 months = £34,500

Waste - Programme Support

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:

A4
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	x
Other	

If 'Other' please specify...

Project - Select from drop down menu:

If 'Other' please specify...

Part Two - Description and Assumptions

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

Sharing Best Practice and Lessons Learnt and enhancing Public Sector Procurement Capacity: SFT established and facilitates a Waste Procurement Forum to create the platform for LAs to share best practice and lesson learned. SFT is also running a series of contract and commercial workshops free of charge to LAs.

Please enter any associated **assumptions**:

Comparable commercial support in other jurisdictions (eg DEFRA, the Welsh Assembly and SIB/DoE) is provided centrally. Costs vary but a benchmark of c.£1m pa for central and local support is reasonable. Data capture approximates to 10% of the total support offered = £100,000. 2009/10 - 6 months work undertaken by SFT.

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:

Participation from Local Authorities

A - High

Part Three - Nature and Location

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

Budget allocation of benefit - Select from drop down menu:

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:

A5 – Waste – Procurement Cost Benefits

1. Intervention

SFT is supporting local authorities which manage more than half of Scotland's household waste and are implementing projects with a capital cost of around £500 million. Waste treatment is a huge challenge for Scotland given the recent launch of the Scottish Government's Zero Waste Plan, future European targets to be met, as well as the increasing cost of waste collection, treatment and disposal. At the invitation of local authorities, SFT is working directly with project boards and the project teams of Glasgow City Council, Edinburgh/Midlothian Councils, North Lanarkshire and the East/North/South Ayrshire Councils to support the delivery of new waste infrastructure projects. SFT is also providing targeted support for West Lothian, South Lanarkshire, Perth and Kinross and Fife Councils in the development of their future waste treatment projects. SFT is also taking a leading role in the Clyde Valley Strategic Waste Initiative where eight local authorities within the Clyde Valley are collaborating to implement the recommendations of the Clyde Valley Shared Services Review, which was chaired by Sir John Arbuthnott.

SFT has undertaken a range of measures to secure a more cost efficient procurement of required services. This has included: Adviser appointment templates and guidance, market engagement support, project governance and management arrangements, procurement planning, the production of template documentation. Also validation and scrutiny of project documents and cross checking with other UK waste projects.

The capital values of the first three projects are as follows:

GCC Residual Waste Treatment Project	£80m
Zero Waste Residual Treatment Project	£80m
Ayrshires Joint Residual Waste Project	£50m
Total	£210m

2. Calculation

To buy support comparable to this, DEFRA and the Welsh Assembly have engaged external support at a cost of c.£1,800/day per person. Support of 5 days per month for projects in procurement = $5 \times 12 \times £1800 = £108k$ pa.

2009/10 – 6 months work undertaken by SFT on 3 projects = $108,000 \times 3 \times 6/12 = \textbf{£162,000}$.

Waste - Procurement Cost Benefits

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:

A5
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	x
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Waste

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

A range of measures to secure a more cost efficient procurement of the required services. This has included: Adviser appointment templates and guidance, market engagement support, project governance and management arrangements, procurement planning, the production of template documentation. Also validation and scrutiny of project documents and cross checking with other UK waste projects.

Please enter any associated **assumptions**:

To buy support comparable to this, DEFRA and the Welsh Assembly have engaged external support at a cost of c.£1800/day per person. Support of 5 days per month for projects in procurement = 5*12*£1800=£108,800 pa. 09/10 - 6 months work undertaken by SFT on 3 projects.

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:

None
A - High

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

GCC Residual Waste Treatment Project - £80m
Zero Waste Residual Waste Treatment Project - £80m
Ayrshires Joint Residual Waste Project - £50m
100%
162,000

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10
2009/10

% of benefit realised attributable to SFT:

100%

A6 – ESA95 Consultancy Fees Avoided

A7 – TIF Consultancy Fees Avoided

A8 – NHT Consultancy Fees Avoided

1. Intervention

SFT has staff with deep technical skills and experience in infrastructure financing and procurement not generally retained in the public sector. Such skills include:

- accounting and classification;
- project finance;
- financial modelling;
- procurement strategy development; and
- legal structuring.

These skills have been deployed to undertake early development work for new procurement and financing models such as Tax Incremental Financing (TIF) and the National Housing Trust (NHT) which would previously have required substantial external financial and legal advice. Thus the bulk of the work has been carried out by SFT, not just saving the cost of advisors, but also retaining knowledge for future benefit. This has allowed very limited use of external advisors and such use has been carefully controlled and targeted where the specific experience across a wide variety of transactions in the selected advisory firms has supplemented in-house skills. In relation to „ESA95“, SFT has undertaken work in house to understand the implication of new European statistical reporting rules for government budgets on revenue financed investment through NPD and other potential mechanisms.

2. Calculation

The calculation of the benefit delivered is based on estimates of time taken along with the charge out rates experienced from advisory firms. Detailed calculations are on the attached sheets.

3. Summary

A6 - ESA 95	£29,156
A7 - TIF	£47,344
A8 - NHT	£ 378,600
Total	£455,100

The additional non costed benefit is the retained knowledge within SFT that can be used on future programmes and represents an increasing source of expertise going forward.

ESA 95 - Consultancy Costs Avoided

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:

A6
21/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

Project - Select from drop down menu:

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:

Part Three - Nature and Location

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

Budget allocation of benefit - Select from drop down menu:

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:

TIF - Consultancy Costs Avoided

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:

A7
21/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

Project - Select from drop down menu:

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:

Part Three - Nature and Location

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

Budget allocation of benefit - Select from drop down menu:

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:

NHT - Consultancy Costs Avoided

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:

A8
21/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Housing

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Development of the business case for NHT including financial modelling and development of the structures in house

Please enter any associated **assumptions**:

Minimal external consultancy costs (Legal & Financial) during 9 months development period Consultancy costs avoided - Estimated 'big 4' charge out rates: Partner - 2 days pw (3 months) / £300ph Sennior Assoc - 5 days pw (5 months) / £275ph Senior Assoc - 4 days pw (4 months) / £275ph Manager - 3 days pw (5 months) / £180ph (Assumes 7.5 hours per day)

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:

None
A - High

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SFT Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

136,000,000
378,600

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10
2009/10

% of benefit realised attributable to SFT:

100%

B1 – TIF – Development of Model

1. Intervention

SFT is leading the development of Tax Incremental Financing (TIF) in Scotland. These TIF projects which will unlock infrastructure for major regeneration schemes in Scotland will be the first such schemes in the UK. SFT is working with Government and local authority partners in Edinburgh City Council, Glasgow City Council and North Lanarkshire Council on developing business cases for pilot projects in themselves worth £250 million but which have the potential to unlock regeneration investment in excess of £1 billion. Draft business cases from Edinburgh City and North Lanarkshire Councils are currently being considered.

2. Calculation

The base case benefit is built upon the delivery of three TIF pilot projects in Edinburgh, Glasgow and North Lanarkshire. The capital values of the projects are as follows:

Edinburgh	£60-80m
Glasgow	£120-150m
Ravenscraig (North Lanarkshire)	£70m
Total	£250m

The lower of each of these project capital values have been used to calculate the benefit.

As the TIF initiative is being delivered in conjunction with local authorities and Scottish Government, SFT have recognised one third of the benefit in the Statement of Benefits.

Benefits are expected to be delivered between 2011/12 and 2015/16 (assuming a flat profile). These opportunities are being created in 2009/10 (50%) and 2010/11 (50%).

TIF - Development of Model

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:

B1
21/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

TIF

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Development of TIF model for Scotland including PWLB, link of economics to financing, working with LAs. There are a number of benefits associated with SFT's involvement in TIF. These include: enabling the delivery of the project / assets on the ground / supporting SG and LAs in process / enabling projects for the private sector / stimulating the economy / building expertise / new replicable models. Benefits measured do not include economic benefit e.g. job creation, tourism, increased business activity, etc. Noted below are forecast levels of private sector investment based upon proposed TIF schemes.
--

Please enter any associated **assumptions**:

Assume £250m capital value for the 3 TIF pilots to date (£70m Ravenscraig, £60-80m Edinburgh, £120-150m Glasgow) Per Business Case
Depends on LAs taking projects forward and SG approval
D - Moderate

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:

Part Three - Nature and Location

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

More output for same input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

Other
LA and SG budgets

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

250,000,000
100%
250,000,000

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10 (50%) and 2010/11 (50%)
2011/12 to 2015/16 (assume flat profile)

% of benefit realised attributable to SFT:

33%

Other parties involved: SG & LAs

B2 – NHT – Development of Model

1. Intervention

SFT has developed proposals to meet a shortfall in affordable housing and stimulate the house-building industry in Scotland through the development of the National Housing Trust initiative. The initiative's innovative financing structure will deliver an initial £136 million of housing but has potential for future expansion. The proposal for NHT, developed with the Scottish Government and in consultation with local authorities and COSLA, has been the subject of a procurement prior information notice that a lot of interest from the industry. The proposals are being consulted on with industry and are likely to move into procurement this year with the initial phase delivering about 1000 units of housing.

2. Calculation

The base case benefit is built upon the delivery of c.1,000 units with a capital value of £136m. The final unit size will be driven by local authority interest and availability of units.

The guarantee cost of £2k per unit is offset against the overall benefit of £136m = net benefit of **£134m**.

As the NHT initiative is being delivered in conjunction with local authorities and Scottish Government, SFT have recognised one third of the benefit in the Statement of Benefits.

Benefits are expected to be delivered in 2011/12. These opportunities are being created in 2009/10 (30%) and 2010/11 (70%).

NHT - Development of Model

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:

B2
22/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

Project - Select from drop down menu:

Housing

If 'Other' please specify...

Part Two - Description and Assumptions

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

Development of NHT model including use of prudential borrowing. Working with LAs and SG.
There are a number of benefits associated with SFT's involvement. These include: enabling the delivery of the project / delivering assets on the ground / supporting SG and LAs in process / single approach for project / aggregation and collaboration / enabling projects for the private sector / stimulating the economy / building expertise / new replicable models.
£136m capital value per financial model. Business case assumptions still hold in terms of NHT for capital values, no. of units, etc.

Please enter any associated **assumptions**:

The current base case is built upon the delivery of c.1,000 units - ultimate unit size will be driven by LA interest and availability of units
Guarantee cost offset - £2m (Cost based on 1,000 units at £2k per unit)

Please enter any known **dependencies**:

We can only deliver this benefit if others...

Secure interest / desire to progress project from LAs and private sector.
Process ongoing.

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

- Select from drop down menu:

D - Moderate

Part Three - Nature and Location

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

More output for same input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

Other
Benefits accrue at SG, SFT, LA level

Part Four - Value and Timing

Capital value of project (£):

134,000,000

Benefit recognised (%):

100%

Benefit recognised (£):

134,000,000

Year(s) of opportunity creation:

2009/10 (30%) and 2010/11 (70%)

Year(s) in which benefit is delivered:

2011/12

% of benefit realised attributable to SFT:

33%

Other parties involved: SG & LAs

C1 – Western Isles and Orkney Schools Projects – Finance Structure

1. Intervention

SFT undertook a Key Stage Review (KSR) of the Western Isles „Hybrid“ Schools procurement project prior to Financial Close. This project had been in development since 2002 and procurement since June 2006. With the Orkney Islands schools project it represented a structural innovation in infrastructure procurement to undertake the construction and some maintenance of the facilities through a wholly Council owned Special Purpose Company, as opposed to a privately owned company, as is the case in PPP and NPD structures.

The KSR undertaken showed sound progress in the procurement but revealed a technical budgeting issue with the flow of funds between Government and the Local Authority inherent in the proposed financial structure. Under HM Treasury rules the transaction would have been classified as supported borrowing, requiring the capital value of the project to be scored against the Scottish Government’s capital budget. SFT worked with Scottish Government to resolve this issue both in terms of preserving the value of support for the project and alignment with Scottish Government budgets.

2. Calculation

£60m capital value of Western Isles project, requiring £2.22m revenue support per annum for 30 years. £50m capital value of Orkney project requiring £2.08m of revenue support per annum of 30 years. Revenue budget cost to Scottish Government of £4.3m per annum for thirty years operational period avoided through revised funds flow arrangements.

Western Isles and Orkney Schools Projects - Finance Structure

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:

C1
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Western Isles & Orkney Schools

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

The KSR revealed a technical budgeting issue with the flow of funds between Government and the Local Authority for this structure originally devised by the then Financial Partnerships Unit in Scottish Government. This would have led to a double counting of the capital cost of the projects under public sector accounting and budgeting rules, that had not previously been allowed for. SFT worked with Scottish Government to resolve this issue and avoid the double counting of budgets

Please enter any associated **assumptions**:

£60m capital value of Western Isles project, requiring £2.22m revenue support per annum for 30 years
£50m capital value of Orkney project requiring £2.08m of revenue support per annum of 30 years

Please enter any known **dependencies**:

We can only deliver this benefit if others...

Discussion ongoing as at financial year end. Suggestion now accepted in FY 10/11

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

- Select from drop down menu:

A - High

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

£126m
£4.3m per annum for 30 years

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

09/10 - 20%, 10/11 - 80%
12/13 to 41/42

% of benefit realised attributable to SFT:

50%

Other parties involved: SG

C2 – Borders Rail – Lower Financing Costs

1. Intervention

SFT is working with Transport Scotland to bring robust due diligence and developments in financing structures to major transport projects. The £235- 295m million (2012 prices) Borders Rail project has just announced its three shortlisted bidders; SFT sits on the Project Board for this project and is also supporting the sourcing of value for money finance. Financial innovations promoted include the use of appropriate Guarantees in the operational stage of projects and robust negotiation of project returns to the private investors.

2. Calculation

Standard PPP / NPD						
Funding	Proportion	Cost	WACC			
Sub-debt	10%	13.0%	1.3%	20 year LIBOR:	4.00 %	
Debt	90%	6.10%	5.5%	Margin:	210 basis points	
	100%		6.8%	All in:	6.1 %	
Project Value*	275	m				
Period:	25	years				
Annuity	£23.15	m per year				
* - estimate based on mid-point capital cost of £250m plus development costs and construction interest						
Guaranteed Structure with reduced Equity IRR						
Funding	Proportion	Cost	WACC			
Sub-debt	10%	11.5%	1.2%	20 year LIBOR:	4.00 %	
Debt	90%	5.44%	4.9%	Guaranteed proportion	55 %	
	100%		6.0%	Margin (guaranteed)	90 basis points	
				Margin (at risk)	210 basis points	
Project Value	275	m		All in:	5.44 %	
Period:	25	years				
Annuity	£21.61	m per year				
WACC Reduction			0.74%			
Annual Saving:			£1.55	m per year in the operational phase		

3. Supporting Information

"Examples of Guarantee structures used in Europe include the French "Cession de Créances" and the German "Forfaiting" models:

Cession de Créances - an assignment of receivables, whereby a creditor transfers the benefit of certain receivables directly to its banks. The concept has been in existence under French law for a number of years. In PPP, the public authority granting the PPP contract (and hence

liable for a stream of unitary payments to the project company over the life of the contract) can in advance decide to accept the transfer of the benefit of a portion of these payments to the lenders, under certain conditions provided for in the PPP contract. The main conditions under which this acceptance becomes valid are:

- Construction must be complete and the project in operation
- Only a portion of the fraction of the unitary payment corresponding to the investment and financing costs can be transferred. The 2008 PPP law caps this portion at 80% of the investment and financing element of the payment.

The benefit of the transfer then becomes irrevocable, irrespective of whether the services under the PPP contract are being rendered or not. In France, the pre-crisis margins on the Dailly (guaranteed) tranches were of a few basis points only, however they have increased to around 120 bps post-crisis. Increase in margins for the non-guaranteed tranche is not seen in practice.

Forfeiting: The forfeiting model (“Forfaitierung”) is often used by municipalities in Germany as a financing scheme for PPP. It is very similar in concept to the French “cession de créances” as it provides comfort to the senior debt by making irrevocable a portion of the authority’s payments under the PPP contract. Usually the public sector partner and the financing institution will sign a side agreement, under which the public partner waives its right to reduce or suspend the payments to the bank (ie the debt service element of its unitary payment), in the case of poor or non performance by the private partner. In some cases, the forfeiting concept covers only 80 to 95% of the debt service (similar to the French model). In this case, the non forfeited portion of the bank debt remains at risk, but in others 100% of senior debt is covered. Forfeiting will typically only apply during the operational phase . The construction phase, in contrast, is subject to a classic project finance structure.

Interest rates on forfeited amounts are close to public credit rates, which in late 2009 represented a 40 to 80 basis points margin.

Information on Cession de Creances and Forfeiting taken from European PPP Expertise Centre (EPEC) at the European Investment Bank (EIB)

Valuing Guarantees Given

Under IFRS accounting rules, any guarantee given would have to be budgeted for by the guaranteeing Authority (Scottish Government in this case) based on the probability of the guarantee being called multiplied by the value if called:

Probability:	1%	Less than 1 in 100 PPP style projects without significant operational elements have suffers losses to senior debt once stable operations have been achieved. Borders Railway is such a project with no substantial operations, or technological risk. As such, it is reasonable to apply a conservative 1% to the probability of any guarantee being called
Impact:	£150m	The total funding requirement is estimated to be £300m, with 50% subject to the guarantee
Guarantee Cost:	£1.5m	The "cost" to the Scottish Government in its budget of providing the Guarantee is a one-off value incurred in the year that the guarantee is given.

Reduced Investment Returns (IRR)

SFT has experience of reducing the investment returns to private sector promoters of PPP style projects, below the 12-14% commonly seen. It is anticipated that such approaches could lead to a 3% reduction in project returns on a scheme of this nature. For prudence this currently included in the calculation as a 1.5% reduction.

Borders Rail - Lower Financing Costs

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:

C2
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

Project - Select from drop down menu:

If 'Other' please specify...

Part Two - Description and Assumptions

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

Seat on Project Board and assisting and enhancing financing efficiency of the project. Work done in assessing options that are used in Europe (e.g. Cession de Creance in France and Forfaiting in Germany). Discussions with other public sector bodies including HMT. Transition finance also being evaluated. Options developed and can only be deployed in live procurement.

Please enter any associated **assumptions**:

A 0.75% saving in financing costs as a result of initiative introduced by SFT (e.g. a debt guarantee) and robust dialogue interventions to encourage competitive levels of equity return. 1% cost of guarantee (£1.5m) deducted from first year of benefit.

Please enter any known **dependencies**:

We can only deliver this benefit if others...

Initiative to be included in project structure. ESA95 to be satisfied. Healthy competition in funding is needed.

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

- Select from drop down menu:

Part Three - Nature and Location

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

Budget allocation of benefit - Select from drop down menu:

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:

Other parties involved: TS

C3 – Borders Rail – Competition

1. Intervention

SFT is working with Transport Scotland to bring robust due diligence and developments in financing structures to major transport projects. The £235- 295m million (2012 prices) Borders Rail project has just announced its three shortlisted bidders; SFT sits on the Project Board for this project and is also supporting the sourcing of value for money finance.

The NPD structure had previously only been used for accommodation projects. Early market testing by Transport Scotland suggested that for the transport infrastructure sector where the bidding company population is more international, there were technical elements which did not affect the key NPD features, but made it significantly unattractive to bidders in comparison to projects in other jurisdictions. There was a serious concern that there could be a diminution of value for money through lack of competition.

SFT has developed and implemented a technical change to NPD provisions to make it more appropriate to the Transport sector. At least three strong potential bidders were gained for the project through these actions.

2. Calculation

The benefit over the life of the project driven by this competition is calculated conservatively as 5% of total capital cost and ongoing annual operation and maintenance costs.

Work by the Competition Commission and others including the utilities regulators indicates that the value of strong competition can be significantly greater than the 5% figure used in this calculation:

Competition Commission: *“The consequences of [competition] are that prices will typically be bid down to an efficient level of cost”..... “in 2000 the Competition Commission in the UK found that new car prices were 10% too high”*

http://www.competition-commission.org.uk/our_peop/members/chair_speeches/pdf/geroski_uea_140904.pdf

Capital Cost 5% reduction leading to annual unitary charge reduction of approx:	£1.15m p.a. for 30 years
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Operating Cost reduction leading to annual unitary charge reduction of approx:	£0.25m p.a. for 30 years
--	--------------------------

TOTAL	£1.3m p.a for 30 years (rounded down)
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Borders Rail - Competition

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:

C3
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Borders Rail

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Building on market sounding feedback, adjustment made to npd structure, while clearly maintaining the npd principles, was introduced to bring clarity to npd in the transport sector and enhance competitive attraction of the project and potential vfm. At least three strong potential bidders were gained for the project through these actions

Please enter any associated **assumptions**:

Evidence that good competition drives pricing benefit in excess of 5%. Against likely capital and maintenance cost for this project, that would result in an annual unitary charge saving of approximately £1.3m
--

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:

None
C - Good

Part Three - Nature and Location

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

More output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

250,000,000
5% of capex and omr
£1.3m per annum for 30 years

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10
2014/15 onwards

% of benefit realised attributable to SFT:

50%

Other parties involved: TS

D1 – Hub Programme – Reduced Procurement Time

1. Intervention

SFT is leading the procurement of *hub* which brings together local authorities, NHS boards, other public sector bodies and the private sector in five community partnerships across Scotland which will deliver around £1 billion of infrastructure over ten years. The South East *hub* Territory (Lothian & Borders), which has an estimated project pipeline of work valued at £300 million, is the lead *hub* territory; construction of initial projects will start later this calendar year. The first joint venture, Hub South East Scotland Limited, has now (post year end) been formed between all the public sector bodies, SFT Investments and SPACE Consortium, the private sector partner. SFT allocated £6.5m start-up funding for the initial hub projects in the South East in March 2010. The North *hub* Territory (Grampian, Highlands and Islands), with an expected pipeline of work worth £435 million over ten years, is now procuring its private sector partner. Work is currently ongoing to establish the West and East Central *hub* Territories and bring them to market in 2010.

The removal of the need to carry out procurement via OJEU for each individual project procured through the hub programme should save 6 months in time. The earlier delivery of projects and the reduction in internal and advisory transaction costs is likely to equate to 2% of the capital cost of the project, across the £1bn anticipated pipeline in the first 10 years of the hub partnerships.

At this stage, the wider operational cost saving and service delivery benefits of hub have not been quantified.

2. Calculation

2% Capital cost saving through accelerated development and reduced internal and bought-in costs of transactions. This saving will be delivered to budgets over the 10-years of project delivery for capital funded projects (assumed £325m pipeline) and over the subsequent 25-year operational; periods of DBFM projects (assumed £675m pipeline).

The undiscounted sum of this benefit is £34.6m of which 50% (£17.3m) is attributable to SFT, with 50% being attributable to the collaborative efforts of other participant public sector organisations.

SFT Benefits Recognition Template

Hub Programme - Reduced Procurement Time

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:

D1
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

hub

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

The hub structure will remove the requirement for all participating public bodies to go through the full OJEU process for every project that they undertake above the OJEU threshold. This will lead to a significant saving in procurement time and associated cost.

Please enter any associated **assumptions**:

The removal of the need to carry out procurement via OJEU should save 6 months in time. The earlier delivery of projects and the reduction in internal and advisory transaction costs is likely to equate to 2% of the capital cost of the project.

Please enter any known **dependencies**:

We can only deliver this benefit if others...

If Participants set up effective project management processes and structures for the project which is under development - such that the savings mentioned above are realised and the time saving is put to best use.
--

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

- Select from drop down menu:

B - Very Good

Part Three - Nature and Location

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

More output for same input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

Other
NHS /LA

Part Four - Value and Timing

Capital value of project (£m):

Benefit recognised (%):

Benefit recognised (£):

1,000m (£1bn)
2% of capital costs
£34.6m

Year(s) of opportunity creation:

40% - 09/10, 30%, 20%, 10% following years
--

Year(s) in which benefit is delivered:

Up to 2047 - end of 25 year life of last project procured

% of benefit realised attributable to SFT:

50%

Hub participants

D2 – Hub Programme – Capital Costs Continuous Improvement

1. Intervention

SFT is leading the procurement of *hub* which brings together local authorities, NHS boards, other public sector bodies and the private sector in five community partnerships across Scotland which will deliver around £1 billion of infrastructure over ten years. The South East *hub* Territory (Lothian & Borders), which has an estimated project pipeline of work valued at £300 million, is the lead *hub* territory; construction of initial projects will start later this calendar year. The first joint venture, Hub South East Scotland Limited, has now (post year end) been formed between all the public sector bodies, SFT Investments and SPACE Consortium, the private sector partner. SFT allocated £6.5m start-up funding for the initial hub projects in the South East in March 2010. The North *hub* Territory (Grampian, Highlands and Islands), with an expected pipeline of work worth £435 million over ten years, is now procuring its private sector partner. Work is currently ongoing to establish the West and East Central *hub* Territories and bring them to market in 2010.

The HubCo in each Territory is contractually obliged to meet performance targets - including driving down the cost of constructing community projects and improving the specification of buildings. There is therefore a saving delivered through reduction in construction costs (in real terms) via the robustly monitored continuous improvement targets for HubCo. 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.

Efficiencies and economies of scale will be generated by the private sector development partner and supply chain e.g. via competition in supply chains, cost improvement plans, benchmarking, VfM procedures, integrated design and lifecycle approach, standardised processes and documents across sustained deal flow.

In relation to existing partnering arrangements such as Procure 21 in England and Designed for Life in Wales this 1% continuous improvement estimate is considered conservative.

At this stage, the wider operational cost saving and service delivery benefits of hub have not been quantified.

2. Calculation

1% per annum capital cost continuous improvement saving through supply chain efficiencies and benchmarking / monitoring. This saving will be delivered to budgets over the 10-years of project delivery for capital funded projects (assumed £325m pipeline) and over the subsequent 25-year operational; periods of DBFM projects (assumed £675m pipeline).

The undiscounted sum of this benefit is £79m of which 50% (£39.4m) is attributable to SFT, with 50% being attributable to the collaborative efforts of other participant public sector organisations.

Hub Programme - Capital Costs Continuous Improvement

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:

D2
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

hub

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

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 improving the specification of buildings. Savings are assumed to be 1% per annum real cumulative - hence by year 10 to have made a saving of 10% compared to the baseline model.
--

Please enter any associated **assumptions**:

SFT supports the Territory in setting out performance targets including national standards on these targets and is responsible for sharing best practice in this across Scotland.

Please enter any known **dependencies**:

We can only deliver this benefit if others...

Each Territory negotiates stretching targets for continuous improvement and then works hard with the HubCo to assist in delivering these targets.

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

- Select from drop down menu:

C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

LA Budget
NHS

Part Four - Value and Timing

Capital value of project (£m):

Benefit recognised (%):

Benefit recognised (£):

1,000m (£1bn)
1% per annum cumulative
£79m

Year(s) of opportunity creation:

40% - 09/10, 30%, 20%, 10% following years
--

Year(s) in which benefit is delivered:

Up to 2047 - end of 25 year life of last project procured

% of benefit realised attributable to SFT:

50%

Hub participants

D3 – Hub Programme – Bid Cost Savings

1. Intervention

SFT is leading the procurement of *hub* which brings together local authorities, NHS boards, other public sector bodies and the private sector in five community partnerships across Scotland which will deliver around £1 billion of infrastructure over ten years. The South East *hub* Territory (Lothian & Borders), which has an estimated project pipeline of work valued at £300 million, is the lead *hub* territory; construction of initial projects will start later this calendar year. The first joint venture, Hub South East Scotland Limited, has now (post year end) been formed between all the public sector bodies, SFT Investments and SPACE Consortium, the private sector partner. SFT allocated £6.5m start-up funding for the initial hub projects in the South East in March 2010. The North *hub* Territory (Grampian, Highlands and Islands), with an expected pipeline of work worth £435 million over ten years, is now procuring its private sector partner. Work is currently ongoing to establish the West and East Central *hub* Territories and bring them to market in 2010.

With stand alone DBFM procurement competitions, generally there are 3 bidders who incur substantial sums in bidding for the project. 2 of these 3 bidders will suffer loss on these sums and the winning bidder will generally recover a multiple of their bid costs to cover for lost bid costs on other projects. Under the hub model there is no need to bid for individual DBFM projects so these costs are saved.

At this stage, the wider operational cost saving and service delivery benefits of hub have not been quantified.

2. Calculation

The saving is assumed to be £0.5m per DBFM project - £0.375m spent per bidder on average and an average of 1.5 losing bidders per project. There is also an assumed workflow of DBFM projects across Scotland - 1 for each of the five territories per annum on average. The bid cost saving, which bidders would seek to recover from the public sector on future projects is then translated into an anticipated unitary charge saving for each project.

Design Fees Saved	£0.225m	per bidder per project
Other Bid Costs	£0.15m	
Total	£0.375m	
No of Losing Bidders Per Project	1.5	
Total Saving per project (capital)	£0.5m	
Equivalent Unitary Charge Reduction (p.a.)	£0.047m	Per project per annum

The undiscounted sum of this benefit is £53m across all the projects in the projected hub pipeline of which 50% (£26.4m) is attributable to SFT, with 50% being attributable to the collaborative efforts of other participant public sector organisations.

Hub Programme - Bid Costs Savings

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:

D3
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

hub

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

With stand alone DBFM procurement competitions, generally there are 3 bidders who incur substantial sums in bidding for the project. 2 of these 3 bidders will suffer loss on these sums and the winning bidder will generally recover a multiple of their bid costs to cover for lost bid costs on other projects. Under the hub model there is no need to bid for individual DBFM projects so these costs are saved.

Please enter any associated **assumptions**:

The saving is assumed to be £0.5m per DBFM project - £0.375m spent per bidder on average and an average of 1.5 losing bidders per project. There is also an assumed workflow of DBFM projects across Scotland - 1 per territory per annum on average.

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:

C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

LA Budget
NHS

Part Four - Value and Timing

Capital value of project (£m):

1,000m (£1bn)

Benefit recognised (%):

--

Benefit recognised (£):

£53m

Year(s) of opportunity creation:

40% - 09/10, 30%, 20%, 10% following years
--

Year(s) in which benefit is delivered:

Up to 2047 - end of 25 year life of last project procured

% of benefit realised attributable to SFT:

50%

Hub participants

D4 – Hub Programme – Public Sector Investment Returns

1. Intervention

SFT is leading the procurement of *hub* which brings together local authorities, NHS boards, other public sector bodies and the private sector in five community partnerships across Scotland which will deliver around £1 billion of infrastructure over ten years. The South East *hub* Territory (Lothian & Borders), which has an estimated project pipeline of work valued at £300 million, is the lead *hub* territory; construction of initial projects will start later this calendar year. The first joint venture, Hub South East Scotland Limited, has now (post year end) been formed between all the public sector bodies, SFT Investments and SPACE Consortium, the private sector partner. SFT allocated £6.5m start-up funding for the initial hub projects in the South East in March 2010. The North *hub* Territory (Grampian, Highlands and Islands), with an expected pipeline of work worth £435 million over ten years, is now procuring its private sector partner. Work is currently ongoing to establish the West and East Central *hub* Territories and bring them to market in 2010.

Unlike in all DBFM procurements to date in Scotland, across the hub programme the public sector will have the right to invest 40% of the equity and subordinated debt requirements into each revenue funded project (anticipated to be around 4% of the total funding requirement). The returns on this investment are an additional benefit to the public sector from the hub initiative. The public sector could derive additional benefit through the utilisation of the returns received from their investment.

At this stage, the wider operational cost saving and service delivery benefits of hub have not been quantified.

2. Calculation

The anticipated investment return to the public sector is measured as the premium returned over an above the assumed nominal cost of capital of the public sector (6.09%). The average rate of return of these projects is assumed to be 10% - therefore the real return over the cost of capital is assumed to be 3.91%. There is assumed to be DBFM projects signed in each territory per annum, to the value of £15m

An annualised value of this investment return has been calculated across all the DBFM projects anticipated in the pipeline. The undiscounted sum of this benefit is £26.4m across all the projects in the projected hub pipeline of which 50% (£13.2m) is attributable to SFT, with 50% being attributable to the collaborative efforts of other participant public sector organisations.

Hub Programme - Public Sector Investment Returns 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:

D4
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

hub

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Unlike in all DBFM procurements to date in Scotland, the public sector will have the right to invest 40% of the equity and sub debt requirements into each revenue funded project. The returns on this investment are an additional benefit to the public sector from the hub initiative. The public sector could derive additional benefit through the utilisation of the returns received from their investment.
--

Please enter any associated **assumptions**:

This is measured as the premium returned over an above the assumed nominal cost of capital of the public sector (6.09%). The average rate of return of these projects is assumed to be 10% - therefore the real return over the cost of capital is assumed to be 3.91%. There is assumed to be DBFM projects signed in each territory per annum to the value of £15m.

Please enter any known **dependencies**:
We can only deliver this benefit if others...

The public sector take up their investment rights as DBFM projects reach close.

Please indicate level of **confidence** of realising benefit
- Select from drop down menu:

C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:
If 'Other' please specify...

LA Budget
NHS

Part Four - Value and Timing

Capital value of project (£m):

1,000m (£1bn)

Benefit recognised (%):

--

Benefit recognised (£):

26.4m

Year(s) of opportunity creation:

40% - 09/10, 30%, 20%, 10% following years
--

Year(s) in which benefit is delivered:

Up to 2047 - end of 25 year life of last project procured

% of benefit realised attributable to SFT:

50%

Hub participants

D5 – Hub Programme – Reduced Rates of Return

1. Intervention

SFT is leading the procurement of *hub* which brings together local authorities, NHS boards, other public sector bodies and the private sector in five community partnerships across Scotland which will deliver around £1 billion of infrastructure over ten years. The South East *hub* Territory (Lothian & Borders), which has an estimated project pipeline of work valued at £300 million, is the lead *hub* territory; construction of initial projects will start later this year. The first joint venture, Hub South East Scotland Limited, has been formed between all the public sector bodies, SFT Investments and SPACE Consortium, the private sector partner. SFT allocated £6.5m start-up funding for the initial hub projects in the South East in March 2010. The North *hub* Territory (Grampian, Highlands and Islands), with an expected pipeline of work worth £435 million over ten years, is now procuring its private sector partner. Work is currently ongoing to establish the West and East Central *hub* Territories and bring them to market in 2010.

As part of the procurement of hub territory partners, SFT is focussing on investment return requirements of bidders during the competitive dialogue phase. It is anticipated that a 3% reduction in IRR will be achieved when compared to an average PFI project delivered to date in the UK.

At this stage, the wider operational cost saving and service delivery benefits of hub have not been quantified.

2. Calculation

The reduced rate of return requirement of private sector participants will lead directly to lower unitary charge payments for DBFM projects by the public sector procurers. There is assumed to be DBFM projects signed in each territory per annum to the value of £15m.

An annualised value of this saving has been calculated across all the DBFM projects anticipated in the pipeline. The undiscounted sum of this benefit is £50.6m across all the projects in the projected hub pipeline of which 50% (£25.3m) is attributable to SFT, with 50% being attributable to the collaborative efforts of other participant public sector organisations.

Hub Programme - Reduced Rates of Return

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:

D5
19/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	x
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

hub

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

A 3% reduction in IRR when compared to an average PFI project achieved through robust dialogue stage intervention & a clear pipeline of projects over time
--

Please enter any associated **assumptions**:

First DBFM project is Muirhouse @£35m is Due to commence construction in January 2013. Assumed capital value of DBFM project - £15m p.a. over 10 years.

Please enter any known **dependencies**:

We can only deliver this benefit if others...

If participants ensure they follow through and implement when DBFM projects are delivered.
--

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

- Select from drop down menu:

B - Very Good

Part Three - Nature and Location

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

More output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

Other
NHS

Part Four - Value and Timing

Capital value of project (£m):

1,000m (£1bn)

Benefit recognised (%):

Benefit recognised (£):

25.3m

Year(s) of opportunity creation:

40% - 09/10, 30%, 20%, 10% following years
--

Year(s) in which benefit is delivered:

Up to 2047 - end of 25 year life of last project procured

% of benefit realised attributable to SFT:

50%

Hub participants

D6 – Hub Programme – Dialogue Stage Public Sector Savings

1. Intervention

SFT is leading the procurement of *hub* which brings together local authorities, NHS boards, other public sector bodies and the private sector in five community partnerships across Scotland which will deliver around £1 billion of infrastructure over ten years. The South East *hub* Territory (Lothian & Borders), which has an estimated project pipeline of work valued at £300 million, is the lead *hub* territory; construction of initial projects will start later this year. The first joint venture, Hub South East Scotland Limited, has been formed between all the public sector bodies, SFT Investments and SPACE Consortium, the private sector partner. SFT allocated £6.5m start-up funding for the initial hub projects in the South East in March 2010. The North *hub* Territory (Grampian, Highlands and Islands), with an expected pipeline of work worth £435 million over ten years, is now procuring its private sector partner. Work is currently ongoing to establish the West and East Central *hub* Territories and bring them to market in 2010.

As part of the first hub territory procurement, SFT took a robust stance on the value offered by bidders in several different areas. Through the competitive dialogue stage, savings totalling £1m were delivered, though details remain commercially confidential given ongoing procurement of partners in the other territories.

At this stage, the wider operational cost saving and service delivery benefits of hub have not been quantified.

2. Calculation

A one-off net saving of £1m has been delivered to public sector participants in the South East hub territory.

Hub Programme - Dialogue Stage Public Sector Savings

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:

D6
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

hub

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Robust dialogue stage intervention to realise c.£1m of net savings in the first hub territory. Details remain commercially confidential with other territory procurements ongoing.
--

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:

B - Very Good

Part Three - Nature and Location

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

More output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

LA & NHS Budgets

Part Four - Value and Timing

Capital value of project (£m):

Benefit recognised (%):

Benefit recognised (£):

1,000,000

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10
2010-2015 - flat profile

% of benefit realised attributable to SFT:

50%

Hub participants

D7 – Schools Programme – Pilot Project Savings

1. Intervention

SFT instigated and is supporting a pilot project for Scotland's schools for the future programme, identifying structures and processes for delivering savings through collaborative procurement across Local Authority boundaries. The pilot project involves East Renfrewshire and Midlothian, two councils working together for the first time to jointly procure a schools project through agreeing common areas of specification and following a single procurement process. The pilot project involves two councils and requires one project team, one set of advisors and one design team delivering public sector „cost of procurement“ savings. The resulting larger combined project will be taken to market resulting in a reduced tender price through the achievement of economies of scale.

The Schools Pilot Project Outline Business Case outlined potential saving of up to 6.49% through a joint procurement. The lower end of the mid-point savings range of 3.13-3.25% was considered more prudent to record as a benefit at this stage.

2. Calculation

3% Capital Cost saving on combined £70m project = £2.1m saving. Shared between SFT and the two participating Local Authorities.

Schools Programme - Pilot Project Savings

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:

D7
19/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	X
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Schools

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Pilot project involves two councils working uniquely together - requiring only one project team & delivering savings through appropriate standardisation of elements. A larger project will be taken to market resulting in a reduced tender price through the achievement of economies of scale. One set of professional advisors required. One design team required.
--

Please enter any associated **assumptions**:

The Schools Pilot OBC outlined potential saving of up to 6.49% through a joint procurement. The mid-point savings range of 3.13-3.25% was considered more prudent. The most prudent savings level has been used in the calculation of this benefit.

Please enter any known **dependencies**:

We can only deliver this benefit if others...

Continue to work collaboratively on the joint procurement project. Progress is good. A joint design team has been appointed and the procurement of a joint construction contractor has commenced.

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

- Select from drop down menu:

B - Very Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

LA Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

70,000,000
3%
2,100,000

Year(s) of opportunity creation:

2009/10 & 2010/11 (50%:50%)

Year(s) in which benefit is delivered:

2010/11-2013/14 (assume even spread)

% of benefit realised attributable to SFT:

50%

Other parties involved: LAs

D8 – Schools Programme – Needs Identification

1. Intervention

SFT is managing the £1.25 billion Scotland's Schools for the Future programme to build 55 new schools (28 secondary, 26 primary and 1 special educational needs school). The first secondary is scheduled to be completed by 2013 and the first primary by the end of 2011. The programme will deliver good quality, well-designed and sustainable schools at a competitive price.

SFT's role involves:

- Programme management and co-ordination
- Driving VfM across programme – e.g. needs identification
- Facilitating aggregation and collaboration benefits – e.g. joint working / hub
- Carrying out lessons learned exercise
- Supporting pilot project development
- Sharing knowledge on cost, design and best practice
- Matching SG funding with LA funding and LA readiness

The programme is at an early stage with the procurement / delivery route yet to be identified for many schools. SFT's primary role to date has been in providing evidence-based constructive challenge to the early identification of needs for new school facilities.

A small number of key factors drive cost of any new school:

- Number of pupils the school is designed for;
- Building area allowed per pupil
- Capital cost per m² of area built

SFT has applied a standard set of criteria for the design school role (number of pupils); has carried out a lessons learned study on previous schools investment¹ giving an understanding of reasonable building sizes; and has benchmarked construction costs across recent schools projects in Scotland and further afield. Working with Local Authorities to apply this consistent funding approach and robustly challenge need, has identified opportunities for substantial cost savings against initial estimates and is an improved approach to requirements management.

¹ <http://www.scottishfuturestrust.org.uk/docs/61/Lessons%20Learnt.pdf>

2. Calculation

The calculation of benefit delivered is split between secondary and primary schools:

Secondary:

Number of Pupils	Average design capacity reduced from 1,072 to 984 pupils across 14 schools Saving calculated at £19m
Area per pupil	Average area per pupil reduced from 12.8 to 11.0m ² / pupil
Cost per m ²	Average cost reduced from £2,660/ m ² to £2,200/ m ² Saving calculated at £118m across 14 schools (area and £/ m ²)
TOTAL	£137m of benefit across 14 secondary schools

Secondary school funding is 67% Scottish Government and 33% Local Authority. SFT's actions have set the Government funding level, delivering that benefit apportioned to SFT. The 33% of budget provided by Local Authorities will also benefit and this is allocated to the participating Local Authorities.

Primary and SEN:

A total benefit across 21 primary schools of £39m was identified through a combination of design capacity, area requirement and unit cost effects.

Primary and SEN school funding is 50% Scottish Government and 50% Local Authority. SFT's actions have set the Government funding level, delivering that benefit apportioned to SFT. The 50% of budget provided by Local Authorities will also benefit and this is allocated to the participating Local Authorities.

TOTAL

The total benefit delivered through the needs identification process is £176m shared £110m relating to Government budget accruing to SFT and £66m to Local Authorities. This overall benefit will be delivered across the years of the investment programme from 10/11 to 17/18.

Schools Programme - Needs Identification

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:

D8
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Schools

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Capital funding allocated to LAs on basis of agreed roll position.
Capital funding allocated to LAs on agreed sqm £ rate.
Capital funding allocated to LAs on agreed sqm space per pupil.
Consistent funding approach across programme.
Working with LAs to understand and benchmark what is really needed to deliver a good standard of educational facilities - an improved approach to requirements management.

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:

See separate summary sheet
C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£m):

Benefit recognised (%):

Benefit recognised (£):

1,250,000,000
N/A
175,613,317

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10
2010/11-2017/18

% of benefit realised attributable to SFT:

50-66% based on budget allocation
Other parties involved: LAs

D9 – Schools Programme – Continuous Improvement Savings

1. Intervention

SFT is managing the £1.25 billion Scotland's Schools for the Future programme to build 55 new schools (28 secondary, 26 primary and 1 special educational needs school). The first secondary is scheduled to be completed by 2013 and the first primary by the end of 2011. The programme will deliver good quality, well-designed and sustainable schools at a competitive price.

Continuous improvement savings will be driven across the programme via:

- Use of hub contractor / delivery programme leading to continuous improvement at contractor level. Savings of time / costs.
- Identifying and recommending the most appropriate procurement strategy whether it be joint procurement / use of hub / framework / bundling with existing capex plan.
- Enabling documentation and best practice guidance will be available from a central resource rather than 32 LAs having to identify/source the same information individually. Time and resource savings at local level.
- Design commonalities will be available from a central resource rather than 32 LAs having to prepare designs individually. Time and resource savings at local level.

2. Calculation

3% saving throughout the programme anticipated. The continuous improvement saving excludes the pilot programme as this is the first project to progress in the programme. Savings estimated from the pilot project are included in D7.

The continuous improvement saving identified for schools programme is currently less than the 1% per annum on a cumulative basis described in the hub continuous improvement benefit because the contracting structure may differ. Procurement routes have still to be agreed with each of the local authorities involved in the schools programme. Collaborative approach will be undertaken for remainder of programme.

Total saving identified of £35m, requiring ongoing SFT and Local Authority work to deliver, and allocated 50:50 between SFT and participating LAs.

Schools Programme - Continuous Improvement Savings

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:

D9
19/02/2010
30/09/2010

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

Delivery	x
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Schools

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

Identifying and recommending the most appropriate procurement strategy whether it be joint procurement / use of hub / framework / bundling with existing capex plan.

Enabling documentation and best practice guidance will be available from a central resource rather than 32 LAs having to identify/source the same information individually. Time and resource savings at local level.

Commonalities associated with design will be available from a central resource rather than 32 LAs having to prepare designs individually. Time and resource savings at local level.

Please enter any associated **assumptions**:

3% saving throughout the programme (excluding pilot project value - counted in benefit D7)

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:

C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

SG Budget

If 'Other' please specify...

--

Part Four - Value and Timing

Capital value of project (£m):

1,180,000,000

Benefit recognised (%):

3%

Benefit recognised (£):

35,400,000

Year(s) of opportunity creation:

2009/10-2013/14

Year(s) in which benefit is delivered:

2010/11-2017/18

% of benefit realised attributable to SFT:

50%

Other parties involved: LAs

E1 – Validation – Non-Standard Civils Projects

E2 – Validation – Standard Accommodation Projects

1. Intervention

SFT undertakes Key Stage Reviews of complex procurements at critical decision points through the business case and procurement process. Benefit A1 identified the saving arising from SFT undertaking these reviews in-house rather than through external consultants. This additional benefit considers the anticipated improvement in outturn cost for the projects due to the review process. Similar reviews are also carried out by Scottish Government procurement Directorate.

This paper sets out to quantify the benefits to a capital project of ongoing external validation as delivered by the SFT through Key Stage Reviews, and also through Gateway reviews. Such a quantification, for any individual project, or generically for all projects subject to external validation, is challenging for the following reasons:

- Major complex procurements such as those validated by SFT are only ever undertaken once. There is never a “counterfactual” or un-validated project similar in all other respects against which to compare the outturn;
- The National Audit Office is currently completing a study into project validation and we understand that it is not going to quantify the benefits of external validation in that report; and
- The outcome of a validation review, where recommendations are acted upon, is most likely to be a substantial reduction in the aggregate probability of adverse events or poor performance impacting on outturn rather than a change being made that has an individually identifiable impact on a specific project cost line.

The approach taken in quantifying the “most likely” benefit in outturn cost across a series of projects subject to external validation is therefore to:

- 1) List a range of representative findings and recommendations that would lead to improvements in project processes and outcomes;
- 2) Consider the likely impact of such changes to the Optimism Bias associated with the project according to HM Treasury Green Book guidance²

2. Validation Outcomes

² http://www.hm-treasury.gov.uk/data_greenbook_supguidance.htm#Optimism_bias_OB

SFT undertakes Key Stage Review (KSR) external validation of major capital investment projects during the intensive commercial, financial and technical stages of a Project between Outline Business Case (OBC) completion and award of the main delivery contract(s). Thus, a number of reviews are undertaken between the Gateway stage 1 and 2 interventions.

Typical recommendations would refer to:

- a) Project governance arrangements and links to organisational governance;
- b) Skills and experience of key project team members;
- c) Resourcing of client side project team;
- d) Adequacy of the Business Case;
- e) Clarity of needs identification;
- f) Challenge of affordability and value for money assumptions;
- g) Commercial structure of the proposed procurement;
- h) Adequacy of cost and risk estimation at various project stages;
- i) Adequacy of technical specification at various project stages;
- j) Level of outstanding technical, commercial and financial issues at various stages through a procurement process; and
- k) Derogations from standard project commercial documentation.

In the case of Non-Profit Distributing (NPD) projects with part Government funding, the Project Team is mandated to follow through on recommendations of Key Stage Reviews as a condition of funding. This gives a good deal of certainty that key recommendations of the validation review at stages through the project development will be acted upon by project owners.

3. Quantification Using Optimism Bias

The HM Treasury methodology for estimating optimism bias states that:

“There is a demonstrated, systematic, tendency for project appraisers to be overly optimistic. To redress this tendency appraisers should make explicit, empirically based adjustments to the estimates of a project’s costs, benefits, and duration.”

The guidance quantifies contributors to this optimism separately from general project risk contingencies. Each contributor represents a factor that has been demonstrated across a range of completed projects to lead to outcomes (in time or cost) less advantageous than had been

predicted at the outset. The implementation of robust external validation will have a significant mitigating effect on a number of these contributors.

HM Treasury Guidance provides an estimate as a percentage of the capital cost of projects for the maximum and minimum level of optimism bias across different types of project (standard and non-standard building projects and standard and non-standard civil engineering projects). Experience across a wide range of projects is that often project teams undertake internal mitigations strategies that reduce the level of optimism bias to approximately half way between the maximum and minimum percentage values from the guidance.

SFT has considered the range of contributing factors to optimism bias listed in the guidance, and the likely impact of external validation in mitigating these factors. The impact on some factors (eg „adequacy of the business case“ where a review will provide detailed comment) is likely to be high whereas for others (such as the impact of „poor intelligence“ on ground conditions where a validation exercise will have a passing consideration on processes undertaken) will be significantly lower. Other areas such as the complexity of design are inherent in the project and cannot be impacted at all by validation. Annex 1 details our consideration of the impact of validation on individual contributing factors to optimism bias.

Applying the mitigating effect of validation to the likely optimism bias level following project team mitigation gives an overall percentage of capital cost benefit most likely to be attributable to external validation.

Many projects validated by SFT are also subject to other central validation such as Gateway Review, or internal peer review within the procuring organisation. We therefore attribute 33% of the overall benefit of validation to the SFT process.

The following table shows in columns 2 and 3, the upper and lower bounds of likely project optimism bias for different types of project taken from the HM Treasury Guidance. Column 4 shows the likely level of optimism bias following internal project team mitigation. Column 5 is taken from Annex 1 and shows the percentage by which validation should reduce the optimism bias in column 4. Column 6 therefore shows the percentage of overall capital cost benefit attributable to external validation, and column 7, the percentage attributable to SFT key stage review validation.

	Optimism Bias % Capital Expenditure		Post internal mitigation 50%	Validation Mitigation (Annex 1)	Validation Impact	SFT Validation Impact
	Upper	Lower				
Standard Buildings	24	2	13	27%	3%	1.2%
Non-Standard Buildings	51	4	27.5	24%	6%	2.2%
Standard Civil Engineering	44	3	23.5	21%	5%	1.6%
Non-standard civil engineering	66	6	36	26%	9%	3.1%

The above level of benefits reflects the full scope of SFT’s Key Stage Review validation process. On some projects, SFT will not be involved from the early Outline Business Case

stage, or may be asked to undertake a one-off review. In such cases, the potential benefits of the validation input would be reduced. SFT's conservative estimate is that the benefit of validation should be reduced by 50% if an incomplete suite of reviews is undertaken, and 75% if only a one-off review is undertaken. The benefit of SFT's external project validation, as a percentage of a project's capital cost is therefore estimated as:

	Full Scope	Incomplete	One-off
Standard Buildings	1.2%	0.6%	0.3%
Non-Standard Buildings	2.2%	1.1%	0.5%
Standard Civil Engineering	1.6%	0.8%	0.4%
Non-standard civil engineering	3.1%	1.5%	0.8%

This figure ignores factors not considered in optimism bias such as those listed below and is therefore considered to be a robust minimum value for the benefit of external validation:

- Enhanced competition – brought about through the confidence given to market participants by a trusted validation process, and the commercial fine-tuning possible through external review by commercially experienced parties;
- Tautness of financing terms (if applicable) – delivered through ongoing review and market benchmarking in the final stages of negotiation;
- Reduced procurement cost and timescale – delivered through an external scrutiny process at relatively close intervals during the critical structuring and procurement phases of the project where specification, affordability and value for money issues often lead to delays.

Relevant comparators of VfM delivered by validation include:

- Department of Health review showing: “For the financial year 2006-2007, vfm assessments were carried out on 11 major projects and programmes where a Department of Health Gateway Review had been carried out. A vfm benefit of £173 million was identified which is about 4% of the total whole life costs of the projects of £4.28 billion”³
- Office of Government and Commerce Value for money reviews have confirmed that average cost avoidance of 3-5 per cent are being achieved when best practice recommendations from review reports are implemented⁴

³ http://www.dh.gov.uk/en/Aboutus/Procurementandproposals/Projectmanagement/DH_081530

⁴ http://epress.anu.edu.au/anzsog/imp/mobile_devices/ch17s04.html

- OGC Press Release⁵: Gateway Reviews: the value for money gains from Gateway Reviews in 2003-04 is £730 million. Over 850 reviews have been completed covering in excess of 500 projects and programmes since the process started in February 2001. Gateways are reviews of procurement projects and programmes carried out at key decision points by a team of experienced people, independent of the project team. A total of 119 separate departments, NDPBs and agencies have had a Gateway review of their medium, high-risk or mission critical projects and programmes.
- NAO Report – Improving Public Services Through Better Construction “applying the Gateway Review scrutiny process to construction programmes and projects. Gateway Reviews in particular, have generally assisted clients and their professional advisers in identifying and addressing the risks to, and opportunities for, successful delivery.”

OGC “Gateway Reviews for Low Risk Projects” - OGC undertook sixteen pilots on "high risk" projects with an overall value of some £3 billion. These reviews produced added value benefits of 5% for a cost less than 0.1%. The pilot projects demonstrated that the Gateway Review Process can produce significant added value benefits to Departments' projects.

⁵ http://www.ogc.gov.uk/7023_4247.asp

Validation - Non-Standard Civils Projects

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:

E1
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	x
Centre of Expertise	
Other	

If 'Other' please specify...

Project - Select from drop down menu:

If 'Other' please specify...

Part Two - Description and Assumptions

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

Project Assurance/KSRs completed for FRC & GCC Waste Project: Review helps enhance the likelihood that the project outcomes will be successfully achieved

Please enter any associated **assumptions**:

1.5% benefit recognised (based on benefit of project validation report - non standard civil engineering project - 'incomplete scope') - See 'Validation Backup'
FRC £2bn
GCCW - £80m

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:

Project team adopt KSR recommendations

C - Good

Part Three - Nature and Location

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

Budget allocation of benefit - Select from drop down menu:

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:

Project Delivery Authority

Validation - Standard Accommodation Projects

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:

E2
22/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	x
Centre of Expertise	
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Other

If 'Other' please specify...

Validation of complex projects

Part Two - Description and Assumptions

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

Project Assurance/KSRs completed for LA Projects: Review helps enhance the likelihood that the project outcomes will be successfully achieved

Please enter any associated **assumptions**:

09/10 Legacy Projects: Tayside Health / Orkney Schools / Western Isles Schools / Moray Schools 0.6% benefit recognised (based on benefit of project validation report - standard buildings projects 'incomplete scope') - See 'Validation Backup'
--

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:

Project teams adopt KSR recommendations
C - Good

Part Three - Nature and Location

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

More output for same input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Revenue projects: Tayside - £100m Moray - £40m Total: £140m
Capital projects: Orkney - £49m Western Isles - £58m Total: £107m
0.6%
Revenue savings (based on 0.6% capex reduction) £70,442 pa
Capital projects: £687,541 (flat spread over 3 years) (£229,180 pa)

Benefit recognised (£):

Year(s) of opportunity creation:

2009/10 (50%) and 2010/11 (50%)

Year(s) in which benefit is delivered:

Revenue savings - 12/13 to 41/42
Capital savings - 2010/11 - 2012-13 (assume 3 years flat)

% of benefit realised attributable to SFT:

50%

Project Delivery Authority

F1 – Operational Projects Support

1. Intervention

SFT provides support to public sector organisations in relation to operational PPP projects, by facilitating workshops and seminars and offering follow up advice and support. The purpose of the workshops is to:

- Bring operational project managers together to share information and best practice;
- Share SFT commercial expertise and suggestions for improved contract performance efficiently with operational project managers;
- Create a forum and organise opportunities for external speakers to present potential benefits in particular areas of PPP contract management.

In addition, SFT provides training sessions for project managers on contract terms and practical project issues.

An early example of workshops organised was on optimising insurance provisions in operational PPP projects.

2. Calculation

The Unitary Charge of Scotland's PPP projects in operation is approximately £500m p.a.

SFT are working with organisations across the public sector to deliver operational savings and reduce this annual cost.

Anticipated saving on UC in excess of 0.2% for improvements under consideration e.g. Insurance

Given that it is early days of SFT delivering operational project workshops, a prudent assumption would be that only 25% of LA's adopt advice or are able to implement within the constraints of their projects in the near term.

$£500m * 0.2\% * 25\% = £250k$ saving pa

This benefit is shared 50:50 with the Authorities managing the operational projects.

Operational Projects Support

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:

F1
22/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	x
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Other

If 'Other' please specify...

Operational PPP Support and Training

Part Two - Description and Assumptions

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

SFT provides support to the public sector in relation to operational PPP projects, by facilitating workshops and seminars and follow up advice/support. In addition, SFT provides training sessions for project managers on contract terms and practical project issues.

Please enter any associated **assumptions**:

Total UC of Scotlands PPP projects = £500m p.a. SFT working across with all public sector organisations as above Anticipated saving on UC in excess of 0.2% for improvements under consideration eg Insurance Potential early takeup of 25% of bodies $£500m * 0.2\% * 25\% = £250k$ saving pa
--

Please enter any known **dependencies**:
We can only deliver this benefit if others...

Benefit can only be delivered if procuring authorities recognise benefit that SFT expertise brings and that they act upon information gained
--

Please indicate level of **confidence** of realising benefit
- Select from drop down menu:

C - Good

Part Three - Nature and Location

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

More output for same input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

SG Budget

Part Four - Value and Timing

Capital value of project (£m):

Benefit recognised (%):

Benefit recognised (£):

N/A
N/A
250,000

Year(s) of opportunity creation:

2009/10 (50%) and 2010/11 (50%) Remaining term of PPP contracts (assume average of 20 years) 2 year ramp up (1/3rd year 1 (10/11), 2/3rds year 2 (11/12), 100% year 3 onwards)
--

Year(s) in which benefit is delivered:

--

% of benefit realised attributable to SFT:

50%

Operational project contracting Authorities

G1 – Waste – Procurement Timetable Benefits

1. Intervention

SFT is supporting local authorities which manage more than half of Scotland's household waste and are implementing projects with a capital cost of around £500 million. Waste treatment is a huge challenge for Scotland given the recent launch of the Scottish Government's Zero Waste Plan, future European targets to be met, as well as the increasing cost of waste collection, treatment and disposal. At the invitation of local authorities, SFT is working directly with project boards and the project teams of Glasgow City Council, Edinburgh/Midlothian Councils, North Lanarkshire and the East/North/South Ayrshire Councils to support the delivery of new waste infrastructure projects. SFT is also providing targeted support for West Lothian, South Lanarkshire, Perth and Kinross and Fife Councils in the development of their future waste treatment projects. SFT is also taking a leading role in the Clyde Valley Strategic Waste Initiative where eight local authorities within the Clyde Valley are collaborating to implement the recommendations of the Clyde Valley Shared Services Review, which was chaired by Sir John Arbuthnott.

The capital values of the first three projects are as follows:

GCC Residual Waste Treatment Project	£80m
Zero Waste Residual Treatment Project	£80m
Ayrshires Joint Residual Waste Project	£50m
Total	£210m

SFT has undertaken a range of measures to accelerate project delivery and reduce the risk of delays to project commencement. This has included project validation at key milestones, promoting market stakeholder consultation to identify potential sources of delay early.

2. Calculation

Assume the measures taken reduce the delay by 6 months. Therefore the benefit would be 6 months of a gate fee saving of £5 per tonne (/t) on a do nothing option. 150,000 t/pa. Thus a benefit of $£5/t * 150,000 * 0.5 = £375,000$ per project.

Do-nothing Cost+ Landfill Gate Fee + Landfill Tax = $£29/t + £80/t = £109/t$

Mid-point of the range for incineration = $£104/t$

Therefore forecast saving = $£5/t$

Total benefit estimation $(£5/t * 150,000t * 0.5yrs) * 3$ no. projects = **£1.125m.**

Benefit shared 50:50 with the Local Authorities with which SFT is collaborating

Supporting Evidence:

1. Residual Waste Treatment Gate Fees – WRAP Gate Fee Report 2009 –
(http://www.wrap.org.uk/recycling_industry/publications/gate_fees_report_09.html)
 - Take the mid-point of the range for incineration = £104/t.
 - Take the mid-point range for landfill = £29/t
2. Government announced in the Budget 2010 that the rate for active waste will continue to escalate by £8 per year until at least 2014/15, when it will reach £80 per tonne.
(<http://www.defra.gov.uk/environment/waste/topics/index.htm>)

Note: SFT is now supporting 6 residual waste projects who are seeking to procure access to a total treatment capacity of circa 650,000t. These benefits will be recognised in future years.

Waste - Procurement Timetable Benefits

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:

G1
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	x
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Waste

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

A range of measures to accelerate project delivery and reduce the risk of delays to project commencement. This has included project validation at key milestones, promoting market stakeholder consultation to identify potential sources of delay early.

Please enter any associated **assumptions**:

Anticipated that the measures taken reduce the delay by 6 months. Therefore the benefit would be 6 months of a gate fee saving of £5/t on a do nothing option. 150,000t/pa. Thus a benefit of £5/t * 150,000 * 0.5 = £375,000 per project.
--

Please enter any known **dependencies**:

We can only deliver this benefit if others...

On-going participation at both project board and project team level.
--

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

- Select from drop down menu:

C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:

If 'Other' please specify...

LA Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

GCC Residual Waste Treatment Project - £80m
Zero Waste Residual Treatment Project - £80m
Ayrshires Joint Residual Waste Project - £50m
100%
1,125,000

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10-2010/11 (50%-50%)
2013/14

% of benefit realised attributable to SFT:

50%

Procuring Local Authorities

G2 – Waste – Service Cost Benefits

1. Intervention

SFT is supporting local authorities which manage more than half of Scotland's household waste and are implementing projects with a capital cost of around £500 million. Waste treatment is a huge challenge for Scotland given the recent launch of the Scottish Government's Zero Waste Plan, future European targets to be met, as well as the increasing cost of waste collection, treatment and disposal. At the invitation of local authorities, SFT is working directly with project boards and the project teams of Glasgow City Council, Edinburgh/Midlothian Councils, North Lanarkshire and the East/North/South Ayrshire Councils to support the delivery of new waste infrastructure projects. SFT is also providing targeted support for West Lothian, South Lanarkshire, Perth and Kinross and Fife Councils in the development of their future waste treatment projects. SFT is also taking a leading role in the Clyde Valley Strategic Waste Initiative where eight local authorities within the Clyde Valley are collaborating to implement the recommendations of the Clyde Valley Shared Services Review, which was chaired by Sir John Arbuthnott.

The capital values of the first three projects are as follows:

GCC Residual Waste Treatment Project	£80m
Zero Waste Residual Treatment Project	£80m
Ayrshires Joint Residual Waste Project	£50m
Total	£210m

SFT has undertaken a range of measures to secure affordable VFM gate fees. This includes the promotion effective competition through realistic aspirations for project scope, contract structure and commercial terms based on recent precedent, including scoping the project the project to maximise on third party revenue opportunities including heat and power sales. Also creating an environment where bidders can deliver a solution that realises better economies of scale.

2. Calculation

Assume overall benefit results in saving of £5 per tonne (/t) on resultant gate fee (equal to 4% of expected gate fee) per project.

Do-nothing Cost+ Landfill Gate Fee + Landfill Tax = £29/t + £80/t = £109/t

Mid-point of the range for incineration = £104/t

Therefore forecast saving =£5/t

Savings will accrue to authorities when the residual waste treatment services come on line. These are 25 year service contracts.

Annual benefit of £5/t *150,000t = £750,000 per project per year.

Total benefit estimation (£5/t*150,000t)*3 no. projects = **£2.25m pa.**

Benefit shared 50:50 with the Local Authorities with which SFT is collaborating

Supporting Evidence:

1. Residual Waste Treatment Gate Fees – WRAP Gate Fee Report 2009 – (http://www.wrap.org.uk/recycling_industry/publications/gate_fees_report_09.html)
 - Take the mid-point of the range for incineration = £104/t.
 - Take the mid-point range for landfill = £29/t
2. Government announced in the Budget 2010 that the rate for active waste will continue to escalate by £8 per year until at least 2014/15, when it will reach £80 per tonne. (<http://www.defra.gov.uk/environment/waste/topics/index.htm>)
3. Average gate fees submitted for the Glasgow Waste projects indicate a possible out-turn gate fee of less than £104/t (information confidential at this stage)

Note: SFT is now supporting 6 residual waste projects who are seeking to procure access to a total treatment capacity of circa 650,000t. These benefits will be recognised in future years.

Waste - Service Cost Benefits

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:

G2
26/02/2010
30/09/2010

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

Delivery	
Aggregation & Collaboration	
Funding & Finance	
Validation	
Centre of Expertise	x
Other	

If 'Other' please specify...

--

Project - Select from drop down menu:

Waste

If 'Other' please specify...

--

Part Two - Description and Assumptions

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

A range of measures to secure affordable VfM gate fees. This has included the promotion of effective competition through appropriate aspirations for project scope, contract structure and commercial terms based on recent precedent, including scoping the project to maximise third party revenue opportunities including heat and power sales. Also creating an environment where bidders can deliver a solution that realises better economies of scale.

Please enter any associated **assumptions**:

Anticipated overall benefit results in saving of £5 per tonne (t) on typical forecast gate fee (WRAP report 2009). Equates to 4% of expected gate fee per project. Viable competition maintained. Reduction to typical project timetable over-run by 6 months - benefit is reduction in construction price inflation by 6 months.
--

Please enter any known **dependencies**:
We can only deliver this benefit if others...

Project exploits maximum heat and power off-take combination. Construction price inflation RPI+2.5%. Also assumes £5/t saving for treatment over current disposal option including forecast increase in landfill tax.
--

Please indicate level of **confidence** of realising benefit
- Select from drop down menu:

C - Good

Part Three - Nature and Location

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

Same output for less input

Budget allocation of benefit - Select from drop down menu:
If 'Other' please specify...

LA Budget

Part Four - Value and Timing

Capital value of project (£):

Benefit recognised (%):

Benefit recognised (£):

GCC Residual Waste Treatment Project - £80m
Zero Waste Residual Treatment Project - £80m
Ayrshires Joint Residual Waste Project - £50m
100%
2,250,000

Year(s) of opportunity creation:

Year(s) in which benefit is delivered:

2009/10-2010/11 (50%-50%)
2013/14-2038/39

% of benefit realised attributable to SFT:

50%

Procuring Local Authorities

ANNEX 1 – Validation Findings

The following pages reproduce the validations findings of Grant Thornton LLP and London School of Economics and Political Science



Grant Thornton

RECEIVED 16 AUG 2010

Scottish Futures Trust
1 Colme Street
EDINBURGH
EH3 6AA

Government and Infrastructure Advisory

Grant Thornton UK LLP
1/4 Atholl Crescent
Edinburgh
EH3 8LQ

For the attention of Peter Reekie

www.grant-thornton.co.uk

16 August 2010

Dear Sirs,

Scottish Futures Trust 2009/10 Statement of Benefits

- 1.1 As per our engagement letter of 29 July 2010, Grant Thornton was engaged to undertake external review of the quantification of benefits delivered in the 09/10 Financial Year to be referred to in the Scottish Future Trust ("the Company") Annual Report and as prepared by the Company's management team. This work does not constitute an audit and the assumptions made by the Company in quantifying the benefits remain the Company's responsibility.
- 1.2 While undertaking our review we have referred to the following :
 - the "Scottish Futures Trust 2009/10 Statement of Benefits" Report as attached at Appendix A;
 - spreadsheet calculations and backing papers supporting key assumptions as provided by management;
 - discussions with management on both methodology and underlying assumptions.
- 1.3 It is important to note that as set out in the Statement of Benefits, with the exception of the Avoided Costs which would otherwise have been incurred in the review period, the benefits which are being recognised are benefits which are expected to crystallise in the future as a result of the work which has been undertaken by SFT during the review period. The future benefits include additional investment for infrastructure within Scotland which is expected to be generated through the implementation of the Tax Incremental Financing and National Housing Trust Structures. In addition it is expected that savings will be achieved in respect of a number of infrastructure procurement projects/ programmes as a result of the support provided by SFT during the current review period.

- 1.4 It is recognised that the quantified benefit is supplementary to the Company's Financial Statements and is completely separate from the Company's accounts and accounting practices. The intention is to reflect the impact in the future that the support provided by SFT during the current review period is reasonably expected to deliver.

Methodology adopted to quantify future benefits and savings

- 1.5 The methodology adopted for the quantification of each of the [29] benefits and savings includes the following elements:-
- quantification of the most likely expected benefit, with the underlying assumptions used depending on the nature of the particular benefit and these are discussed further within underlying assumptions below;
 - assessment of the contribution provided by the Company with level of input being either 100% , 50% or 33% depending on the number of other parties contributing to the benefits and assuming an equal share between the parties. This is clearly not intended to be an accurate allocation of responsibility, rather a recognition that in a number of cases the Company is participating in a joint initiative;
 - allocation of the benefits across the time periods in which they are reasonably expected to be achieved;
 - application of a confidence factor as defined within Appendix A and ranging from 100% for benefits where both delivery and quantum of the benefit is certain to 55% for benefits which relate to projects which are early stage whereby several matters need to be addressed in order to quantify the quantum or timing of the benefit;
 - calculation of the Present Value of the confidence adjusted values based on a discount factor of 3.5% which is consistent with the costs of funds discount factor included in the HM Treasury Green Book "Appraisal and Evaluation in Central Government";
 - determination of the period(s) over which the support provided by the Company has or will be provided with only the current period element being recognised;
 - The most likely expected benefit which is the reporting basis has been capped at 10 years of future cashflows.
 - A 20% discount factor has been applied to the most likely expected benefit in order to provide a lower expected benefit.

- An additional maximum benefit calculation has been undertaken which includes those cashflows which extend beyond the 10 year cap used for the most likely scenario when calculating the Present Value of the benefit.
- 1.6 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 or advice provided during the current period under review, and on that basis this appears to be a reasonable methodology.
- 1.7 We can confirm that these elements of the methodology have been applied consistently to each of the quantified benefits.

Reasonableness of the assumptions underpinning individual benefits quantification

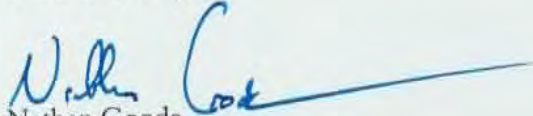
- 1.8 We have reviewed the underlying assumptions used in relation to each of the benefits and have sought back up as available and discussed the rationale for the individual assumptions with management.
- 1.9 The individual benefits are valued as summarised in Annex B.
- 1.10 Based on our consideration of the reasonableness of the methodology, consistency of its application and the underlying assumptions (both in terms of the elements of the methodology and the valuation of the expected benefits summarised in Annex B), we consider the approach taken to quantifying individual benefits to be reasonable.
- 1.11 This conclusion relies upon the following :-
- a recognition that whilst it would be normal accounting practice to recognise benefits when crystallised, the purpose of this exercise is to show the contribution made by the Company to enabling subsequent benefits to occur. It is recognised that the quantified benefit is supplementary to the Company's Financial Statements and is completely separate from the Company's accounts and accounting practices. The intention is to reflect the impact that the support provided by SFT during the current review period is subsequently expected to deliver;
 - an underlying assumption that the programmes or structure referenced in this review continue in existence or are implemented as expected and;
 - that there will be a mechanism in place to assess the previously projected benefits are actually achieved.

Recommendations for the future

- 1.12 the nature of these benefits means that they are expected to be realised in the future and over a number of years and as such they 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;

1.13 the individual elements of the benefits valuation methodology should be reviewed on an ongoing basis to ensure that they remain appropriate and reasonable;

Yours faithfully,



Nathan Goode

Partner

For Grant Thornton UK LLP

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16 August 2010

Dear Sir/Madam,

This letter provides our validation of the reported net benefits delivered in the year 2009/10 by the activities of the Scottish Futures Trust (SFT). We have had fruitful discussion with SFT staff, and have made a number of methodological and presentational suggestions as to how the methodology might be improved and the Benefits Report tailored to its wider audience. This letter addresses two specific areas. First, it provides a qualified validation of the benefits claimed in this years report. Second, it provides wider comments on the methodologies used in generating these benefit estimates, and makes some suggestions as to issues for consideration in future years.

Since its establishment SFT has had a commitment to developing systems to account for the benefits it achieves and has put in place elements of a methodology and data base strategy to document and account for these benefits. This is the first full year of operation of SFT following its establishment in September 2008. Thus this is the first time that this methodology has been used to calculate net benefits and this is the first independent validation of these benefits that the Trust has sought. It is also the case that both the level of benefits available to realise, and the appropriate methodology to use to quantify them, may in some respects not be typical of future periods. This is however a year in which many aspects of the methodology have been tested and refined, including in our discussions with SFT staff.

Our primary focus has been on the methodology used. We find that this is sound in its structure, and important rules have been applied regarding confidence and sensitivity of benefit estimates. Specifically, the methodology supports sensitivity analysis using a benefits classification (*Range and Sensitivity*) that recognises an upper, lower and most likely level of benefit. We agree that the most likely level of benefit is the appropriate level to use in primary reporting.

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We did not review in detail the source figures for the calculation of benefits and did not check these ourselves; therefore we cannot directly vouch for the numbers/values stated. We assume that the figures provided to us are appropriate, and have reviewed the justifications given, recognising that these often represent hard to quantify benefits.

The quantitative benefits measurement methodology developed is based on the completion by relevant SFT staff of a proforma for each project that SFT undertakes as explained in this *Statement of Benefits* Report. The benefits are estimated in financial terms by SFT staff and the assumptions behind their calculations are stated. The benefits strategy as implemented by the current methodology and proforma is understandably primarily concerned with quantitative benefits. However, we judge that it would be useful, particularly in the light of the knowledge sharing aims of SFT, to add a similar qualitative proforma and a system to capture such benefits so as to provide the fullest picture of the work of SFT. In particular we feel that the SFT's commitment to making a significant contribution to the Scottish Government's strategic objectives of making Scotland greener, healthier, smarter, safer and stronger, and wealthier and fairer, will need to be reflected in future benefit statements in both qualitative and quantitative terms.

We also feel that because SFT works in partnership with other public sector organisations, it would be appropriate to consider establishing a complementary system to allow non-SFT actors to feed directly into the SFT benefits recognition process. Indeed, in pure validation terms, the endorsement of other actors for both quantitative and qualitative benefits would provide some of the best evidence of SFT's value-adding capacity. In our discussions with SFT staff we do indeed understand that some aspects of this approach have been trialled during this year.

The Trust has a stated commitment in the future to calibrate their benefits estimation methodology, i.e., to compare benefits estimated in this period of 2009/10 against the actual benefits realised in future years. While this approach may allow a finer calibration of the benefits methodology the practicality of this approach and the resources it might demand needs further exploration and the appropriate methodology developed. For example, it may not be possible to track in detail all interventions for all years, plus the ability to track and measure a benefit will inevitably wither over time as other events and new policies generate their own effects.

We also note that there may be some potential conflict of interest issues that occur in the future. In particular if SFT is involved in reviewing and intervening in public infrastructure investments at an early stage, and then serves at a later date in reviewing benefits or identifying further potential cost savings. Our view is that some reasonable rules, clearly stated, should be able to address most such contingencies, but they do need to be framed.

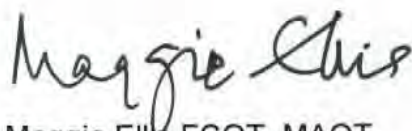
In conclusion, we recognise the challenges that you have faced in estimating net benefits and commend SFT's efforts in its first full year of operation. We believe that the use of a simple methodology and transparent estimation procedures is appropriate at this juncture, and in the future can be a sound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

We hope that these comments are constructive and helpful to you and your Board.

Your sincerely,

A handwritten signature in black ink, appearing to read 'Tony Cornford'.

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A handwritten signature in black ink, appearing to read 'Maggie Ellis'.

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END