

# Business Plan 2012-2013

March 2012



# Progress of the Scottish Futures Trust

***In the short space of time that the Scottish Futures Trust (SFT) has been operational, it has established a highly professional and commercial team which works collaboratively with every local authority and health board across Scotland as well as many public sector bodies, to deliver value-for-money on public sector infrastructure.***

*In the year 2011/12, SFT has achieved a great deal and this provides a strong foundation upon which to build for the year ahead. Notable achievements over the past 12 months, include:*

- *Over 600 affordable homes being built in the National Housing Trust programme, the first tenants already in and the launch of a second phase*
- *Pupils being taught in the first completed school in the Scotland's Schools for the Future programme with a further eight schools under construction*
- *The publication of two property asset management reports highlighting where £500m of savings can be achieved and the subsequent establishment of an asset management team*
- *Major projects to the value of £360m already being procured through the £2.5bn Non-Profit Distributing programme, the largest of which is City of Glasgow college valued at circa £200m*
- *The first completed hub project open to the public and three hub areas up and running with more than £100m of projects on site or in development*
- *Increasing the number of schools to be built in the Scotland's Schools for the Future programme from 55 to 67 within the existing budget*
- *Adding four more Tax Incremental Financing pilot projects to the three already being progressed, totalling some £500m of public sector investment*

*Whilst this represents significant progress, there is still much to be done. Key business objectives which SFT has set itself within the 2012/13 Business Plan are as follows:*

- *Increase the number of affordable homes being built through NHT to over 1,000*
- *Secure sustainable financing for NPD projects including structuring for participation by institutional investors such as pension funds*
- *Have over £1.2bn of NPD projects in procurement*
- *Have 12 hub projects under construction*
- *Open a further five new schools*
- *Gain approval for all seven TIF pilot projects with the potential to unlock five times as much private sector investment*

*These are tough objectives to achieve. But on the basis of SFT's strong performance in the past, SFT is well placed to deliver these and more.*

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This Business Plan covers the year from April 2012 to March 2013.

The Scottish Futures Trust five-year Corporate Plan (2009-14) was published in October 2009.

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**Front cover picture:** Pumpherston and Uphall Station Community Primary School – opened in February 2012.

**Above:** Pupils being taught at the newly opened school.

## 1.0 Executive Summary

SFT is an independent company established in 2008 by the Scottish Government with a responsibility to deliver value-for-money across public infrastructure investment in Scotland.

This Business Plan sets out the work to be undertaken and the key operational objectives for the Scottish Futures Trust (SFT) in the year 1 April 2012 to 31 March 2013.

SFT's five-year Corporate Plan, published in October 2009, committed SFT to deliver an initial £7 of benefits and savings for every £1 spent on the organisation. During 2010/11 SFT surpassed this by delivering £129m of savings and benefits from its work which were net of SFT's £4m operating costs and were within the £100m-150m per annum target of benefits originally anticipated to be achieved once SFT had become fully operational.

SFT's annual benefits and savings are calculated at the end of each financial year, are subjected to rigorous independent validation and then published alongside the annual report. This Business Plan sets out the areas of work for SFT in 2012/13 with associated objectives which enable SFT to continue to target savings and benefits within the £100m-£150m target range.

The fall in the capital budget available to the Scottish Government, by more than 40 per cent in real terms from its peak of almost £4bn in 2009/10, reinforces the need to achieve improved value-for-money and develop innovative financing methods for additional investment. Delivering additional investment over and above capital budgets is important, not only to create the necessary infrastructure to support future economic growth, but also to help support the efficient delivery of public services. SFT has increased its work in infrastructure investment which now totals £3bn above traditional capital budgets and which over the next five years will support thousands of jobs in the construction sector in Scotland.

SFT's £3bn programme of additional public sector investment is delivered through a number of channels, the largest being the £2.5bn Non-Profit Distributing (NPD) revenue funded programme, delivering health, education and transport projects. During 2012/13 the number of projects active in the programme is set to exceed 30 and these will be delivered in partnership with the Scottish Government, local government, NHS Boards and other public bodies. Work has progressed on a number of large NPD projects with procurement launched in December 2011 for City of Glasgow and Inverness Colleges, and Kilmarnock College due to follow in spring 2012. In addition, procurement notices for Edinburgh's Royal Hospital for Sick Children and the M8 upgrade are due to be launched in spring 2012 and these, along with a number of smaller projects, will bring the construction value of projects in procurement to over £1.2bn. NPD helps to bring forward projects, delivers long-term benefits to the economy and public services, as well as increasing the public sector pipeline of construction work to support employment in Scotland. The programme also provides a substantial opportunity for investment in Scotland's infrastructure by those interested in long-term stable returns commensurate with the level of risk taken. SFT will continue its detailed work to attract pension fund investment into this attractive asset class.

Scotland continues to lead the way across the UK in the use of Tax Incremental Financing (TIF) to attract further additional investment. Working with seven Scottish councils, SFT will continue to develop the TIF initiative across a range of industry sectors including retail, tourism, manufacturing and renewables. Whilst public sector investment in TIF is expected to reach c.£500m, such is the ability of TIF to unlock long-term investment, over £2.5bn is expected to be invested by the private sector.

During 2011/12, SFT worked with a number of local authorities as well as the Scottish Government to agree contracts for over 600 affordable homes for rent through the National Housing Trust (NHT) initiative - homes that otherwise would not have been built - which attracted £100m of additional investment. As a result of the success

of NHT, phase 2 has been launched, with procurement well underway with the aim in 2012/13 to increase the number of NHT affordable homes in Scotland to over 1,000.

Taken together, NPD, TIF and NHT represent over £3bn of investment into Scotland in addition to existing capital budgets, which enables vital investment in infrastructure to continue and protects many construction jobs across Scotland.

Recognising the economic challenges and the growing need to deliver further savings, SFT was asked by the Scottish Government to undertake a review of public sector property asset management, with SFT publishing two reports in September 2011. The reports identified opportunities for improving property asset management within the Scottish public sector and the potential to realise cost efficiencies of over £500m as a result of a five year programme of proposed change. SFT has been asked by the Scottish Government to champion a strategic approach and take forward a programme management role for improving property asset management across the Scottish public sector. Work has commenced and this major work stream will be expanded upon during 2012/13.

Across Scotland, the £1.4bn hub programme is gathering momentum. In the past eighteen months, hub has moved from a much debated and analysed concept through to delivering tangible outcomes with three joint venture partnerships up and running. The preferred bidder has also been announced for the West hub territory and the South West hub area is in the final stages of procurement. By October 2012 all five joint venture partnerships will be operational, delivering community infrastructure and creating local construction work. The first completed hub development at Drumbrae in Edinburgh opened to the public in February and a further three community projects are on site. The first hub project has demonstrated how the hub partnership works with local firms in the successful delivery of high quality buildings.

Along with hub, the £1.25bn Scotland's Schools for the Future programme is meeting key milestones. The first primary school to be built opened in West Lothian in February 2012 and a further eight schools are being built (five of which will be open by March 2013). Construction of an additional 10 schools will start later this year. SFT's work in managing the programme has enabled an additional 12 schools to be delivered within the existing programme budget, rising from the originally anticipated 55 schools to 67.

By 2020, approximately £1bn of waste treatment infrastructure will be required across Scotland and SFT will provide support and maintain its position as a centre of expertise for waste procurement amongst stakeholder groups. SFT's expertise is evident through the support it delivered during 2011/12 by working with Glasgow City Council in its appointment of its preferred bidder for Glasgow's £150m residual waste treatment project.

One new initiative SFT is taking forward is the development of options on how the public sector can reduce street lighting energy and maintenance costs. SFT is working on a pilot project to assess the potential benefits of modern technology relating to more efficient lamps and central management systems.

Recommendations from Audit Scotland, the National Audit Office and other organisations in 2008 emphasised the importance of commercial skills as well as strong capital project and programme management expertise within the public sector; skills and expertise that SFT is providing. At the heart of SFT is a highly professional team with experience gained from working on numerous national and international infrastructure programmes. The team, working collaboratively with many public sector bodies including every health board and local authority in Scotland, has used their financial, technical and legal expertise to positively shape SFT's programmes in the past 12 months. This provides a strong basis upon which SFT can build for the forthcoming year.

The work outlined in this Business Plan sets out areas where the SFT teams will apply skills and expertise over the year ending 31 March 2013. Progress has been made over the past 12 months with much relying upon the partnership approach embraced by public sector bodies and the construction industry to achieve common goals. However, there is still much to do and therefore improving value-for-money and developing innovative ways to finance future infrastructure are still very much at the heart of SFT, as is delivering high-quality sustainable infrastructure and helping protect jobs across Scotland.

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

*Lord Sassoon, Commercial Secretary to the Treasury*

## 2.0 Operations

SFT operates to deliver improved value-for-money in public sector investment in infrastructure. The aim, as stated in SFT’s 2011-2012 Business Plan, remains: *To improve the efficiency and effectiveness of infrastructure investment in Scotland by working collaboratively with public bodies and industry, leading to better value-for-money and ultimately improved public services.*

In its widest sense, SFT delivers value-for-money through a programme of change management that looks at design, sustainability of buildings, provision of local employment, challenging specification and improving effective and efficient procurement.

If there was ever a doubt about the need for such improvements in the efficiency and effectiveness of infrastructure investment, Lord Sassoon, Commercial Secretary to the Treasury, in the National Infrastructure Plan 2010, said: *“Today the UK is one of the most expensive countries in which to build infrastructure. For example, civil engineering works cost some sixty per cent more than in Germany.”*

The need to improve public sector infrastructure procurement across the whole of the UK led to Infrastructure UK publishing its own Charter in March 2011, with a key recommendation being that, *‘Greater discipline to be instilled in the commissioning of projects and programmes by ensuring greater objective challenge of the specification of requirements and cost estimates.’* SFT has embedded this discipline into programmes such as the £1.25bn Scotland’s Schools for the Future programme.

SFT has the following five approaches through which it delivers benefits and savings for the taxpayer:

- **Delivery** – what began with hub and Scotland’s Schools for the Future programmes, SFT’s role has grown as new projects such as NHT have been identified where SFT can lend its expertise and add value
- **Collaboration** – bringing new approaches to collaboration on projects across sectors and regions, such as the Schools pilot project
- **Funding and Financing** – innovating and improving funding structures which put SFT in a strong position to respond to investment opportunities, including for pension funds, and to maximise value for the public sector – clear examples of this are the £2.5bn NPD programme, NHT and TIF

- **Validation** – applying stringent due diligence to infrastructure investment deals, which has often in the past been the preserve of private funders
- **Centre of Expertise** – working with others to develop new and better forms of appraisal, execution and delivery. Using knowledge transfer and applying the lessons learnt, SFT will not be bound by existing structures or methodologies

In addition, the Scottish Government sets SFT a challenging target to achieve between £100m-£150m of savings and benefits annually across its infrastructure investment plan. In June 2011, SFT published its second benefits statement, announcing that it had delivered £129m of net saving and benefits to Scotland, arising as a result of SFT’s work during the 2010/11 financial year. These net benefits and savings comprised £93m of efficiency gains, £38m of additional investment and £2m of avoided cost. They also took account of SFT’s £4m operating costs during 2010/11. The benefits statement was independently and externally validated by Grant Thornton LLP and by the London School of Economics and Political Science.

SFT is a commercial organisation, developing and retaining commercial expertise at the heart of the public sector. Whilst operating independently of Scottish Government, SFT is wholly owned by Scottish ministers and is a company limited by shares, with the shareholder relationship defined in a Management Statement and Financial Memorandum.

SFT’s Board has seven members: a non-executive Chairman; four non-executive directors; the Chief Executive and the Director of Finance and Structures. Further details of board members and the Management Statement and Financial Memorandum are available on the SFT website.

As of March 2012, SFT employed 39 staff across four main areas: Accommodation, including asset management, schools and hub; Infrastructure, including transport, waste, low carbon and energy efficiency; Housing, and Financing. SFT’s operational budget for 2012/13 is £5.55m. The greatest deployment of SFT resources for 2012/13 will be in asset management, hub, schools, housing and financing, which taken together, total around 90 per cent of the budget. SFT’s budget is detailed in Section 6.

## 3.0 Additional Investment

The Independent Budget Review, published in July 2010, said that “Evidence to suggest that public investment is an important contributor to the vibrancy and long-term growth prospects of the modern economy is strong.” It went on to urge pursuance of “all possible cost-effective options to sustain investment in the interests of economic recovery and Scotland’s future prosperity.”

In times of significant cuts in traditional capital budgets, it is clear that delivering ‘additionality’ of investment over and above traditional capital budgets is important for economic recovery and to sustain jobs in the construction and related sectors. Pursuing alternative funding sources allows projects to be brought forward now that would otherwise have had to wait for years for budgets to become available.

SFT has increased its workload in this area and is now leading a £3bn programme of infrastructure investment over and above traditional capital budgets. This infrastructure is ultimately to be funded through payments as it is used, and requires a form of financing to pay for the construction work up-front. The varying forms of funding and financing that SFT uses across its programmes, are shown below:

Both TIF and NHT use public sector debt raised by local authorities from the Public Works Loan Board (PWLB) which is regarded as a stable source of financing. The UK Government imposed a cost increase during the last financial year, but this has generally been modelled as affordable within each programme, and finance is likely to remain available.

The NPD programme (including hub DBFM projects) requires medium or long-term risk capital investment from the private sector participants for a capped return. A strong market exists for this form of finance. The hub programme has seen very competitive returns illustrating that improved value, as compared to previous models, can be achieved.

NPD projects have historically seen up to 90 per cent of financing coming from long-term bank debt. Following the global financial crisis and tightening of bank regulation, this type of financing has become more difficult for banks to offer, with some pulling out of the market altogether. SFT is actively engaged in developing different financing structures for these projects, including detailed discussions on pension fund participation, to enhance the value-for-money achieved across the NPD programme.

Programme	Funding	Financing
NPD	Scottish Government revenue budgets over a 25-30 year contract	Capped-return risk capital investment by private provider and long-term finance from banks or capital markets
TIF	Future incremental non-domestic rates	Local authority borrowing from the Public Works Loan Board (PWLB)
NHT	Mid-market rent paid by property occupiers and eventual sale value	Local authority borrowing from the PWLB with a Scottish Government guarantee and capped-return equity from the private developer

## 4.0 Sustainability

As reported in the 2010/11 Benefits Statement, SFT delivers substantial benefits that cannot easily be given a monetary value to our stakeholders and the wider Scottish society in terms of economic, environmental and social sustainability. In many cases, these benefits are at least as important as those quantified as pure financial benefits in that they support longer term sustainable growth.

### Supporting Sustainability and the Environment

Sustainability in its widest sense is a key driver for SFT when developing infrastructure and delivery solutions. SFT aims to ensure that economic, environmental and social sustainability are addressed in the early stages of project development so that:

- They are an inherent part of procurement and delivery to facilitate sustainable economic growth, locally and nationally
- Adverse environmental impact is minimised
- Promotion of the development of sustainable communities is enhanced

The positive impact of high-quality sustainable design will be supported by SFT at all stages of procurement, and through to delivery. In support of this, SFT has recently signed up to the Scottish Public Bodies Sustainability Reporting standards and the Zero Waste Scotland Halving Waste to Landfill Construction Commitments.

### Sustainable Economic Growth

Taken together, the NPD programme, TIF and NHT total some £3bn of additional investment in Scotland over and above current capital funded budgets. This represents one of the largest investment programmes of its type in Europe and SFT is playing an important role in developing the economic environment in which such a wide-ranging and comprehensive investment programme can be implemented successfully.

### Jobs

Public spending on construction activities helps maintain employment, principally in private sector businesses, in a sector where the Gross Value Add per employee is significantly higher than the national average. Given the significant downturn in private sector construction in recent years, industry commentators have observed that maintaining public investment is needed to retain a regional skilled workforce in the sector.

In the face of falling capital budgets, the £3bn of additional revenue finance investment will help offset the decline in capital funded budgets and help protect jobs in the construction industry. Using a generally accepted and conservative multiplier of £100,000 of construction turnover per job, the £3bn of additional investment will support thousands of jobs in the construction sector in Scotland over the forthcoming years.

### Training

The Scotland-wide hub programme has included firm requirements and key performance indicators for delivering training opportunities in each of the five hub territories. Providing such training opportunities forms part of each hubCo's continuous improvement programme and detailed method statements set out how the hubCos will deliver the level of training required for each new project.

### Knowledge

Sharing skills and experience is an important objective for SFT and we actively seek opportunities to broker exchanges between bodies with a broad range of recent relevant experience. It is particularly important that taking a central role on a significant infrastructure project is not a 'once in a career' experience for public body employees.

### Communities

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

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

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



## 5.0 Work Streams

SFT is working on a wide range of public sector infrastructure programmes across Scotland. Improving value-for-money and developing innovative ways to finance future infrastructure are necessary and are very much at the centre of SFT, as is delivering high-quality sustainable infrastructure and helping protect jobs in the construction sector in Scotland.

SFT achieves this through the following work streams:

- Asset Management
- Housing
- NPD
- hub
- Schools
- TIF
- Waste
- Energy Efficiency
- Programme Support
- Operational PPP

## 5.1 Asset Management

SFT undertook two pilot exercises which reported to Scottish Government in September 2011. The reports identified opportunities for improving property asset management within the Scottish public sector and the potential to realise cost efficiencies of over £500m as a result of a five year programme of proposed change. SFT is developing an asset management team to work collaboratively across the public sector to add value and take forward a programme management role for improving property asset management across the whole of the Scottish public sector.

The profile of property asset management has been raised and now requires a more strategic, collaborative and commercial approach. Some public bodies are already improving their use of existing property resource. SFT's task will be to build on that success.



*Above: Fife Council's 'super depot' at Bankhead in Fife.*

**Plans for 2012 – 2013**

For the year ahead, SFT will move the programme into implementation and aim to achieve benefits in three main areas:

**Local Civil Estate**

The local civil estate incorporates local authorities, the NHS and the emergency services. The opportunity here is for public bodies to deliver benefits that will arise in reduced revenue spend and releasing capital value from under-utilised property, in line with local service delivery plans. There are also potential savings from facilities management and procurement.

The asset management case study on the new Fife Council 'super-depot' demonstrates the potential to improve efficiency through collaboration. The impact of this project has been shared through workshops (arranged by SFT) with a number of interested public bodies. The theme of collaborating for this area of operational activity was identified in the diagnostic pilot work in the South East hub area. It was highlighted that there are around 90 depots and similar facilities in that area alone, demonstrating the potential scope for rationalisation.

**Central Civil Estate**

There is a need to improve the efficiency of the central civil estate (generally office space for the Government and its agencies) and as a result to reduce the office floor plate. The aim of the programme is to secure a minimum of 25 per cent reduction over a five year period.

**Surplus Property**

By taking a more corporate, commercial and strategic approach there is an opportunity to accelerate and enhance improved value. Work has already commenced on a pilot project with NHS Tayside to undertake master planning on three key sites and to develop a strategic plan across the NHS surplus portfolio.

SFT has also embarked on developing a 'one public sector' property database. This follows on from pilot work undertaken in the South East hub area and is also based on the success of a similar initiative by the Welsh Government. This will be based on e-PIMS Lite which has the ability to interrogate existing asset management systems. Current pilot work will test the opportunity and develop a strategic case for rolling out across the public sector property network.

**Business objectives for the coming year are:**

- Recruit and build internal teams for the new asset management work streams
- Establish significant coverage for a new property information system
- Complete pilot work on the NHS surplus property portfolio and commence strategic roll-out
- Complete pilot work on the Scottish Government wider estate, develop strategic plan for office rationalisation and commence roll-out
- Complete the local estate diagnostic reviews
- Complete pilot work on local civil estate offices rationalisation, combined storage/depots and place-based reviews, and enable commencement of projects

**Fife Council's Super Depot**

In an effort to rationalise its property assets, Fife Council purchased the vacated Amazon distribution warehouse at Bankhead in Fife as a 'super depot' to bring as many of their services as possible together under one roof, including: building and property services, catering and cleaning, transportation and environmental services and grounds maintenance.

It is estimated that the project will ultimately save the council between £3m-£4m a year in revenue costs.

The super depot facility will accommodate 1,600 council staff and will replace nine existing council depots across Fife.

The project will also provide for the co-location and integration of other public bodies, including stores for Fife Constabulary and NHS Fife. The vehicle workshops will also service Fife Fire & Rescue.

## 5.2 Housing

SFT's housing team is involved in a number of housing initiatives. Over the past year in particular, SFT has been working with the public and private sectors to make the National Housing Trust (NHT) initiative a reality. NHT was designed to deliver new affordable homes available for rent across Scotland and to help safeguard jobs in the residential construction industry. The success of the initiative, based on joint working between SFT, local authorities, Scottish Government and the private sector, has demonstrated that affordable homes can be built with only a small subsidy. It has also laid the foundations for a number of NHT related models that are currently under development.

### Plans for 2012 - 2013

Building on the past 12 months, the coming year will see the SFT team focus on working with local authorities and developer-partners to continue delivering a number of homes under phase 1 of NHT, as well as ensuring their smooth transition into operation and letting. The procurement of phase 2 of the initiative was launched in late 2011 and the coming year should see the number of homes to be contracted for under NHT increase to over 1,000.

SFT, together with public and private sector partners, will continue to explore innovative options to finance additional house building opportunities.

### Business objectives for the coming year are:

- Have contracted for more than 1,000 high-quality affordable homes through the ongoing deployment of NHT
- Continue delivering completed homes for affordable rent through NHT
- Continue providing support to the partnerships set up under NHT
- Provide support in relation to emerging affordable housing models which SFT view as being viable and having development potential
- Carry out a feasibility study assessing alternative structures (including funding structures) for affordable housing

NHT is designed to increase the supply of affordable homes in areas where they are most needed. Under NHT, developers are appointed to build a specified number of affordable homes on land they already own. Once complete, a local partnership company comprising the developer, the participating local authority and SFT buys the homes and lets them to tenants at affordable, mid-market rent. Since the launch, 24 tenants have moved into the first completed NHT development in Stirling, and so far, SFT has signed contracts with developers to build over 600 affordable homes across 12 sites for rent, from the Borders and Edinburgh to Stirling and the Highlands; homes that would not otherwise have been built.

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

NHT is an on-going initiative that to date has:

- Accelerated the delivery of affordable rent housing through an innovative model
- Demonstrated to the sector that a Scottish Government guarantee without any direct subsidy can help boost construction and help attract public and private sector investment
- Progressed 11 individual partnerships which are now operational across six local authority areas
- Created support for more than 700 construction jobs and generated around £100m of investment into the housing sector
- Delivered an attractive model which is suitable for both SMEs as well as larger developers

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

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

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

## First NHT Homes Built

*“This is really a beautiful home and it has everything I could possibly wish for - a modern kitchen, en-suite bathroom and walk-in wardrobes. I’m very lucky to have found a brand new home at an affordable rent in the city centre.”*

**Rona Rennie, NHT tenant at Maritime House, Stirling**

In response to a need to provide quality affordable housing for rent for local people, Stirling Council decided to join the NHT initiative looking for local builders to build much-needed homes.

Bett Homes tendered and was subsequently chosen by SFT and Stirling Council to build 16, one and two bedroom apartments on a prime, city-centre location at Stirling Waterfront. The new homes provide high-quality affordable rental accommodation in the city centre close to the station and new leisure complex.

Illustrating just how popular the properties were, following the initial letting advertisement the Council was inundated with well over 700 applications for the properties. In January 2012, 24 tenants took the keys to the 16 new homes for rent. Similar levels of demand are also being experienced in respect of other NHT developments and the next handover is expected to take place by May.

Due to the high number of applications, Stirling Council is in talks with SFT to deliver more affordable homes for rent.



**Above and left:**  
Rona Rennie and her new NHT home in Stirling.

**NATIONAL HOUSING TRUST** 

## 5.3 Non-Profit Distributing (NPD) Programme

In relative terms, SFT is managing one of the largest Public Private Partnership infrastructure investment programmes anywhere in Europe. The 2011/12 Scottish Budget gave SFT responsibility to deliver an additional £2.5bn pipeline of projects – to be paid for as they are used from future revenue budgets – in partnership with the Scottish Government, local government, NHS boards and other public bodies. SFT's role is to manage the pipeline of projects in the programme; present a properly coordinated position to the market across all investment sectors; challenge procurers and share best practice to maximise value-for-money, and simplify contracts and processes to save time and cost in procurement and delivery.

Scotland has pioneered capped private sector profits so that profits properly reflect risks taken and deliver better value for the taxpayer. The £2.5bn project pipeline will be delivered under the Non-Profit Distributing (NPD) structure with delivery risks transferred to private partners under capped profit arrangements.

Paying for infrastructure from future revenue budgets, rather than from increasingly constrained capital funds, means that construction can start now instead of being postponed until capital budgets become available. In essence this means buildings are built, jobs protected and in many cases new jobs created. 2011 marked the start of the first flow of deals through the £2.5bn programme, with six projects, including the recently launched procurement of City of Glasgow College (valued at £200m) and Inverness College (valued at £50m), in the early stages of procurement or development with hub partners.

These initial projects alone will deliver over £260m of infrastructure investment. Importantly, SFT has been working hand-in-hand with all parties concerned to ensure projects and project teams are well-structured and well-resourced. Additionally, by applying a challenge to projects at Business Case stage, SFT has encouraged organisations to think about their 'needs' not their 'wants' so that available budgets are used fairly and wisely to deliver value and benefit.

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

Steps already taken include simplifying contracts and clarifying risk positions which will assist in attracting pension fund investment. SFT is continuing to work actively to bring pension funds and other long-term investors in to NPD projects.

### Plans 2012 – 2013

Over the next year SFT will support projects as they move towards or through the tendering and hub project development phases. SFT will work closely with partner organisations to understand their projects and share best practice and lessons learnt, challenging where necessary to deliver efficient sustainable building specifications. This will make it easier, cheaper and quicker for public bodies to get better value deals that are sustainable for the long-term and deliver clear benefits to the communities in which they are built.

At a time of unprecedented uncertainty in the financial markets, SFT will engage with the market to explore new ways to achieve the best financing terms for projects across the programme, including attracting pension fund investment. And finally, SFT will monitor future opportunities for SFT's asset management team to support and add value to the wider estate rationalisation and site disposal strategies to which these projects are linked.

### Business objectives for the coming year are:

- Secure sustainable financing for projects in the programme to include structuring for participation by institutional investors, e.g. pension funds
- Reduce transaction costs by overseeing the proper use of the standard form contract documents and ensuring consistency across sectors and projects where appropriate
- Have challenged costs in Business Cases and through procurement demonstrating focus in the delivery of 'needs' not 'wants'
- Ensure that project teams continue to focus on value-for-money as they move through the bidding process and scrutinise this through key stage reviews
- Provide timely approvals and support projects moving rapidly through procurement in line with set time scales
- Communicate programme updates clearly to the market so that they can be in a position to respond
- Manage the programme within set affordability limits
- Work with all authorities to maximise community benefits, specifically including community benefits clauses in documentation and identifying a champion who will monitor their implementation

## 5.3.1 NPD Health

Through the NPD and hub programmes, SFT is working with Health Boards across Scotland as well as the Scottish Government Health Directorate to bring forward health projects in excess of £750m. For these projects, SFT has brought a coordinated approach to the marketplace and rigour of project development for major health projects which will lead to more cost-effective and sustainable buildings procured quicker and at lower cost to the public and private sectors.

Key achievements during 2011/12 were to start on projects that will deliver significant additionality of investment over and above available capital budgets. These were:

- Progressing the contract for signing for the first revenue financed project in North hub – Aberdeen Health Village – to be signed in spring 2012
- Moving a series of acute health projects into a market-ready state including preparing the Edinburgh Royal Hospital for Sick Children and Department for Clinical Neurosciences through procurement preparation with the OJEU notice due to be published in spring 2012

### Plans for 2012 – 2013

Through 2012/13, SFT will see construction activity in the health sector increase significantly through hub. In the NPD programme, SFT will continue its role of design challenge to support Health Boards in benchmarking their projects to deliver best value.

### Business objectives for the coming year are:

- Bring over £225m of projects into construction or active procurement/hub development
- Support operational hub areas to develop and commence construction of new capital and revenue funded health projects across all five hub territories
- Work with Health Boards to bring consistency to the procurement approach and clear reference designs across the NPD projects and amend the standard contract as required to support the 24-hour operation of an acute hospital environment
- Support the NHS New South Glasgow Hospital project through membership of Project Board

### Edinburgh Sick Children's Hospital

NHS Lothian is procuring Edinburgh Sick Children's Hospital and Department of Clinical Neurosciences in a combined facility on the site of the existing Royal Infirmary of Edinburgh at Little France, Edinburgh. The NPD funding model allowed this most clinically effective single facility solution to be developed, and to be brought into procurement now rather than waiting several years for capital funding to become available.

The new facility allows greater synergies in clinical care through the co-location of many more services on the one site such as adult and paediatric emergency departments and adult and paediatric neurosurgery.

SFT has been working closely with NHS Lothian for more than a year in preparing the project for procurement. There has been greater complexity than would be the case with a wholly green-field hospital procurement as there have been a number of interfaces to consider in relation to the existing Little France site and hospital. Discussions have taken place with the existing PPP contractor to allow for appropriate access and land rights to the existing site.

SFT has also carried out an independent review of the design and specification of the new facility as part of the 'needs not wants' challenge function regarding the scope of new public infrastructure. This work confirmed that an efficient design had been developed for the new facility and highlighted several smaller specific areas that should potentially be further enhanced during the procurement.

The procurement is expected to commence in spring 2012 and construction by September 2013, with the new facility being handed over by November 2016.

The cost of construction is expected to be around £150m and the NPD contract will last for a period of 25 years after construction.

## 5.3.2 NPD Education

In addition to the Scotland's Schools for the Future programme covered in section 5.5, SFT is supporting three further education projects that are part of the NPD programme which will see new campuses delivered for the City of Glasgow College, Inverness College and Kilmarnock College.

Originally the three college projects had been earmarked for capital funding and with the reduction in capital budgets, were switched to revenue funding to allow them to proceed. Over the last year, SFT worked closely with the colleges to develop and scope their projects to reflect the switch to revenue funding.

In parallel with this, SFT has assisted the Scottish Funding Council (SFC) and the Scottish Government in defining the Business Case requirements for revenue funded projects in this sector. Business Cases for the City of Glasgow College and Inverness College projects were approved towards the end of 2011 and both projects were formally launched to the market in December 2011, with Kilmarnock College due to follow in Spring 2012.

A cost challenge has been applied in the Business Case approval process and the focus on delivering value-for-money will be maintained through SFT and SFC scrutiny throughout the whole of the procurement process.

SFT has facilitated collaboration and knowledge-sharing amongst the three colleges and all have adopted common approaches to aspects of the procurement process such as pre-qualification with a view to easing the administrative burden that this often places on bidders.

### Plans for 2012 - 2013

Going forward, SFT will continue to encourage joint working and consistency of approach across the college projects when it comes to processes and commercial documentation. Not only will this reduce up-front transaction costs, but it will also assist with contract management and monitoring arrangements once contracts are signed.

All three college projects will be in procurement during 2012/13 and SFT will be on-hand throughout to provide support and advice to the project teams to see that the new facilities are delivered on value-for-money terms for each college.

### Business objectives for the coming year are:

- Support all three projects through their procurement processes as well as provide validation and assurance through Key Stage Reviews
- Work with preferred bidders on two of the projects to allow construction to commence as soon as is reasonably possible
- Ensure a consistent approach to NPD contract documentation across all three projects
- Embed greatest possible flexibility in NPD contracts to support future changes in education delivery
- Use reference designs across all three projects with appropriate flexibility through procurement to deliver value and shorter procurement periods than have been delivered for revenue financed projects in the past

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

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

## The City of Glasgow College New Campus Project

City of Glasgow College is now Scotland’s largest college and is sited across a range of City Centre, East End and Riverside buildings, providing over 2,600 courses for approximately 40,000 students. At its core, the college is committed to delivering world-class learning, however the buildings are far from being fit-for-purpose.

There was therefore a real need to deliver a sustainable campus which would offer high quality learning environments for students that would be easier to manage and be cost-effective to run.

To deliver a quality, future-proofed campus, SFT will provide support to the College on a wide range of commercial, financial, legal and procurement matters to ensure that value-for-money is achieved within the affordability limits for the project.

The new campus is key to the College’s vision to provide learners with sustainable, first-class facilities. When complete it will deliver substantial operational savings as the College moves from its existing campus spread across 11 sites to an integrated campus at two sites, reducing the college’s existing footprint by over 10 per cent or 9,000 m<sup>2</sup> and making substantial CO<sub>2</sub> savings over its life.

The College, in conjunction with SFT and the Scottish Funding Council, is aiming to award the c.£200m NPD contract for the project in May 2013, with construction due to start shortly thereafter, with both sites to be open to students and fully operational by August 2016.



**Above:** Artist's impression of the new City of Glasgow College Campus

## 5.3.3 NPD Transport

In the transport sector, SFT's role is focused on both project-specific as well as wider programme support and assurance. Supporting Transport Scotland, SFT is working on a number of important NPD transport projects including the M8/M73/M74 motorway improvements and the Aberdeen Western Peripheral Route (AWPR) and in delivering value-for-money by challenging costs and bringing well-structured and affordable projects to the market with an appropriately resourced team.

Working across these projects and where appropriate, SFT will reduce transaction costs by bringing common elements of process and documentation to the projects. SFT will work to ensure that key elements of the overall revenue funded programme are maintained in this sector. Subject to the development of clear, affordable and value-for-money cases, SFT will support all projects into procurement.

SFT's programme support and assurance activity included the successful completion of the Forth Replacement Crossing Key Stage Review prior to contract award in April 2011. In addition, SFT is working with the Infrastructure Investment Board (IIB) on other transport projects across a range of sectors including maritime and rail. SFT's support to IIB is to provide the appropriate challenge to procurers and sponsors of projects in the early stages of development with the aim to improve overall value-for-money.



*Above: Artist's impression of part of the Aberdeen Western Peripheral Route, courtesy of Transport Scotland.*

### **Business objectives for the coming year are:**

- On the M8/M73/M74 and AWPR schemes:
  - Support the projects as member of the Project Board
  - Support the continuing development of the NPD structure
  - Work with Transport Scotland to continue developing a financing structure to deliver significant financial benefit over 25-30 years
- Work with the IIB in providing challenge on major transport projects and agree action plans from recommendations





## 5.4 hub

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

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

In January 2011, construction started on the first hub project at Drumbrae in Edinburgh. Ten months later it was handed over to City of Edinburgh Council by the South East hubCo ready for fit-out, and now it is open to the public, providing the local community with access to library facilities along with a host of other amenities.

The Scotland-wide hub programme, valued at over £1.4bn over the next ten years, reflects an innovative approach to deliver community facilities. Central to its success is the establishment of collaborative working practices among health boards, local authorities and blue light services along with private sector development partners.

The importance of targeted recruitment and training is an integral part of the hub programme and central to this is a new partnership agreement with ConstructionSkills Scotland.

In 2011/12 the hub programme moved from concept through to producing outcomes with the establishment of the East Central and West territories, along with over £100m of projects either completed, on the ground or in the advanced stages of planning.

The hub procurement process means that, once established, each hubCo has the ability to develop and construct revenue funded projects much more efficiently than individual time-consuming and resource-intensive EU procurements for each of them. With limited capital funding available, the switch to revenue funding has allowed projects to be developed now rather than wait for many years, providing opportunities for employment and training during the economic downturn which would otherwise not existed.

### Plans for 2012 – 2013

By the end of 2012/13, the South East hubCo will have completed Haddington Infants and St Mary’s RC Primary School; handed over the East Neighbourhood Office and Library in Craigmillar as well as Gullane Medical and Day Centre, and across Scotland well over 30 projects will be under development.

As all hub territories become operational over the coming months, SFT will continue to work with all its hub partners to efficiently deliver the hub programme. As part of hub’s ongoing delivery plan, it will continue to demonstrate the employment opportunities that exist for local people and businesses.

### Business objectives for the coming year are:

- Set up the last of the five hubs in the South West region
- Have £360m of projects either in construction or in development
- Have three hub buildings open and supporting local services
- Have 12 hub developments under construction
- Enable delivery of improved value-for-money and efficiency on projects
- Enforce key performance indicators on community benefits including opportunities for SMEs
- Ensure implementation of targeted recruitment and training

## Drumbrae Library hub – City of Edinburgh Council

The Drumbrae Library hub is the first project to be completed by hub South East Scotland Ltd and the first to be completed in Scotland, and has received an enthusiastic welcome from local residents.

The facility is at the heart of the local area and acts as a catalyst in maintaining a vibrant and sustainable community. It actively encourages local involvement in community-based activities and is a focal point for the local community.

The main services provided in the new facility are:

- A library service at the heart of the local community
- A new day care facility
- Facilities for community use - some of which can be shared out of hours with local groups
- A new neighbourhood office facility in the heart of west Edinburgh for both the Council and local partners
- A community policing unit

Real economic benefit:

- Construction industry orientated visits for local secondary school pupils and college students
- The project was delivered on time to a challenging programme (10 months)
- It was successfully delivered within budget (£5.7m)
- Design and construction work was carried out by companies based in Scotland, the vast majority of which are local SMEs

Promotion of sustainability is a key environmental consideration and the Drumbrae Library hub demonstrates what can be achieved:

- BREEAM rating of Very Good
- Renewable heating system
- Reduction in CO<sub>2</sub> emissions of circa 11 tonnes per annum



**Above and left:**  
The first hub development  
open at Drumbrae  
in Edinburgh.

## 5.5 Scotland's Schools for The Future

Since 2009, SFT has been working with local authorities across Scotland to deliver the Scottish Government's £1.25bn Scotland's Schools for the Future programme. SFT's role is to manage the programme and to ultimately help local authorities achieve the best value-for-money for the investment in their new schools.

By focussing on the delivery of 'needs' rather than 'wants', achieving savings through collaborative working and carefully managing the programme budget, SFT's work has enabled the number of schools to be built within the programme to be increased from 55 to 67 – an extra 12 schools.

One major milestone reached in the last year was the opening of the first school within the programme – Pumpherston and Uphall Station Community Primary School in West Lothian – which has the capacity to teach nearly 300 pupils. Additionally, more than £125m of construction contracts have been signed, with eight other schools now being built.

The joint pilot project, involving Midlothian and East Renfrewshire Councils, which is delivering two secondary schools simultaneously, has been successfully achieved through collaborative working with both schools on target to open in 2013. Best practice and lessons learnt from the early projects are being shared across the rest of the programme.

### Plans for 2012 – 2013

For the coming year, SFT will continue to work with local authorities and industry partners to improve the efficiency and effectiveness of future infrastructure investment in schools. Working with our partners, the collective focus will be on delivering high-quality, cost-effective and sustainable schools.

Building upon early programme successes of improving the quality of design and the effective utilisation of space in the secondary school estate, SFT will develop reference primary school designs which achieve programme goals and can be delivered within the programme space and cost metrics.

The overarching aim will be to continue the successful development of the remaining school projects in phases 1 and 2, and to effectively manage the roll-out of the additionally selected schools in phase 3.

### Business objectives for the coming year are:

- Work with Scottish Government to develop phase 3 of the programme and establish a clear pipeline of investment activity
- Continue to monitor and manage the programme within set affordability limits
- Remain on track to open the first secondary schools in 2013
- Commence construction of at least ten schools
- Achieve occupation of five primary schools
- Undertake initial post project evaluation to understand lessons learnt
- Develop reference primary school designs which achieve the programme goals and can be delivered within the programme metrics for wider use across the programme
- Continue to improve value-for-money through commonality of approach, benchmarking of costs and space standards, and cost efficiencies arising from joint working
- Continue to monitor the delivery of new schools to ensure programme sustainability targets are being met, in particular BREEAM and EPC ratings

# SCOTLAND'S SCHOOLS FOR THE FUTURE

Inspiring learning, aspiring nation



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

*Councillor Derek Milligan, Leader of Midlothian Council*

## East Renfrewshire and Midlothian Councils' Pilot Project

The pilot project between East Renfrewshire and Midlothian Councils to build two high-quality secondary schools helped shave £4m off the £65m budget.

SFT initiated the very first collaborative schools project which would see two councils from opposite sides of the country develop and build two schools simultaneously using the same architect and builder. By applying lessons learnt from elsewhere, agreeing a common approach to design and specification where appropriate, concentrating on the elements of design which make the schools different, and by following a joint procurement process, the project has delivered substantial savings – almost 6 per cent (or £4m) through collaborative working.

SFT encouraged joint working through the establishment of a joint procurement team. The recently published Schools Development Handbook narrates the pilot project's journey and provides guidance and a point of reference on best practice.

Construction of Midlothian Council's Lasswade Community Campus and East Renfrewshire Council's Eastwood High started in October 2011 with handover of the buildings to the councils due to take place in June 2013. Both schools will be open in time for the new school term in August 2013.

While the two new schools share common aspects, for example heating, lighting and ventilation strategies, the approach to classroom design, and circulation to name a few, each is unique. The expression, 'The same, but very, very different' is appropriate as the schools share the same nuts and bolts but the designs respond very differently to local needs.



**Above:** Artist's impression of the similar interiors at Lasswade Community Campus and Eastwood High.

This is exemplified in the approach to the delivery of community facilities. In the Midlothian school, users of the building will find a community library, specialist gymnastics facilities, a leisure pool and other sporting facilities. The incorporation of these community facilities under the one roof has meant that the council is in a better position to manage council assets over the longer term.

In East Renfrewshire, the council opted to retain a relatively new community sports facility wrapping part of the new building around the existing one. The external elements of both schools respond in their own unique way to their surrounding location. The emphasis throughout the design process was to make common aspects the best they can be and spend the remaining time focusing on what makes the schools unique.

## 5.6 Tax Incremental Financing (TIF)

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

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

SFT is rolling out the Tax Incremental Financing (TIF) programme across Scotland which helps unlock future growth by funding infrastructure that is paid back from future increases in non-domestic rates.

Investing public sector money helps kick-start new private sector development and this regeneration opens up future economic growth in infrastructure which in turn creates revenues needed to repay the infrastructure debt. Put simply, ‘paying for growth with growth.’

SFT has led the development of TIF from the start and has helped shape TIF into a tool that can be used to deliver additional investment, help bring about growth and in turn protect and create jobs.

SFT has worked on the development of TIF pilot projects in Edinburgh, North Lanarkshire and Glasgow and in June 2011 SFT, on behalf of the Scottish Government, invited local authorities to apply for the next phase. Such was the level of interest that 16 applications were received for additional pilot projects. Support was provided to the Scottish Government as part of their process in choosing applications from Argyll & Bute, Aberdeen, Falkirk and Fife Councils to progress to full Business Case.

A major achievement by SFT over the last year has been the widening of the TIF programme attracting 15 councils to submit 16 TIF proposals thus recognising the potential the initiative has in delivering future growth and jobs, as well as investment from the private sector. The seven chosen projects are spread across a wide geographical area and once their Business Cases are accepted, will support a diverse range of industry sectors including tourism, petro-chemicals, renewables, marine-sciences, retail and manufacturing.

At a time when traditional sources of public and private sector funding are under pressure, the appeal of TIF to attract additional funds is such that for every £1 invested,

a further £5 could be unlocked from the private sector. In other words, with the public sector set to invest approximately £500m into the seven projects, it is projected that this will leverage an additional £2.5bn of private sector investment within Scotland.

### Plans for 2012 – 2013

Over the next 12 months, SFT will focus on working with project partners to deliver developments on the ground, and where possible, identify ‘early wins’ to kick-start construction.

Going forward, SFT will help the remaining pilots shape their delivery strategy, whilst also developing and refining proposals, ultimately leading to the finalisation and submission of Business Cases. SFT will also share knowledge of TIF along with the lessons learnt with the wider public sector in Scotland, demonstrating how real innovation can deliver additionality at a time when traditional budgets and funding sources are being constrained.

### Business objectives for the coming year are:

- Gain approval in principle for TIF pilot projects
- Have reached detailed agreement with four pilot projects
- Publish initial lessons learnt from the pilot process
- See investment made and construction work started on TIF enabled projects

## 5.7 Waste

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

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

SFT is helping ensure that major waste infrastructure projects and services procured by local authorities are deliverable, affordable and sustainable.

SFT has been working with a number of local authorities across Scotland in the development of initiatives to meet the requirements of the Zero Waste Plan and to reduce local authorities’ exposure to the increasing cost of landfill.

Working with Glasgow City Council, SFT played a key role in supporting Glasgow in delivering its preferred strategy for residual waste. Over the past year, SFT worked closely with Glasgow to secure the appointment of Viridor as the preferred bidder for its £150m residual waste treatment project. This project will reduce the city’s exposure to future landfill costs, whilst complementing its recycling performance.

In a similar vein, SFT has played a key role in supporting both the food and residual waste projects for Edinburgh and Midlothian. Both projects are well advanced and SFT will continue to support the Councils as these projects progress from procurement into construction.



**Above:** Artist’s impression of the new Viridor Facility in Glasgow.

### Plans for 2012 - 2013

For the year ahead, SFT will lend its support to other authorities and build on the lessons learnt from both the Glasgow and Edinburgh/Midlothian procurements. The emerging pipeline of future local authority backed residual waste projects, valued at more than £500m, will play a significant role in meeting Scotland’s Zero Waste targets as well as promoting economic growth through the delivery of major construction projects and the creation of new waste services.

SFT’s key focus will be in continuing to provide support and maintain its position as a valued and highly respected centre of expertise for waste procurement. In particular, SFT will support Glasgow in concluding its residual waste procurement; support Edinburgh and Midlothian in closing their food waste procurement and to advance their residual waste project to the detailed solution stage; as well as support other local authority waste initiatives.

### Business objectives for the coming year are:

- Continue to support the current portfolio of local authority waste projects that account for at least 40% of all household waste in Scotland as they move into the procurement phase, and to support at least one of these projects to reach contract award
- Help promote sustainable waste infrastructure projects that are both affordable and deliverable, which in turn support economic growth through the pipeline of major construction projects
- Maintain the centre of expertise in waste to assist in the development and delivery of major waste treatment projects, as well as future management of new treatment services
- Provide ongoing support to the Scottish Government in relation to the implementation of its Zero Waste Plan and the options for delivering major new waste treatment facilities
- Support the Clyde Valley authorities to finalise their joint working arrangements and to commence procurement of their joint residual waste treatment project
- Support the Edinburgh and Midlothian to collaborate on the food and residual waste treatment projects, helping the councils reach contract award on their food waste treatment project and to be well advanced on their residual waste treatment project

## 5.8 Low Carbon and Energy Efficiency

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

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

Scotland is committed to achieving challenging statutory emissions reduction targets by 2020 as set out in the Climate Change (Scotland) Act 2009. The renewable action plan sets out a framework for action in the specific area of renewable energy and the Conserve and Save: Energy Efficiency Action Plan provides a framework for energy efficiency and micro generation targets. SFT is fully committed to exploring innovative ways in which it can support the investment in this strategically important sector.

During the last year, SFT engaged in a number of key areas and activities which have the potential to:

- Significantly increase the investment from emerging UK wide initiatives such as the Green Deal and the Green Investment Bank
- Leverage additional funding to support low carbon projects
- Identify potential energy efficiency projects which may be taken forward as ‘Spend to Save’ schemes such as street lighting

Last year SFT published a joint report with COSLA on the Commercial Aspects of Local Authority Renewable Energy Production, and such has been the impact of this report that SFT is looking forward to working with local authorities across Scotland on a number of the report’s recommendations.

One new initiative SFT is taking forward is to develop pilot projects in relation to street lighting to establish the potential financial and carbon savings that could be captured through the introduction of modern technology relating to more efficient lamps and central management systems. SFT is working with East Dunbartonshire Council and West Dunbartonshire Council to develop Business Cases to assess the potential of this, and to develop a toolkit to assist other councils to take forward similar schemes.



### **Business objectives for the coming year are:**

- Complete a street lighting energy efficiency and upgrade feasibility study
- Develop a local authority Business Case for a financial and energy efficient street lighting project
- Support and facilitate the Scottish Government and Scottish projects in accessing emerging sources of financing for energy efficiency and renewables projects
- Support the development and roll-out of the Green Deal within Scotland
- Support the Tax Incremental Financing pilot projects where renewable infrastructure is being provided

## 5.9 Programme Support and Assurance

In addition to the sector specific activities identified in the preceding sections, SFT also actively supports public bodies through a number of programme support and assurances initiatives as summarised below.

### Assurance

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

SFT actively supports all NPD and revenue funded projects under the hub initiative as well as a number of local authority waste projects. In carrying out this function, SFT not only works with project teams and contributes at board level, but also carries out key stage reviews (KSRs). The aim of KSRs is to improve efficiency in the delivery of revenue funded projects and to increase the likelihood of achieving successful procurement and operational outcomes for projects. KSRs are conducted at crucial stages in the procurement of a project and provide a critical but constructive assessment of their readiness to progress. They are a helpful tool for identifying any issues that might need to be addressed or resolved before the project proceeds to the next stage. In the past year, SFT carried out 20 KSRs.

### Infrastructure Investment Board

The Infrastructure Investment Board (IIB) has been established by the Scottish Government to take on an executive role in infrastructure governance, working alongside individual portfolio investment boards. The IIB provides senior level scrutiny and challenge across the range of major government-led infrastructure projects in Scotland. This is provided in a number of ways, including strategic review at the initial stage of major project development as well as periodic review of the governance of individual elements of the programme, satisfying itself that arrangements are robust and, where relevant, making recommendations for improvement. SFT is a member of the Board and provides support by assisting them in selected project, programme and governance reviews.

### Project Cost and Risk Management

As part of the Draft Budget 2011/12, the Scottish Government asked SFT to investigate and develop approaches to the application and management of Optimism Bias and contingency in relation to project budgets. The aim of the SFT review was to assess current activity across the UK and abroad and develop proposals to improve cost and contingency estimation and management for major infrastructure projects and identify the potential impact of this on budget management.

Working in conjunction with Infrastructure UK (IUK) a number of broad initiatives have emerged in relation to behaviours, governance and process that, if implemented could generate significant improvements to cost and risk estimation and budget management.

For a number of these initiatives, for example, a more tailored approach to the allocation and management of risk within a portfolio or programme has already been introduced to elements of the NPD programme and in the health sector. SFT will work with IUK during 2012/13 to develop an implementation plan for wider application of these initiatives.

#### Business objectives for the coming year are:

- Provide assurance to revenue funded projects at the appropriate stages
- Continue working with Scottish Government to integrate their own validation processes with the KSR process
- Continue to work with IIB in providing challenge on major infrastructure projects and agree action plans from recommendations
- Work with IIB and IUK to develop an implementation plan for the project cost and risk management activity
- Liaising with other bodies both within and outwith Scotland in order to seek out and share best practice in seeking community benefits in construction procurement

## 5.10 Operational PPP Contract Management

Following a review of existing PPP contracts across Scotland, SFT identified the opportunity for potential savings to be made through more effective contract management; early activity in this area focused on identifying and realising savings available in the insurance savings mechanisms within the contracts. Working with one local authority, SFT helped generate £800,000 of savings across its insurance arrangements.

A significant number of authorities have responded positively to this overall initiative and the focus in the coming year will be to enhance the realisation of further savings. SFT will also continue to provide support to Scottish Government's Health and Social Care Directorates and health boards in developing a more strategic approach to contract management and the realisation of improved value from its operational PPP contracts.

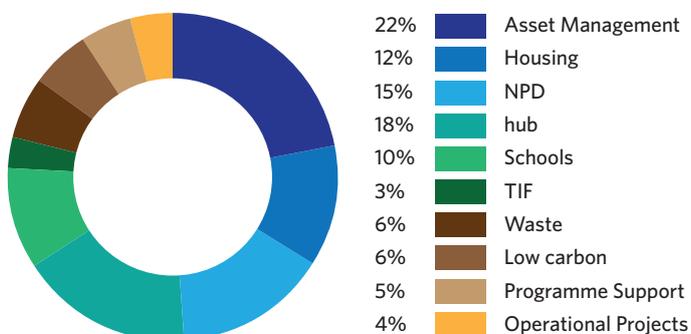
**Business objective for the coming year is:**

- Work with public bodies to implement value-for-money savings in operational PPP contract management

## 6.0 Budget Summary

SFT's budget for 2011/12 was £5.55m against which it is anticipated that SFT will save around 7%. The core budget for 2012/13 of £5.55m is the same as for 2011/12 and is in line with that published in the 2009 corporate plan. This budget will be managed to accommodate the upswing in asset management and low-carbon activity in particular, as well as all of SFT's ongoing commitments meaning that it is fully committed from the outset without flexibility to take on additional activities in the year.

On 8 February 2012, Ministers announced a £3m asset management fund over the period 2012/13 to 2014/15 for SFT to kick-start work across Scotland on realising value through joined-up asset management. This adds £1m of capital allocation to SFT's budget in 2012/13.



Sector	Budget Allocation (£'000)
Asset Management	1,215
Housing	640
NPD (inc health, education, transport)	838
hub	1,013
Scotland's Schools for the Future	572
TIF	139
Waste	321
Low Carbon	317
Programme Support & Assurance	278
Operational PPP	217
<b>Operational Budget</b>	<b>5,550</b>
Additional Asset Management Allocation announced Feb 2012	1,000
<b>TOTAL</b>	<b>6,550</b>
SFT Budget	4,700
hub Budget	850
Asset Management Enabling Funds	1,000
<b>TOTAL</b>	<b>£6,550</b>



**Opposite:** Construction well underway at the East Neighbourhood Office and Library hub at Craigmillar in Edinburgh.

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**Business Plan** 2012-2013

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## Business Plan 2012-2013

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