



The Scottish Parliament  
Pàrlamaid na h-Alba

## FINANCE COMMITTEE

### AGENDA

**2nd Meeting, 2013 (Session 4)**

**Wednesday 16 January 2013**

The Committee will meet at 9.30 am in Committee Room 5.

1. **Decision on taking business in private:** The Committee will decide whether to take item 3 in private.
2. **Scottish Futures Trust:** The Committee will take evidence from—  
  
Barry White, Chief Executive, and Peter Reekie, Finance Director, Scottish Futures Trust.
3. **Budget Strategy Phase:** The Committee will consider its approach to the Budget Strategy Phase.

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The papers for this meeting are as follows—

**Agenda item 2**

Scottish Futures Trust Paper

FI/S4/13/2/1

**Agenda item 3**

PRIVATE PAPER

FI/S4/13/2/2 (P)

**Finance Committee**

**2nd Meeting, 2013 (Session 4), Wednesday 16 January 2013**

**Scottish Futures Trust**

**Purpose**

1. The purpose of this paper is to provide background information for the oral evidence session with the Scottish Futures Trust (SFT). A paper from the SFT is attached at Annexe A.

**Background**

2. The SFT is an independent company, established by the Scottish Government (SG) in 2008, and is responsible for delivering value for money across all public sector infrastructure investment. It operates at arm's length from the SG but works closely with the public sector to seek and deliver improved value for taxpayers. The SG states in its draft budget document 2013-14 that "overall SFT has delivered £131 million of net future benefits and savings during 2011-12. Added to the two previous years, SFT has now delivered a total of £371 million of savings and benefits to the people of Scotland."<sup>1</sup>

3. The Scottish Government (SG), in its draft budget 2013-14 states that its "fundamental priorities" for this budget are to—

- accelerate economic recovery, create jobs and secure new opportunities through the low-carbon economy;
- continue the decisive shift to more preventative approaches to public service delivery and deliver our wider public service reform programme; and
- maintain our commitment to a Social Wage for the people of Scotland at a time of acute pressures on household incomes.

4. It goes on to state that "capital investment continues to be a central element of our approach to supporting economic recovery" and that "that is why we have boosted capital investment to the greatest extent possible within the powers available to us."<sup>2</sup>

**Non-profit Distributing (NPD) Model**

5. Members will recall that the anticipated levels of NDP-financed capital investment presented in the 2013-14 draft budget differed from those in the previous year's draft budget. Over the three-year period shown, planned NDP-financed capital investment is £482 million lower than had been anticipated when

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<sup>1</sup> [Scottish Government Draft Budget 2013-14, P.113](#)

<sup>2</sup> [Scottish Government Draft Budget 2013-14, P.5](#)

the Spending Review was published. The estimates provided in both documents are compared in the table below.

**Table 4: Estimated value of NPD-financed capital investment**

(£ million, cash)	2012-13	2013-14	2014-15	Total
Draft budget 2012-13	353	686	774	1,813
Draft budget 2013-14	20	338	973	1,331
Difference	-333	-348	199	-482

Source: Scottish Government

6. In its report on draft budget 2013-14 the Committee “asks the SG to provide further details on the reasons for re-forecasting the estimated NPD-financed capital investment and will invite the SFT to provide an update on the progress of NPD projects at a future meeting.”<sup>3</sup>

7. The SFT states in its submission that—

“The NPD programme is, in relative terms, one of Europe’s biggest programmes of additional investment over and above capital budgets. Working with more than 30 procuring authorities across some 50 projects, 2012/13 is seeing significant acceleration in the programme. Currently there are projects totalling more than £1bn in procurement, and this is planned to increase to over £1.5bn by the end of 2012/13.”

#### *Openness in Public Procurement*

8. The Committee heard oral evidence from Jim and Margaret Cuthbert in March 2012 following publication of their report, [Using Our Buying Power to Benefit Scotland – the case for change](#). In her evidence Margaret Cuthbert stated that—

“We need far more openness. As you know, the present Government moved from PFI to NPDs, but we find it just as difficult to get information through freedom of information requests under the new system as we did under the old.

The position of the Scottish Futures Trust has, if anything, made life even harder for researchers because territorial agreements are set up in the first place and the individual projects move on thereafter. It would be great to get our hands on those and find out whether they are, in fact, performing as well as the SFT says they are.”<sup>4</sup>

<sup>3</sup> [Scottish Parliament Finance Committee, Report on Draft Budget 2013-14, P.10](#)

<sup>4</sup> [Scottish Parliament Finance Committee. Official Report, 7 March 2012. Col.810](#)

## Maintenance Expenditure

9. During last year's budget process the Auditor General for Scotland informed the Committee that "the maintenance problem is very significant" and the SG was asked to provide details of the priority given to maintenance expenditure within the spending review. In its response the SG stated that—

"Maintenance spend will be held broadly flat in cash terms, ensuring that essential maintenance can continue. We are also working with the Scottish Futures Trust to take forward improvements in the way we manage assets across the public sector to reduce maintenance requirements over the next few years, through greater collaborative use of assets and disposal of surplus assets."<sup>5</sup>

10. In its report on the 2011 Spending Review and draft budget 2012-13 the Committee invited the SG "to provide an update on the actions taken in respect of the asset management issue since the publication of the spending review 2011 and what its approach going forward will be."<sup>6</sup> In its response the SG stated that "the Scottish Futures Trust's (SFT) recent reports on improving asset management across the public sector identified significant potential savings. We are proactively taking these forward."<sup>7</sup>

11. In its submission to the Finance Committee on the draft budget 2013-14, the Justice Committee expressed concern "that the backlog of maintenance on court buildings, currently estimated at £57.1 million, is a 'ticking time bomb' for the Scottish Court Service."<sup>8</sup> The Health and Sport Committee stated in its submission that it had heard from the SG that "at least £400m" was required to resolve capital maintenance within the health budget<sup>9</sup> and in its submission, the Infrastructure and Capital Investment Committee noted that it was "concerned that local road maintenance budgets are still being cut."<sup>10</sup>

12. The Committee stated in its report on draft budget 2013-14 that it would "seek an update from the SFT on its work in this area."<sup>11</sup>

13. In its submission, the SFT states that it—

<sup>5</sup> [Scottish Government Response To Finance Committee Report On Spending Review 2011 And Draft Budget 2012-13, P.3](#)

<sup>6</sup> [Scottish Parliament Finance Committee, Report on Scottish Spending Review 2011 and Draft Budget 2012-13, P.7](#)

<sup>7</sup> [Scottish Government Response To Finance Committee Report On Spending Review 2011 And Draft Budget 2012-13, P.4](#)

<sup>8</sup> [Justice Committee Report to the Finance Committee on Draft Budget 2013-14, P.20](#)

<sup>9</sup> [Health and Sport Committee Report to the Finance Committee on Draft Budget 2013-14, P.6](#)

<sup>10</sup> [Infrastructure and Capital Investment Committee Report to the Finance Committee on Draft Budget 2013-14, P.41](#)

<sup>11</sup> [Scottish Parliament Finance Committee, Report on Draft Budget 2013-14, P.15](#)

“Is working with bodies across the public sector to seek opportunities to improve property asset management. Having formally been given the brief to lead an Asset Management programme in May 2012, SFT has rapidly established a permanent team to drive this work forward.”

**Conclusion**

14. The Committee is invited to consider this information and the attached paper in its oral evidence session with the SFT.

**Alan Hunter**  
**Assistant Clerk to the Committee**

**Briefing to the Scottish Parliament Finance Committee**

**Report on Draft Budget 2013-14 – NPD Programme and Asset Management**

**1. Introduction**

The Scottish Parliament's Finance Committee reported on the Draft Budget 2013/14 on 10 December 2012. In its section on Capital Investment that report contains comments directed to the Scottish Futures Trust. SFT has been asked to give evidence to the Committee on 16<sup>th</sup> January on the topics addressed by the comments set out below. This briefing is provided in advance of that evidence.

**2. Progress Update on NPD Projects**

**44. The Committee asks the SG to provide further details on the reasons for re-forecasting the estimated NPD-financed capital investment and will invite the SFT to provide an update on the progress of NPD projects at a future meeting.**

**2.1. Introduction**

The NPD programme is, in relative terms, one of Europe's biggest programmes of additional investment over and above capital budgets. Working with more than 30 procuring authorities across some 50 projects, 2012/13 is seeing significant acceleration in the programme. Currently there are projects totalling more than £1bn in procurement, and this is planned to increase to over £1.5bn by the end of 2012/13.

A preliminary view of the programme had anticipated a profile where some of this acceleration could happen at an earlier stage but it was always understood that this was dependent on the progress of individual projects. Project progress has impacted on the anticipated profile of the NPD programme in two main ways: (1) the switch of Borders Rail from NPD to RAB financing which means that this project, whilst still going ahead, is no longer included in the NPD programme; and (2) the need for necessary and thorough project preparation. Given the complex and strategic nature of many of the projects in the programme the project preparation has included tasks such as: land acquisition; ensuring the asset will support service delivery models; enabling works; legal process; and statutory consultation. The preparatory work has had to be sufficiently well developed in order to allow both successful procurement and, more importantly, delivery of the appropriate asset to support long term delivery of public services. Once in procurement progress has been good against historic benchmarks.

The Aberdeen Health Village is already being built and several large projects will move into construction in the coming months including Glasgow and Inverness Colleges and health centres in Forres, Woodside and Tain.

The NPD project pipeline document, setting out anticipated dates for projects to move into procurement, has been published and updated on SFT's website as project preparation has continued and as dates have become more firm.

## **2.2. Project Procurement**

### **2.2.1. Projects Currently in Procurement**

- M8 Bundle – upgrade of the A8 to complete the M8 motorway between Glasgow and Edinburgh, along with major improvements to the Raith Interchange and sections of the M73 and M74. Currently at competitive dialogue stage with down-selection from 4 to 2 bidders imminent.
- Inverness College – the provision of new facilities across two sites. The main new campus will be the first and largest building on the new Beechwood Education and Research Campus. Recently appointed Preferred Bidder.
- City of Glasgow College – provision of new facilities across two sites: the City Campus in the heart of the city and the Riverside Campus on the banks of the river Clyde. About to appoint Preferred Bidder.
- Kilmarnock College – provision of a new-build campus for Kilmarnock College – in competitive dialogue stage of procurement.
- Edinburgh Royal Hospital for Sick Children and Department of Clinical Neurosciences – to be built on the site of the existing Edinburgh Royal Infirmary at Little France – has launched procurement and is currently prequalifying bidders.
- National Centre for the Scottish National Blood Transfusion Service - provision of a state of the art National Centre for processing and testing blood, tissues and cells for patients – has launched procurement and is currently prequalifying bidders.
- In addition some 10 health facilities ranging from £10m to £40m and three secondary schools ranging from £15m to £22m of NPD funding are in procurement through hub.

### **2.2.2. Projects Anticipated to Move into Procurement by end 2012/13**

The major projects anticipated to move into procurement by 31 March 2013 are the Aberdeen Western Peripheral Route (incorporating the A90 Balmedie to Tippierty dualling) and North Ayrshire Community Hospital projects. In addition further substantial health facilities and additional schools are moving from project preparation into procurement through hub.

### **2.2.3. Speed of Procurement**

Current procurement times and projected procurement times compare favourably with past benchmarks. In fact, we are pleased to be able to say that with Inverness College having announced its NPD preferred bidder just before Christmas, a year and a week from the launch of OJEU notice, procurement stages have reduced substantially in duration



compared to previous practice. In the UK Government's Autumn Statement, the Chancellor set a new target<sup>1</sup> in England for this preferred bidder stage to be reached within 18 months - this is our target for completing the entire procurement to financial close. Treasury noted that average procurement times in projects involving financing "from initial project tender to financial close, have stubbornly remained at around 35 months" – nearly twice as long as anticipated for Inverness College. SFT's and the procuring authorities' work on using reference designs and a more standardised, simpler and pragmatic approach to contracts have enabled this change of pace.

#### **2.2.4. Publication of Project Pipeline**

SFT has kept an updated pipeline document on its website setting out the progress of projects and their likely date to enter procurement. This is an important tool in order to assist the market in their planning for projects even though it uses projected dates for each project prior to procuring authorities having project Outline Business Cases (OBC) approved. It is generally only at OBC stage that the dates move to a more firm footing and quite often projects move into procurement immediately afterwards. The early pipeline publication has provided advance notice to contractors to help attract market interest and in turn deliver competitive bids.

#### **2.2.5. Competitive Bids**

To date the bids received have been competitive both on capital costs and on the capped return used in the NPD model. As the procurements are still live further details cannot be given at the moment.

### **2.3. Project Preparation**

The three main elements of a project's life-cycle are preparation, procurement and construction. Thereafter the project becomes an operational asset helping provide a public service. Of the three stages the preparation stage is the most important step in ensuring the long-term success of the project, not only in the procurement and construction stages, but also in the operational use of the asset. The importance of preparation is particularly true for the NPD programme as it contains a range of projects that generally sit towards the strategic and complex end of the project spectrum.

An example of how pre-procurement preparation can affect a project timeline can be clearly seen in the schools sector where recently announced schools in phase 3 of the schools programme will enter procurement before some of the earlier announced phase 1 and 2 schools. The phase 3 schools that will move quickly generally involve building a new school on the existing site and as such are relatively straightforward. A number of the phase 1 and 2 schools involve some or all of: site acquisition; merger; forming a 3-18 campus; and/or providing a community hub as part of the school development. For these schools greater time in preparation has been needed by the procuring authorities before entering procurement.

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<sup>1</sup> This target applies to PF2 the Treasury's replacement for PFI.

A further example of the importance of pre-procurement preparation is the Royal Hospital for Sick Children and Department of Clinical Neurosciences project. This has been delayed in getting to procurement because of the much publicised difficulty of doing a deal with the Edinburgh Royal Infirmary PFI contractor, or more particularly its funding banks, to release the land on which to build the new hospital. The deal has now been done, with SFT's finance team working very closely with NHS Lothian in order to allow the project to proceed into procurement.

#### 2.4. Summary

The NPD programme is a major investment programme spanning more than 30 procuring authorities and 50 projects. The initial high level assessment did use challenging timescales but also recognised that this depended on the individual projects' progress. Project preparation has taken longer than originally anticipated in some cases but thorough preparation is an essential part of successful project delivery. The ongoing use of timescales that are challenging has maintained pressure on programme delivery. That, taken together with SFT's simplification of the NPD contract structure, is helping the procurement phase move quickly and has helped deliver the current acceleration as the programme moves into having £1.5bn of projects in procurement.

### 3. Update on Asset Management

**"Maintenance spend will be held broadly flat in cash terms, ensuring that essential maintenance can continue. We are also working with the Scottish Futures Trust to take forward improvements in the way we manage assets across the public sector to reduce maintenance requirements over the next few years, through greater collaborative use of assets and disposal of surplus assets."**

**66. The Committee will seek an update from the SFT on its work in this area.**

SFT is working with bodies across the public sector to seek opportunities to improve property asset management. Having formally been given the brief to lead an Asset Management programme in May 2012, SFT has rapidly established a permanent team to drive this work forward. The main thrust of the programme is to: "enable the delivery of enhanced quality and efficiency of public sector activities through a smaller, leaner, greener, more effective and smarter property estate". In terms of current focus, there are three principal areas that will impact positively on reducing recurrent expenditure, including expenditure on building maintenance. Each of the three will produce a reduced property footprint and as such will also have the additional benefit of reducing carbon emissions.

The three strands are: remodelling and rationalising central office space; increasing opportunities for collaborative working, including asset sharing; and working (primarily with health boards) on surplus property disposal strategies. Touching on each in turn:

### **3.1. Remodelling and Rationalising Central Office Space**

This area of work will be delivered mostly by public bodies in central government. The coverage for central government includes the Civil Service, as well as government agencies and NDPBs. Current activity is focussed on sourcing property data to enable the co-production of a plan for each of the major locations. The data is being loaded onto ePIMS, a data system available from the UK government's property unit, as a central repository for data to enable location plans to be developed. This will allow SFT together with the public bodies to look for opportunities to: enable new ways of working; share existing space; improve space utilisation; exit leases; and to dispose of freehold property. The outcome should be a significant reduction, of at least 25%, in the office footprint. This overall reduction will reduce operational expenditure on property including building maintenance.

### **3.2. Increasing Opportunities for Collaborative Working**

Within localities (areas, towns, districts, neighbourhoods, etc) it is possible to create a pan public sector framework (or use existing collaborative arrangements) and adopt an approach to property asset management that allows the identification of cross sector opportunities. The current focus is to energise and support this approach to joint organisational working and the generation of new possibilities for asset sharing. This has engendered the development of a fresh asset management approach to 'place'. It supports a number of policy initiatives built around improving communities and several pilot projects are underway. Local authorities, health boards, the police service, the fire service, the ambulance service and central government all have a part to play. SFT's role is aimed at enabling or supporting local collaborative working either in the management of assets or in the use of assets. Examples of the range of projects being developed include:

- Rationalisation of local authority office space. Several local authorities have already made great progress in rationalising their office estate and others are working up proposals to increase their utilisation of office space.
- Enabling agile working - a new initiative which is being piloted in collaboration with Fife Council, the City of Edinburgh Council, the Improvement Service and Scottish Government, will provide 'drop-in desk sharing facilities' in localities. This will enable a first step in developing a 'work anywhere' approach.
- Joint depots and storage facilities - building on the success of the super depot project led by Fife Council bringing together various council and other public services together under one roof.
- Community 'hubs' - looking for opportunities to co-locate a wider range of public services in new facilities - through current investment programmes in new schools and health centres.
- Joint commercial management of PFI/PPP Contracts – seeking opportunities to establish the commercial management of existing PFI/PPP contracts in effect as a shared service with a concentrated pool of expertise.

- Energy efficiency in the existing estate – looking for opportunities to “spend to save” measures in areas such as energy efficiency in buildings and in street lighting.

As the overall footprint shrinks this will reduce general operational expenditure and as part of this it will also reduce expenditure on maintenance.

### **3.3. Surplus Property Disposal**

By employing staff with property development as a core skill at the heart of the public sector, this resource can complement the existing skills that exist in health boards and other parts of the public sector. It provides additional resource to reinforce the ability to be strategic, proactive and commercially minded. Obviously in the current climate property development is a challenging area and new approaches and innovative commercial structures that help realise long-term value and help accelerate the process of disposal are being considered. Examples include:

- The masterplanning of major sites at an early stage in order to elicit a clear and better response from the development market.
- Exploring the potential of packaging a number of sites (even across different public bodies in an area) to encourage improved market response.
- Exploring the use of different methods of long-term partnership working with the private sector.

Assets largely become available for disposal as a result of significant investment elsewhere. Given the NPD investment programme and capital spending on major projects there are many assets of strategic importance to be disposed of in the next five years. SFT’s main focus is, working very closely with health boards or other public bodies, to maximise the value of the asset at disposal. In addition, provided the old asset is disposed of in a timely fashion, the effect is to replace old buildings often in poor condition with a new asset which helps reduce backlog maintenance.

### **3.4. Asset Management Summary**

The overall approach in asset management is to work collaboratively with public sector bodies to use property in a strategic and efficient manner which will allow a reduction in the overall property footprint. The investment in new assets, through either capital investment or the NPD programme, has a significant effect on backlog maintenance as they often replace assets in poor condition. Reducing maintenance backlog or maintenance costs is only part of the work in asset management with the greater benefit being secured by reducing wider operational property costs and by maximising the value of surplus property at the time of disposal.

**Scottish Futures Trust**

**9<sup>th</sup> January 2013**