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Paul Martin MSP
Convener
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Dear Mr Martin

MAJOR CAPITAL PROJECTS

Thank you for your letter of 6 May 2015 following my colleagues and I gave to the Committee on 29 April on Major Capital Projects.

In response to your request for further information:

A. Update on the progress with upgrading the harbour for the Ullapool-Stornoway ferry

Stornoway

A new larger ferry has been introduced to the key lifeline Stornoway/Ullapool route serving the Western Isles. The MV Loch Seaforth is owned by Lloyds Banking Group and leased to Caledonian Maritime Assets Ltd. To accommodate the new larger vessel modification, works were required at Pier No 3 at Stornoway Port.

The Port at Stornoway is a Trust Port controlled and administered by the Stornoway Port Authority (SPA). The key objectives of the SPA as Client for the necessary works were to allow the new vessel to berth when it came into service to provide a new Passenger Access System (PAS) and to provide a workable marshalling area to cater for the mixed commercial, freight and car traffic that the new vessel would accommodate. SPA appointed Capita as the Project Manager / Cost Manager / CDM Co-ordinator and also appointed URS (now Aecom) as the Designer.

The project essentially comprised of 3 main elements:

- New fendering at Pier No 3, Infilling of Pier No 3 deck between existing pier and dolphin, plus limited development of the marshalling area (Section A Works);
- Further alterations to the land marshalling area plus an area of reclamation to accommodate increase in vehicle numbers, freight traffic and associated requirements, while avoiding undue congestion (Section B Works); and
- New PAS (Passenger Access System) (Section C Works).

BAM Nuttall Ltd were awarded the Contract for this project on 28 February 2014. Works commenced on site on 1 April 2014 with the project scheduled to be fully complete with the new Passenger Access System (PAS) in place by 14 November 2014.

During the course of the works a number of delays were encountered, some of which warranted extensions of time. Substantial Completion of Section A of the Works was achieved on 4 February 2015. Substantial Completion of the Whole of the Works was achieved on 12 February 2015.

Infrastructure Improvements at Ullapool

The following developments have been taken forward:

- Pier extension caisson constructed in 12 weeks at Inchgreen, Drydock on the Clyde, towed to Ullapool for fit out prior to being installed on the 14 June 2104;
- Pier extension contract completed 25 September 2014;
- Pier extended by 35 metres with an enhanced fender system installed for the full ferry berth with no impact on ferry arrivals or cancelations to the service;
- Passenger Access System installation completed 19 September 2014;
- Passenger Terminal rebuild completed 17 April 2015 with CalMac taking up occupancy the following week; and
- All improvements delivered on budget and time with the exception of the terminal refurbishment which overran by 4 months.

Ullapool Linkspan Replacement

The following developments have been taken forward:

- Ullapool - Stornoway Taskforce stakeholder discussion formed agreement on the outage period from 20 April 2015 prior to construction work starting on the Ullapool Linkspan Replacement;
- Outage period reduced from 6 weeks to 4 weeks due to a change in Linkspan demolition methodology. This came at additional cost of 5% to the project;
- Loch Seaforth undertook the Passenger only service from the 20 April 2015;
- The Passenger only service ran very successfully for a period of 4 weeks, this was down to good partnership working and an excellent communication strategy from the ferry operator;
- The impact of the works at Ullapool was minimised, no timetabled ferry sailings cancelled;
- The Ullapool Linkspan Replacement Project was delivered on programme and budget;

- Ullapool Linkspan entered service on Saturday 16 May (2 days early) at the request of CalMac due to weather and ferry issues elsewhere in the network; and
- Replacement Weighbridge installed in the ferry car park, operational 15th May 2015.

Diversion arrangements during Ullapool closure to vehicle traffic

Improvement works to Ullapool Harbour's linkspan started on 20 April 2015 resulting in the closure of the port to vehicular traffic for a period of four weeks. The Ferry operator, CalMac, ran a temporary service from Stornoway to Uig to allow continued traffic to flow between Lewis and the mainland.

The revised sailing schedule for the duration of the upgrade work was put in place:

- Up to two daily return sailings from Stornoway to Uig for passengers and vehicles;
- One daily return sailing from Stornoway to Uig for freight;
- Two daily return sailings from Stornoway to Ullapool for foot passengers only; and
- An enhanced service (peak season level) on the Uig to Tarbert route.

The works were completed as planned and the new linkspan fully opened on Monday 18 May 2015. CalMac resumed their normal vehicle and passenger service on the Ullapool-Stornoway route on that date.

The finalisation of the Ullapool linkspan works signals the completion of the overall Ullapool-Stornoway project;

- A new larger purpose built vessel;
- Substantial upgrading at Stornoway port;
- Substantial upgrading at Ullapool harbour; and
- A new linkspan at Ullapool harbour.

B. Update on the sale of specific sites at Inverness College (Midmills and Longman)

Midmills has been marketed and a closing date was set. The agents advising the college are holding further discussions with various parties aimed at establishing an acceptable offer and appropriate agreement. A review of the options will take place in June, in discussion with the College and Scottish Funding Council.

The Longman site was in a position to be taken to the market in the first quarter of 2015. The Scottish Government requested that the marketing be postponed to explore the option of another public body locating on the site. That body is currently running an options appraisal exercise (which includes potential use of this site). The Scottish Government has agreed to cover holding costs incurred by the college as a result of this process.

Proceeds from both the sites once sold, will go to the Scottish Funding Council for redistribution.

C. The eight projects most immediately affected by ONS review in relation to ESA10

The following eight hub projects are those most immediately affected and include six schools and two health projects:

- Newbattle High School, Midlothian;
- Forfar Academy, Angus;
- Elgin High School, Moray;
- Baldrigon Academy, Dundee;
- Anderson High School, Shetland Islands;
- Kelso High School, Scottish Borders;
- NHS Lothian - Partnership Centre Bundle; and
- NHS Greater Glasgow and Clyde - Inverclyde Health Centre.

D. Summary of the purpose of ESA10 and impact on public sector projects in Scotland

The UK National Accounts comply with international standards set out in the European System of Accounts (ESA), Balance of Payments Manuals (BPM) and the Manual on Government Deficit and Debt (MGDD). These standards ensure that economic statistics produced by all EU Member States are compiled in a consistent, comparable and reliable way.

Periodically, these manuals are reviewed to ensure that they continue to reflect economic and technological developments in domestic and global economies and meet user needs. The latest update to the European System of Accounts was issued in 2010 (ESA10) for implementation in September 2014, supported by the publication in August 2014 of an update to the MGDD which provides advice to authorities on the interpretation and application of ESA10.

The revised standards change the way in which National Accounts and Balance of Payments across the EU Member States are produced and bring them into line with the updated worldwide System of National Accounts 2008 (SNA 2008), already adopted by other parts of the world, including Canada, the United States and Australia.

With regards to investment, this relates to the latest interpretation of factors that influence a public or private sector classification for infrastructure projects. Projects that are funded through capital are not affected and therefore there has been no impact on the Scottish Government's capital programme. The assessment is only applicable to revenue funded projects taken forward in Scotland using the Non-Profit Distributing (NPD) model, either as stand-alone projects or as part of the Hub initiatives.

The Office of National Statistics (ONS), who report on classification, is undertaking a review of a Scottish based project (the Aberdeen Western Peripheral Route) to provide an informed view.

To date, the impact on the programme of revenue funded investment has been a potential delay to a small number of Hub schemes.

E. Inspired Parliamentary Question referred to in oral evidence

This is included separately together with a letter from the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy to the Finance Committee, which advises them of the parliamentary question.

F. Update on progress with procuring the two new 100-metre CMAL ferries

On 15 October 2014, Keith Brown MSP, the former Minister of Transport announced that Caledonian Maritime Assets Ltd (CMAL) on Scottish Ministers' behalf have started the procurement process for two new 100 metre ferries. Tenderers bids were returned at the end of March 2015 and CMAL are currently assessing them. It is anticipated that CMAL will award a contract for two 100 metre vessels by summer 2015 with an estimated two year delivery date.

The ferries will be designed to provide a fully flexible year – round service to the Isle of Arran and the Uig Triangle (Uig - Tarbert - Lochmaddy), subject to final review by CalMac Ferries Ltd, CMAL and Transport Scotland.

G. Difference in public sector costs and savings between Edinburgh Royal Infirmary PFI contract and Royal Hospital for Sick Children NPD contract

The Non Profit Distribution (NPD) model, like Private Finance Initiative (PFI), is a long-term contract for services that include the provision of associated facilities or properties.

NPD seeks to transfer risk and exert private sector discipline both during construction phase of a project and throughout its lifetime, but without the excessive profits to private sector associated with past PFI projects.

In utilising the NPD model it is recognised that the model is funded on a number of longstanding points, such as:

- Optimum risk allocation;
- Whole-life costing;
- Maximised design efficiencies;
- Robust programming of lifecycle maintenance and facilities management;
- Performance-based payments to the private sector;
- Single point delivery system, reducing interface risk for the public sector client; and
- Improved service provision.

It also produces the following additional benefits:

- conditions around returns ensure that a “normal” level of investment return is made by the private sector and that these returns are transparent;
- Operational surpluses generated by the Project Company are reinvested in the public sector; and

- The public interest is represented in the governance of the NPD structure, which increases transparency and accountability and facilitates a more proactive and stable partnership between public and private sector parties.

Making a direct comparison between the PFI contract at the Edinburgh Royal Infirmary and the new NPD contract for the Edinburgh Royal Infirmary Sick Children's Hospital is difficult as they are two different projects and elements of each contract are commercially confidential. However, NHS Lothian have provided the following analysis which demonstrates that hard facilities management (FM) and life cycle costs are considerably lower under the NPD project.

	RIE actual 2015/16	RHSC/DCN rates	Difference	
Cost per m2 - hard FM	£36.72	£28.33	(£8.39)	-22.8%
Cost per m2 - life cycle	£36.55	£23.76	(£12.79)	-35.0%

These reductions would generate savings of £1.1 million and £1.7 million for hard FM and life cycle costs respectively

H. Costs and savings of original contracts for facilities management services compared with the 'extended' contracts at Hairmyres and Wishaw Hospitals

NHS Lanarkshire recently produced a paper which they presented to their Board which summarised the opportunities presented to NHS Lanarkshire for continuity of service provision over the next seven years (2015-2022). The paper highlighted recurring savings of £832k over the Hairmyres and Wishaw contracts.

NHS Lanarkshire were also able to negotiate additional services enhancements at Wishaw including a hostess service which frees up Nurse time and the cost of deep cleans being included in the overall contract price (which previously were charged on a cost per case basis).

I hope the Committee finds this information helpful.

Yours sincerely

ALYSON STAFFORD