taking forward the scottish futures trust

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Contents

1. Executive summary

The proposals for the Scottish Futures Trust (SFT) can be summarised through the answers to the following simple questions:

What is SFT?

- SFT is an initiative designed to support the efficiency and effectiveness of public infrastructure procurement, leading to real and improved value for money solutions.
- SFT is a new organisation, intended to have broad governance representative of central and local stakeholders in public sector infrastructure development, and is being created to:
  - Be the focal point of joined-up public sector action in infrastructure planning and investment, aiming to capture the bulk buying power of infrastructure investment in Scotland;
  - Be the developer/deliverer/supporter of a number of individual programmes (in partnership with other public organisations);
  - Be tasked to deliver a diverse set of sophisticated procurement/ contracting/financing tasks.

Will a new organisation be required?

- Yes, probably in two parts. The first part could be established quickly and in parallel with its other objectives it would be tasked with the detailed business planning and delivery of the second part.

What will be the early activities for SFT?

- Establish a significant projects review group as a first step towards better quality and more consistent assurance of infrastructure investment;
- Commence programme delivery of hub pathfinders, for community based infrastructure;
- Develop, with a broad range of stakeholders, national strategies for the delivery and funding of schools, housing, waste and flood defences;
- Provide guidance, structuring and compliance for ongoing non-profit distributing (NPD) programmes;
- Commence development/delivery of a Local Authority bond issue;
- Undertake further detailed development of innovative asset provision models.

Can SFT implement a Scottish Bond issue?

- Yes, by working with a number of Councils to issue a Local Authority Bond to fund infrastructure investment.

Can SFT assist in providing investment outwith controlled public expenditure?

- Yes, (with the correct structuring) elements of residual waste treatment, hub, housing and possibly via a new asset provision model.

Will SFT provide cheaper funding than PFI?

- SFT is unlikely to be a direct funder of projects in the short term, but SFT would aim to use combinations of expertise, NPD structures, programme based delivery models, hybrid funding structures, underpinning and aggregation, to be an arranger of funding that is cheaper than PFI, taking into account all factors including risk and its allocation.

What financial gains are expected through SFT?

- SFT is expected to generate £100-150million per annum of savings to invest in Scotland's capital infrastructure.

1.1. Introduction

This document is a strategic business case (SBC) supporting the creation of a Scottish Futures Trust (SFT) Initiative, whose delivery will be supported by a new SFT organisation.

The aim of the SFT Initiative is to support the effective planning, funding and delivery of public sector infrastructure investment across Scotland, providing a better deal for taxpayers as a result.

The SFT initiative will be supported by a new organisation established in the public sector, intended to have broad governance representative of central and local stakeholders in public sector infrastructure development.

SFT will commence its activities by:

- Establishing a significant projects review group as a first step towards better quality and more consistent assurance of large and complex infrastructure investments;
- Developing, with a broad range of stakeholders, national strategies for the delivery and funding of schools, housing, waste and flood defences;
- Commencing programme delivery of hub pathfinders, for community based infrastructure;
- Providing guidance, structuring and compliance for ongoing NPD PPP programmes;
- Undertaking further detailed development of innovative asset provision models;
- Commencing development/delivery of a Local Authority bond issue;
- Developing efficient and best value funding solutions, appropriate to individual sectors and projects, using combinations of expertise, NPD structures, programme based delivery models, hybrid funding structures, underpinning and aggregation.

1.2. Context

The proposal for the SFT Initiative has been developed in the light of a new funding relationship between central and local government, the recommendations of the McClelland report, and the drive across the public sector for shared services, to aid not only efficiency but quality of service delivery. Placing consideration of infrastructure investment and delivery into this context is a natural progression of the Government's wider efficiency agenda.

1.3. The Background to SFT

The genesis of SFT rests in a concept whereby the Scottish Government (SG) would raise additional funding through the issue of public sector bonds, via a trust structure, securing funding at rates cheaper than PFI or PPP. Overall, this was intended to allow the delivery of more infrastructure per available resources.

At this point in time, progression of this solution for accessing additional investment directly by SG is not possible as Scottish Ministers currently do not have the constitutional powers to borrow. However, the SG scoping work in Autumn 2007 identified a number of potential areas across the public sector where the overall aim of the SFT initiative might be achieved through slightly different arrangements. In December 2007 Cabinet agreed to issue a public consultation exercise on that basis, and to commission a SFT business case.

The concept behind SFT was distilled into three principal aims in the Scottish Government's Consultation document of December 2007. SFT would:

- provide lower cost funding for projects and programmes than PFI;
- operate on non-profit distributing principles; and
- continue to provide the additionality of public service facilities investment in Scottish infrastructure through private sector investment.

1.4. Considering SFT as an Initiative: the key SBC Issues

The cost of finance is only one of many factors which determine the overall cost to the tax payer of delivering improved economic and social infrastructure. If the overall infrastructure need and associated impact on the supplier base is poorly planned, individual projects are late in delivery, unreliable, over-budget or expensive to maintain through their life cycle, it can create inefficiencies far outweighing any differential in cost of finance. In short, choices about finance are best taken alongside choices about infrastructure planning, delivery and management routes. The effective management of these inter-dependencies across public sector bodies is at the heart of the Scottish Government's strategy for sustainable and cost-effective infrastructure renewal and expansion.

The Scottish innovation of contracts tendered under principles of Non-Profit Distribution has already pointed the way in which the cost of finance can be reduced compared with PFI/PPP alternatives and through SFT there is the potential to increase further the benefits of NPD. A core objective of SFT will be to pursue this and other routes to increased efficiency of finance, while maximising overall value for money for the tax payer.

For local government there is less constraint on their ability to borrow than central government. Through the Prudential Regime they can, and do, access funding via the Public Works Loan Board (PWLB) or commercial lenders. So at a local level the pressing financial issue is less about access to capital, and more about the ability to repay any loans, in other words affordability. Hence at a local government level there is strong alignment with any proposals which drive efficiency to make available resources go further.

There is however always a risk that affordability is confused with "cheapest is best". Public sector procurement of infrastructure has, at times in the past, failed to meet public expectations due to the pursuit of short-term solutions which can carry the unwelcome consequences of false-economies - for example, through the construction of assets that whilst cheap to build are expensive (and so unaffordable) to maintain, or assets which are built with insufficient financial provision for ongoing maintenance and renewal and which steadily fall into disrepair as a result. A crumbling 1960's schools building stock is perhaps the most visible illustration of these points.

An important objective of the Scottish Government is to break decisively with this past and to create through SFT a means by which not only will scarce public sector investment finance to go further but, equally importantly, long-term reliable, affordable and good quality infrastructure will be produced. A key role for SFT, therefore, will be to strengthen public sector capability in infrastructure planning, procurement and delivery though the provision of expertise and financial resources which are focussed on best value outcomes, both at the level of individual projects/procurements and also at the level of entire public sector programmes of investment. The use of approved standard form contracts and quality control reviews for key procurements are two examples of the kinds of initiatives already taken by the Scottish Government that SFT will be expected to take forward and embed in the mainstream of infrastructure delivery in Scotland.

In addition, SFT will be expected to take forward government priorities in relation to reducing carbon impact of public sector capital investment.

So, whilst borrowing constraints at a national level, affordability pressures at a local level, and the original objective of optimising funding costs for infrastructure investment have remained core issues in the development of the SFT proposal, these are now seen as only part of a much broader efficiency agenda, scoped to support the drive for improved and best value infrastructure outcomes.

Therefore, in this SBC the case is made for a SFT Initiative, underpinned by the establishment of a new organisation, based primarily on the twin drivers of;

- future infrastructure requirements, and;
- opportunities identified for improved efficiency and effectiveness in infrastructure planning, funding and delivery.

1.5. Infrastructure Need

Infrastructure is regarded as an important plank of national economic growth and accordingly the Government's Economic Strategy recognises the importance of investment in Scotland's economic and social infrastructure. This importance is reflected in the Scottish Budget which has allocations for a capital investment programme, of £3.26 billion, £3.58 billion and £3.66 billion in the three years to 2010-11. In addition, there is spend planned by Local Authorities of £1.2bn over the same period.

Scotland's infrastructure needs are clearly laid out in the Scottish Government's Infrastructure Investment Plan. There are defined and committed resources in place up to 2011: beyond that however the needs are understandably less well defined, although in some sectors there is forward planning available that captures the aspirations for new infrastructure over a horizon of up to 15 years.

Over a 10 year horizon the infrastructure investment requirement is estimated to be close to £40bn.

1.6. The Opportunities for SFT to Support Efficient Infrastructure Investment

Against the backdrop of an infrastructure investment requirement over 10 years of circa £40bn, the need and potential for efficiency in planning and delivery are self-evident.

In this SBC the opportunities for a SFT initiative to improve the efficiency of infrastructure investment have been explored under two main "pillars" of infrastructure investment:

i. Efficient funding;

ii. Effective investment planning, procurement and delivery.

Efficient funding in this context means optimising the best funding solution for any given situation; this may mean use of public capital, private finance, or a combination of the two. SFT could, for instance, co-ordinate the issue of a municipal bond on behalf of a group of Local Authorities. SFT may also use its own risk capital where appropriate. In seeking to deliver the most efficient and best value infrastructure investment, SFT should seek to ensure that any investment is realised through use of the optimal procurement, funding and delivery solution.

Effective investment planning, procurement and delivery means that SFT will be seeking to strengthen public sector capability across the spectrum of infrastructure investment to help achieve cost effective, high quality and sustainable public services.

Through taking a national overview, robust planning and targeted management of investment, and dealflow, SFT will seek to strengthen the private sector response to investment and delivery opportunities, driving improved competition from the supply side, therefore activating an important driver for value and efficiency.

SFT, through its roles in due diligence and delivery support, will be seeking to ensure that key infrastructure projects and programmes are being scoped, governed and managed to the highest standards. To put such activity into perspective, currently a 6 month delay (a fairly common occurrence) on an accommodation project of say £100m capital value, regardless of procurement or funding route, will cost the public sector approximately £3m as a result of construction inflation[1] alone. This is just one illustration of the significant value in effective and efficient planning, procurement and delivery.

Taken over an annual national investment programme (central and local government) in excess of £3.5bn, the justification for improved public sector support is self-evident.

1.7. Developing Concepts to Support Efficient Infrastructure Investment

The exploration of ways in which the SFT Initiative can meet its objectives has captured many individual ideas and concepts, all with the common denominator of efficient infrastructure investment, or “additionality”. These ideas included the original SFT concepts, ideas brought forward during the SFT scoping phase, suggestions made in response to the consultation, as well as other possibilities identified by the SFT SBC delivery team.[2]. These concepts, were grouped under three headings:

- Private investment outwith controlled public expenditure (as PFI/PPP has been)
- Private investment within public expenditure
- Efficient planning and delivery

1 Current construction inflation taken from BICS, ONS Tender Price Inflation, March 08 (year on year percentage change).

2 A small SFT SBC Delivery Team was formed in January 2008, tasked with producing this SBC, under direction of the SFT Steering Group.

1.8. Private Investment Outwith Controlled Public Expenditure

In tackling any means of providing additional private investment, as well as the constraint of vires, the forthcoming UK change to the International Financial Reporting Standards (IFRS) currently planned for 2009 must be fully assessed.

The assumptions on IFRS forecast in the earlier scoping work still require clear definition and the delay of a year in implementation of IFRS may actually postpone clarification of the impact of IFRS on future investment options.

However, one conceptual idea has been developed which aligns with the Government's developing policy thinking, which may provide scope for private investment into health and education outwith public expenditure limits. This concept in outline suggests provision of assets is facilitated via a sponsor entity which is an organisation with a genuine reason for alternative residual use of the assets created on its behalf and is itself a private sector classified body, e.g. provision of schools accommodation by a University or hospital accommodation by a medical faculty. Turning this concept into a successful model will rely heavily on the role of SFT, policy leadership and cross body support within the public sector.

Other areas regarded as having the potential to offer private investment outwith public expenditure limits are from the use of the hub initiative[3], by careful structuring of residual waste projects, or from private sector investment in housing via Registered Social Landlords .

The Scottish public sector also has assets which at present are not used either as collateral for funding purposes, or which might offer potential in terms of further growth in value if developed.

1.9. Private Investment within Public Expenditure

The review of scope for efficiency in private investment within public expenditure has demonstrated potential for effective SFT activity, particularly in relation to reducing the cost of funding whilst maintaining risk transfer to private sector suppliers and funders. Aggregation of demand, conduiting structures and Government underpinning (or guaranteeing) a portion of senior lending have all been explored.

A public sector, grouped Local Authority bond has also been considered. This would be possible because of the borrowing powers of Local Authorities[4]. Precedents suggest[5] that with careful structuring and favourable market conditions, it may be possible to achieve funding close to the levels of PWLB rates, but with the additional benefits for project or programme delivery that come with the rigour of bond finance and private sector management.

[3] The hub initiative is designed to promote joint working in the public sector, and it's aim is the efficient provision of community based infrastructure.

4 A suggestion was mooted that SFT as an entity should be constituted as a Local Authority and thus, in theory, it would be able to borrow from PWLB. As this would likely require legislative intervention the concept was not developed further.

5 TfL is rated AA by Standard & Poor's. The basis for this rating includes "Letters of Comfort" provided by the Department of Transport. TfL's £200m 5% bond due in 2035 was issued at a spread of circa 0.3% over the comparable gilt, i.e. similar to the comparable PWLB interest rate.

1.10. Efficient Planning and Delivery

The efficient delivery agenda is relevant to SFT at two levels:

- there is scope for organisational efficiency in the public sector, supporting;
- improved investment planning, development and delivery of projects, and programmes, perhaps utilising SFT risk capital, as well as streamlined and strengthened quality assurance.

The broad scope and sample of SFT activity outlined above does not necessarily set the boundaries for SFT activities in the future, it does however provide a platform to support its establishment. In the longer term it is envisaged that SFT will develop and respond to the needs generated by the requirements of ongoing infrastructure investment. Additionally were constitutional arrangements to change, then other activities would of course become possible for SFT.

1.11. The Proposal for SFT

The proposal made in this SBC is to deliver the SFT initiative by the creation of an organisation which has the mandate, expertise and access to risk capital which will enable it to improve the way the public sector in Scotland plans, procures and delivers its infrastructure investment. SFT will occupy the (currently vacant) role of being the focal point of joined-up public sector action in infrastructure planning and investment, aiming to capture the bulk buying power of infrastructure investment in Scotland.

In addition, SFT:

- Will work in partnership with other public organisations to be the developer, deliverer and supporter of individual programmes; such as hub, waste and schools;
- Will be tasked to deliver a diverse set of sophisticated procurement/ contracting/financing tasks;
- Will provide the engine room, implementation team, skills retention platform, toolkit provider and corporate memory of Scottish infrastructure investment.

SG's consultation on SFT made clear that its governance should reflect the parts of the Scottish public sector which have an interest in infrastructure delivery. Such broad governance may not be practicable in the immediate development stage proposed below, but would if introduced in due course place SFT in a unique position from which it will be well placed to capture the value inherent in the bulk buying power of Scottish infrastructure investment. One method of collating such broad governance would be an Infrastructure Board for Scotland, chaired by the Cabinet Secretary for Finance and Sustainable Growth, and which would form the oversight board for SFT.

Equally the value of private sector expertise is recognised and the proposal for SFT includes private sector investment and participation in a new SFT Finance and Investment organisation.

1.12. Organisational Efficiency

It is clear that there are many different bodies across the public sector taking an interest in infrastructure planning and delivery, yet it is a fragmented and confusing picture. In commodities procurement positive steps have been taken to drive overall efficiency through the establishment of the Procurement Reform Board, yet this streamlining and aggregation approach has not yet been reflected in infrastructure investment and procurement. Therefore this landscape presents both need and opportunity. Need to simplify and thereby strengthen the public sector approach to infrastructure investment, and opportunity, to find ways to streamline, to share best practice, and to make best use of expert and scarce resource. The creation of the SFT initiative, supported by a new SFT organisation can provide both the catalyst for organisational efficiency (de-cluttering of the landscape), and the platform on which to build simpler, streamlined and more effective planning and delivery of infrastructure investment.

1.13. SFT Organisational Form

There were a number of "givens" in developing SFT's organisational form, as were stated in the Government's SFT Consultation Paper:

i. Although SFT may be private sector classified, it had to have an embedded public sector ethos;

ii. It had to adopt NPD principles.

At this juncture the core constraints of vires, EU procurement, State Aid and accounting treatment have to be considered carefully in relation to organisational and corporate form.

Adopting the "form follows function" approach, and taking the givens and core constraints into account, the approach to developing the organisational form for SFT was to build it around the core functions/ activities identified for SFT. These functions suggested that the business activities of SFT fell into two distinct camps: SFT as an investment planner, quality assuror, developer or deliverer of projects/ programmes, and SFT as finance arranger and/or investor in projects.

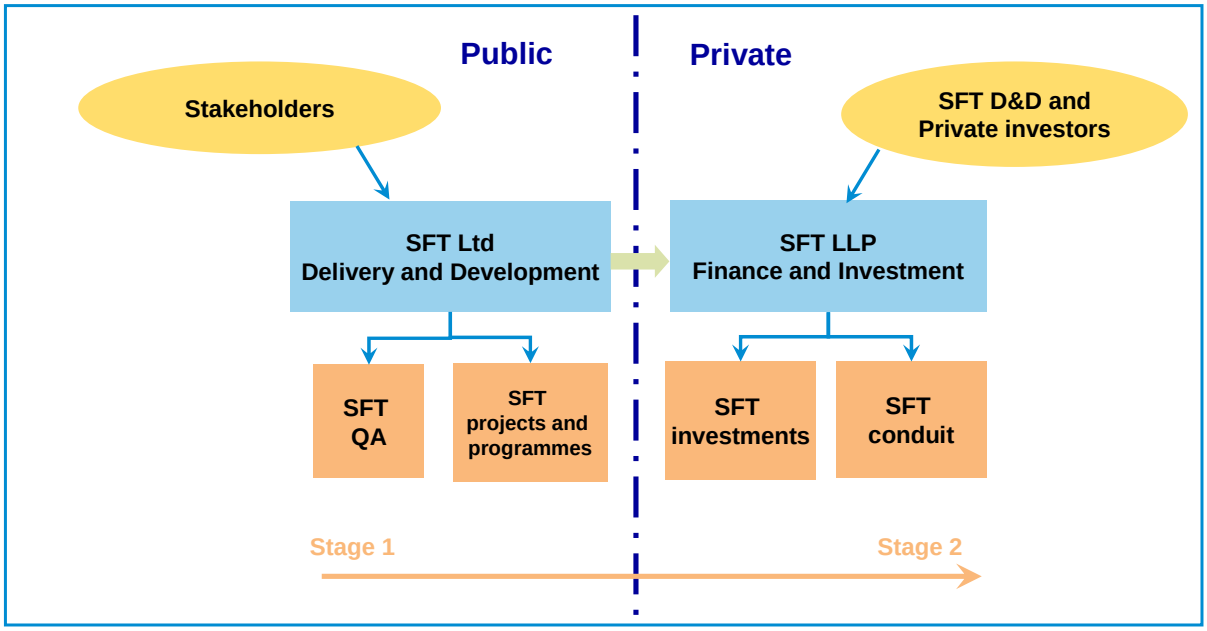
Reflecting the different nature of these business activities, the impact of the core constraints cited above, and taking into account the views expressed in responses to the SFT consultation led to the proposal to split SFT into two organisations, with key elements retained within the public sector;

- SFT Development and Delivery (SFT D&D) sitting in the public sector, and;

- SFT Finance and Investment (SFT F&I) (subsequently) sitting in the private sector, likely to be a Joint Venture between the public sector and private sector investors, possibly constituted as a Limited Liability Partnership (and probably to be Financial Services Authority regulated).

The organisational structure suggested for SFT is set out in Figure 2 below. This diagram also indicates the requirement for further detailed work and development, and therefore a longer gestation period, to establish SFT F&I. It will be one of SFT D&D's objectives to take forward the formation of SFT F&I.

Figure 1. Proposed Organisational Structure for SFT



1.14. Added Value of SFT

A new organisation must necessarily be subject to rigorous budgeting and monitoring of its own cost-effectiveness. Accordingly, a decision to proceed with SFT will trigger development of a detailed business plan against which the performance of SFT can be measured.

At this stage, some preliminary estimates of costs and target benefits of the SFT initiative have been made which will allow a decision to establish SFT.

SFT estimated costs are based on a combination of set-up and running costs (set-up over a 2 to 3 year period). The assumption is that SFT is a small, high value added organisation, starting with less than 10 core staff, and perhaps increasing through the establishment of SFT F&I over 3 to 4 years to having 20 staff. Where workload outstrips capacity then it is envisaged that SFT would operate a flexible resourcing model; drawing on available resources within the public sector, or commissioning work from the advisory community.

At this early stage the potential quantifiable benefits of the SFT Initiative have primarily been based on targeting efficiency savings across the infrastructure investment programme. The scope for efficiencies rests in a combination funding, strategic forward delivery planning, strengthened procurements, and a programme approach to delivery, as has been explained above. It is not envisaged that SFT as an organisation will direct or control the whole infrastructure investment programme, rather SFT is an initiative to be supported by the whole public sector. The ability of SFT as an organisation to influence efficiency and financing cost savings will vary across sectors, however as an initiative spanning the whole infrastructure investment programme the potential benefits have been considered on a programme basis.

Following consideration of impact across the investment programme, and its key sectors, it is considered a reasonable aggregated target benefit is within the range of 3-5%. This target benefit will

be derived from a Scottish investment programme of circa £3.5bn per annum, and approaching £40bn over 10 years.

Based on these assumptions, and recognising a lead-in period during 08/09 and 09/10, the targeted net benefit across the public sector could build to £100 to £150m per annum. Given the modest organisational structure proposed, this could reflect a benefit : cost ratio in excess of 20:1.

As part of the more detailed business planning stage for SFT the costs and benefits of SFT will be further refined. It is also expected that the SFT, by learning key lessons from previous PFI/PPP contracts, will be able to maximise the benefit to the public purse.

1.15. Implementation of SFT

SFT as an initiative is envisaged as ramping up its activities over time, or via a development path, and this theme recurs as SFT as an organisation moves forwards in implementation.

As with any new body or venture which requires broad consensus from within the public sector, a great deal of time and effort will be required securing buy-in from all the public sector organisations affected by the establishment of SFT. Equally, infrastructure investment affects the private sector: funders, investors, contractors and advisers who all play crucial roles in forming the market and the machinery that delivers infrastructure. The consultation carried out December 2007-March 2008 offers a neutral starting point for securing broad support, but as part of the business processes of SFT D&D a detailed, ongoing consultation and communication plan will require to be developed.

The following implementation steps are recommended:

SFT implementation steps	Date
Establish SFT	Mid-2008
Commence dialogue on wider stakeholder involvement	Mid 2008
Possible establishment of Infrastructure Board for Scotland (IBfS)	End 2008
Establish SFT F&I	2009-10

1.16. Conclusion

This SBC sets out a case for an SFT initiative supported by the establishment of a dedicated SFT organisation. It has considered the early aspirations for SFT, as well as the considerable potential for SFT to drive efficiency and add value - potential created by the ambitious plans for infrastructure investment across the public sector over the next 10 years.

2. Introduction

2.1. Background

The current Administration had as part of its pre-election manifesto a conceptual idea called the Scottish Futures Trust (SFT). This was a concept founded on various objectives, but primarily its aim was **more efficient public infrastructure investment.**

The original concept was that SFT would deliver more efficient public infrastructure investment by:

- Providing a more cost effective source of capital investment, securing best cost of project/programme funding, relying on public bonds issuance, using the PFI/PPP model as a benchmark;

- Creation of a trust entity that could hold public assets, concentrating SFTs function in a single body, thus supporting efficiency and scope for aggregation.

However, the original concept papers noted that although borrowing could happen at the UK national and Local Authority levels, it was not possible at the Scottish Government level. Currently this remains a constraint on SFT's activities, therefore in this document SFT's activities are anticipated as evolving over time, following a development path.

2.2. Developing the Original Concept

Following the elections in May 2007, in July 2007 a small working group was formed comprising Scottish Government (SG) officials, a political adviser, and Partnerships UK (PUK). The task of the working group was to look at the SFT concept and consider how best it might be developed towards successful implementation.

In order to take this forward a number of tasks were undertaken, including research on the long term cost of debt[6] and consideration of wider contextual issues such as the possible impact on SFT of anticipated changes to the applicable accounting standards.

In October 2007 more structured governance was put in place to support the development of SFT. A Steering Group was formed reporting directly to the Cabinet Secretary for Finance and Sustainable Growth, chaired by Dr Andrew Goudie, Chief Economic Adviser , with membership drawn from senior ranks of SG, PUK, a political advisor, and the Council of Economic Advisers. In December 2007 a small SFT Strategic Business Case delivery team was formed, led by PUK, with specialist financial support provided by PricewaterhouseCoopers (PWC).

The brief for the delivery team was to produce a draft Strategic Business Case (SBC) for the SFT by the end of March 2008.

[6] When this work was undertaken it was recognised that it represented a snapshot of the financial markets on a particular day, however since this work was completed there has been significant, and extensively reported market upheaval, making the costs of any future financing solutions less predictable, at least in the short to medium term.

2.3. Consultation

In parallel to the establishment of the Delivery Team the Scottish Government issued a consultation paper on possible SFT activities, form and governance on the 20 December 2007.

The consultation paper set out the principal aims of SFT as:

- a channel for public and private capital into infrastructure investment programmes and projects;
- as providing other services such as investment planning, project delivery, and asset management.

The consultation period ended on the 14 March 2007 with 89 responses received.

This SBC has taken cognisance of the responses made in the consultation period, in particular a general welcome for the recognition of the importance of investing in Scotland's infrastructure, views on sourcing and application of finance, and the role of existing organisations.

2.4. Concept to a Proposal

Taking due note of the consultation responses, the purpose of this SBC, and the process undertaken to produce it, has been to take the original conceptual framework of SFT, establish the constraints and parameters impacting on it, and develop a proposal for SFT that is relevant, credible and viable.

This process was initiated by the delivery team examining the strategic aims of SFT, and its priority objectives, as captured in the early conceptual statements and the consultation paper. For the purposes of taking forward the SBC, these priorities were agreed by the SFT Steering Group, and are as follows.

The SFT SBC should (under the overarching aspiration of more efficient delivery of infrastructure):

1) Explore ways in which to deliver new and additional funding for public sector infrastructure;

2) Explore ways in which to deliver on-balance sheet efficiencies, including any potential to "re-use" and release value from existing funding and investment;

3) Explore ways in which to bring about more efficient delivery, and therefore use of infrastructure funding (through provision of a focal point for market interests, strategic investment planning, value for money aggregation, focused use of expertise, use of innovative delivery structures and procurement models).

This helped give some clarity and structure to the key areas of work to be undertaken in the production of the SBC. It also highlighted that SFT was unlikely to be about a single point solution, rather it pointed to there being the potential for an even greater raft of ideas that might underpin a wider initiative aimed at more efficient infrastructure delivery.

2.5. Option Evaluation

Having clarified the strategic objectives for this SBC the next step for the delivery team was to identify the various component parts of SFT activity that could assist in delivering the strategic objectives, and then filter those individual concepts in order to establish a core set of deliverable SFT activities. It was agreed by the Steering Group that there could be two positive outcomes from this process:

i) The option is possible and adds value;

ii) The option is not possible currently, but were (vires) constitutional arrangements to alter in the future, it would add value;

The primary filters of all the conceptual ideas generated were set as the highest level risks identified by the delivery team:

- Vires;
- EU Procurement;
- State Aid;
- Accounting treatment;
- ONS Classification.

Where it was judged that the individual concepts could pass the primary filters they were then tested and ranked against a secondary set of filters, essentially an assessment of potential for quantitative and qualitative added value, and sector applicability.

Part of the quantitative input to this evaluation process was the estimate of future infrastructure investment required in Scotland over a 10 and 15 year horizon. (The build-up of these figures is explained in chapter 4, Assessment of Infrastructure Need.)

The output from this evaluation process was a shortlist of 14 potential SFT activities.

The option evaluation methodology is covered in more detail in chapter 6.

2.6. SFT Form

These shortlisted individual concepts/activities were then brought together, scenario tested and SFT as a whole “reassembled”. This provided the basis for examination of organisational structuring, as well as giving a basis for an overall analysis of the possible added value of SFT as an initiative (although it was recognised from the outset that this could only be confirmed through production of a detailed business plan).

The possible implications of differential taxation positions were taken into account throughout this exercise, however more detailed and specialist tax analysis will still require to be undertaken as part of the ongoing development and business planning phase for SFT.

The implication of VAT and direct taxation will be carefully considered as part of the establishment of the SFT entity and as the activities and form of SFT are refined.

In developing the organisational structure it was also regarded as important that SFT could develop and respond to changing circumstances in the future, and so any drawing of tight boundaries too early was avoided.

The delivery team also considered relevant precedents, and reviewed governance and corporate structuring information from a range of organisations that appeared to have efficient infrastructure delivery objectives, or other characteristics, similar to those of SFT, these included:

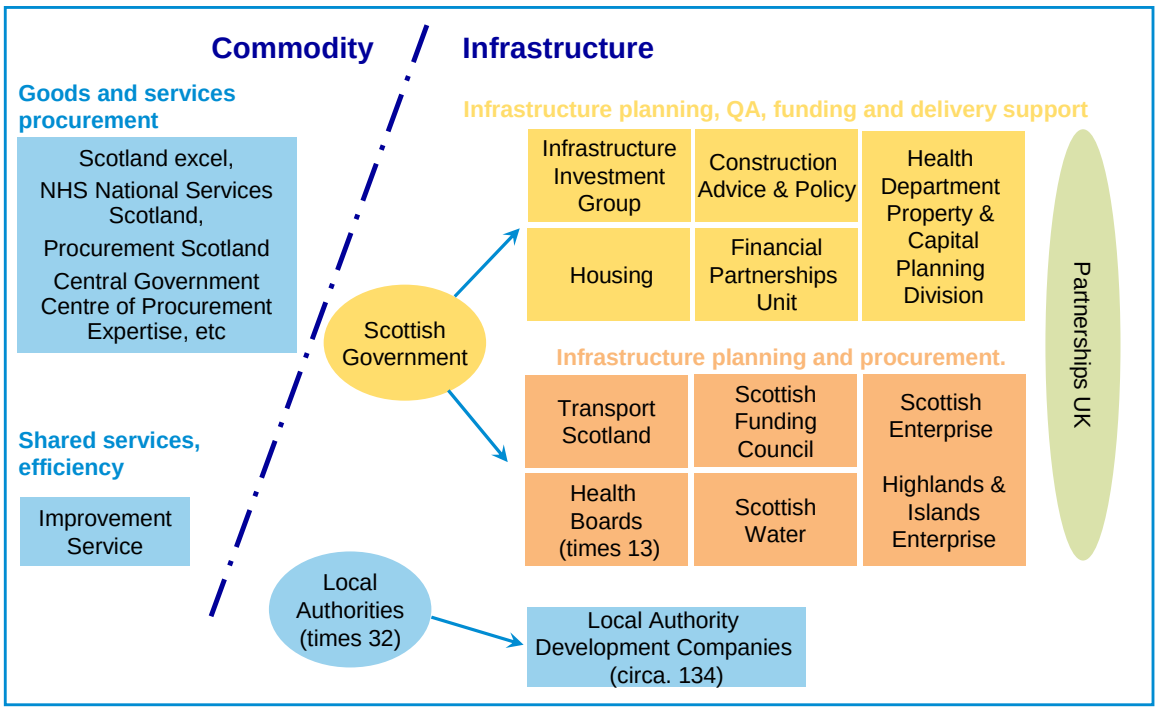
- Canadian Council for Public-Private Partnerships
- Kenniscentrum (Netherlands);
- National Development Finance Agency (Ireland);
- Partnerships Victoria (Australia);
- Partnerships UK;
- Strategic Investment Board (Northern Ireland);

An indicative organisational structure for SFT, and related governance arrangements, are set out and explained in Chapter 7.

2.7. The Delivery Landscape

The establishment of SFT will place a new organisation into an existing public sector infrastructure delivery landscape. The SBC delivery team has attempted to map this landscape, as shown in figure 3 below. This illustrates not only the complexity of the delivery landscape but also highlights the need there will be for SFT to offer opportunities for streamlining through building of alliances, interface management, or in some cases where there may be scope for rationalisation where there is overlap between SFT and existing bodies. This is further explored in chapter 7.

Figure 2. The Current Infrastructure Planning and Delivery Landscape



3. Policy Context

3.1. Introduction

The Purpose of the Scottish Government is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

The Government Economic Strategy (GES)[7] sets out how the Scottish Government will deliver its Purpose and associated targets, while the Scottish Budget[8] puts in place the necessary resources. The Economic Strategy recognises the importance of investment in Scotland's physical and electronic infrastructure to achieving of the Purpose, while the Scottish Budget supports an ambitious capital investment programme, with allocations of £3.26 billion, £3.58 billion and £3.66 billion for public sector investment in the three years to 2010-11.

The spatial aspects of the GES are addressed in the National Planning Framework for Scotland 2[9]. This document sets out clear priorities for improving infrastructure to support Scotland's long-term development aims. The key contribution of the infrastructure planning system to economic development is also recognised. The Framework reflects the Government's commitments on sustainable economic development, climate change, regeneration and housing supply, identifying key transport, energy and environmental infrastructure projects as national developments.

It is envisaged that SFT will play an important role in delivering increased levels of world-class infrastructure in Scotland and provide a better deal for taxpayers. The main role of the SFT is to act as a catalyst for additional and more efficient infrastructure investment, and to supplement public private partnerships, local government projects and other forms of investment delivery.

3.2. Economic Rationale

International evidence clearly demonstrates that capital investment, both public and private, is an essential driver of productivity, competitiveness and long-term economic growth. Over recent decades, the performance of the Scottish economy has been dented by low rates of investment (both public and private) and the resultant poor productivity growth. Increased productivity - that is, more or higher quality output per unit of labour input – represents an efficiency gain that lowers average production costs. New investment is required to replace, update and increase the capital stock to improve productivity growth through capital deepening and incorporation of new technology.

Governments have a vital role to play in creating the planning and development structures to encourage private capital formation. While governments have a role to play in delivering a supportive business environment that will facilitate private sector investment, clearly their role in directly investing in an economy's infrastructure is of critical importance. Public sector investment that relates primarily to the development of a country's physical and electronic infrastructure, such as the transport network, schools and hospitals, increases the productive capacity of the public sector and economy as a whole. Similarly, government investment in infrastructure increases the return to private investment leading to a virtuous public and private sector investment cycle and continuous improvements in productivity. The Government Economic Strategy recognises the important role efficient public investment in Scotland's physical and electronic infrastructure will play in achieving the Purpose of increasing sustainable growth via the Strategic Priority - Infrastructure Development and Place.

[7] http://www.scotland.gov.uk/Topics/Economy/Key-Publications/ges07

[8] http://www.scotland.gov.uk/Publications/2008/01/22120012/0

[9] http://www.scotland.gov.uk/Publications/2008/02/04111709/0

An efficient transport system is a key enabler for enhancing productivity growth and delivering faster, more sustainable economic growth. A well-developed and efficient network provides good access to markets and services and can increase productivity by lowering transport costs, improving the mobility of goods and people, and lowering production costs through increased specialisation and greater access to economies of scale.

In addition, reduced journey times for commuting and business travel can have a positive impact on labour productivity and labour market flexibility while reductions in transport costs can improve competitiveness, open up new markets and help to build a critical mass of businesses that all help to drive up productivity and growth. Transport improvements between homes and workplaces can encourage people to join the labour market when previously they were economically inactive or unemployed. Good transport links are also an important element in attracting, and retaining inward investment and high value-added employment, and is vital to ensuring that the benefits of growth are shared across the whole of Scotland.

An increasingly important role for public infrastructure is through its ability to facilitate access to new markets and the adoption of new technologies. Such investment, particularly in electronic infrastructure, opens up opportunities for companies to expand their production, operate in markets outside of their home country and reduce costs through economies of scale and scope. All such investments will have a direct impact on the Government's Wealthier and Fairer objective. Improved transport and telecommunications connections will help to build Safer and Stronger communities and enhance the attractiveness of Scotland as a place to live and work.

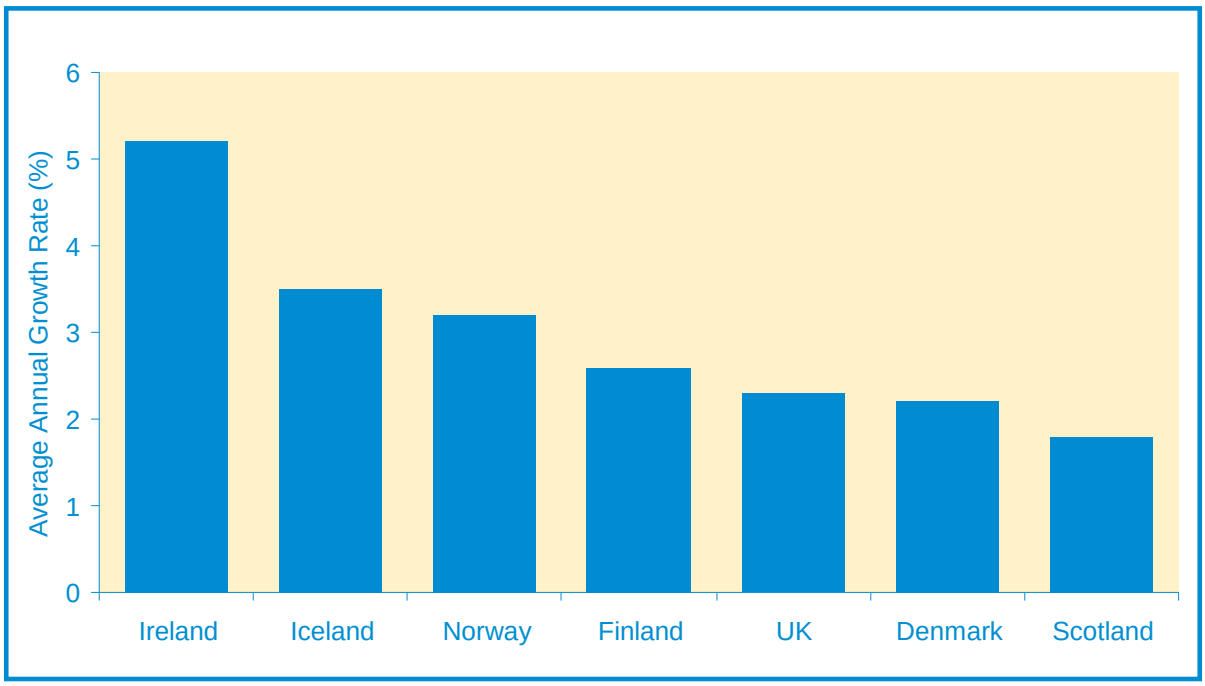
Furthermore, by supporting social objectives in health, education and housing provision, investment in infrastructure can improve labour participation, reduce inequalities and offer opportunities for all of society to benefit. Investment in education infrastructure will contribute to a Smarter Scotland while investment in health infrastructure will contribute directly to the Government's Healthier objective. In addition to the individual and wider social benefits that this provides, it can impact directly on human capital formation and further enhance the attractiveness of Scotland as a location to live, work and invest thereby boosting labour supply and productivity.

A successful and green natural, historic and built environment can be in itself be a source of economic wealth through increased tourism and development of renewable technologies. Efficient transport infrastructure can contribute to a Greener Scotland by facilitating changes in travel patterns and the promotion of more sustainable modes of transport leading to a cut in emissions and improvement in air quality.

3.3. Past Performance on Growth and Investment

In recent decades Scotland's economy has underperformed relative to the UK and other small European countries. As Figure 4 highlights, Scottish long run GDP growth over the past 30 years of 1.8 per cent is well below that of comparable European countries, and significantly below the UK average of 2.3 per cent.

Figure 3. Scotland's long-term GDP growth performance (1975-2005)



There is a consensus that for significant periods of time, during the last thirty years, investment in Scotland's infrastructure was neglected. From 1963-64 to 1997-98, UK public sector net investment fell from 5% to 0.5% of UK GDP[10]. While this decline can be partly explained by the reduction in the size of the public sector during the 1970s and 1980s, through privatisation and housing purchases, it also reflected the low priority placed on infrastructure investment by successive UK governments.

This underinvestment resulted in a deterioration in the fabric of Scotland's roads, hospitals, schools and public sector housing. In addition to the impact on quality of life, the lack of investment placed Scotland at a competitive disadvantage relative to other countries and helped contribute to Scotland's relatively poor growth record.

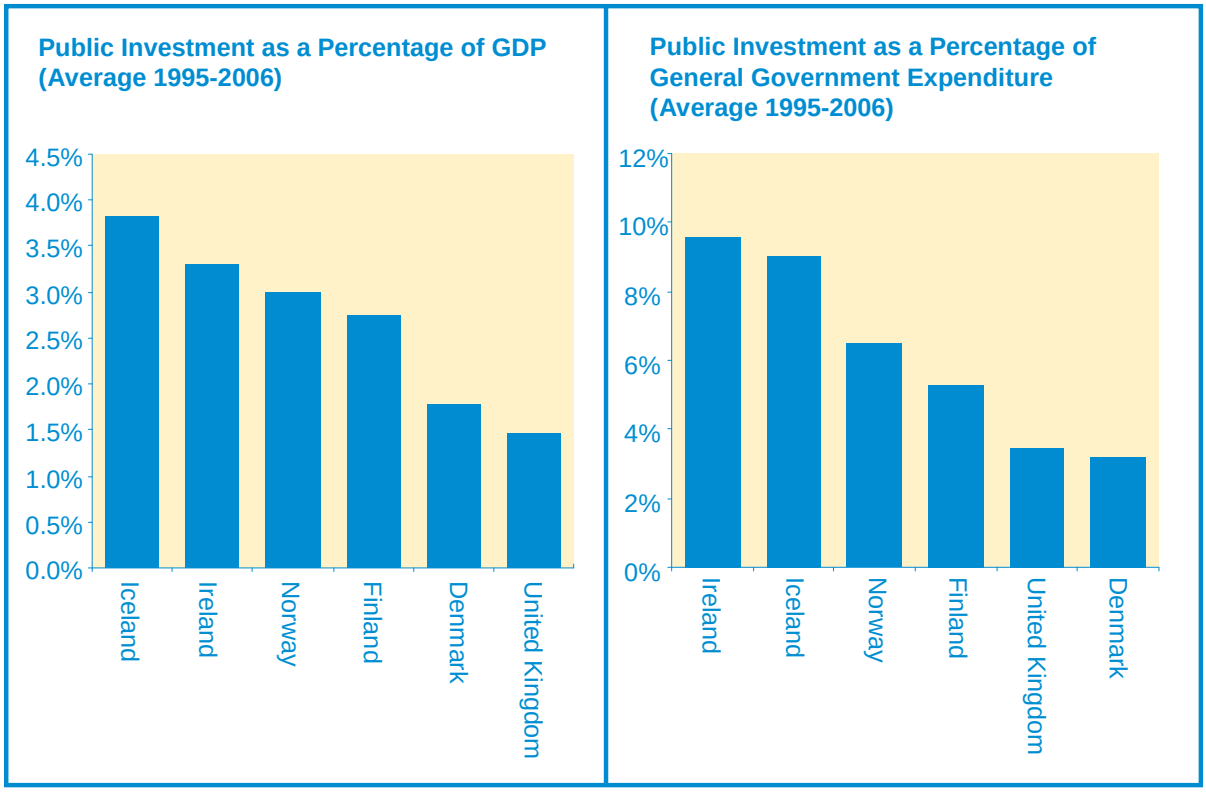
While a significant start has been made since devolution to reverse this trend, the Government recognises that there remains a substantial task to redress the decades of underinvestment in Scotland's infrastructure. Figure 5 compares the level of government investment between the UK and the 'Arc of Prosperity' countries[11]. Panel 1 highlights the rate of government investment as a percentage of GDP while in Panel 2, the rate of government investment is expressed as a percentage of total government expenditure.

Figure 5 shows that government investment in the UK has lagged behind that of the Arc of Prosperity countries over the period 1995-2006. During this period public investment in Ireland and Iceland was over double that of the UK (though a significant proportion of the investment in Ireland was financed by EU Structural Funds).

[10] Unfortunately, comparative evidence on the level of public investment in Scotland relative to other countries is limited. Instead, it is necessary to use UK data as a proxy.

[11] It is necessary to treat any international comparisons with a degree of caution. The size and scope of government activity in the economy will, for historic reasons, vary across countries while differences in the level of privatisation and public finance initiatives may also be important. Therefore, an apparently lower level of investment may not necessarily reflect a lower level of infrastructure investment.

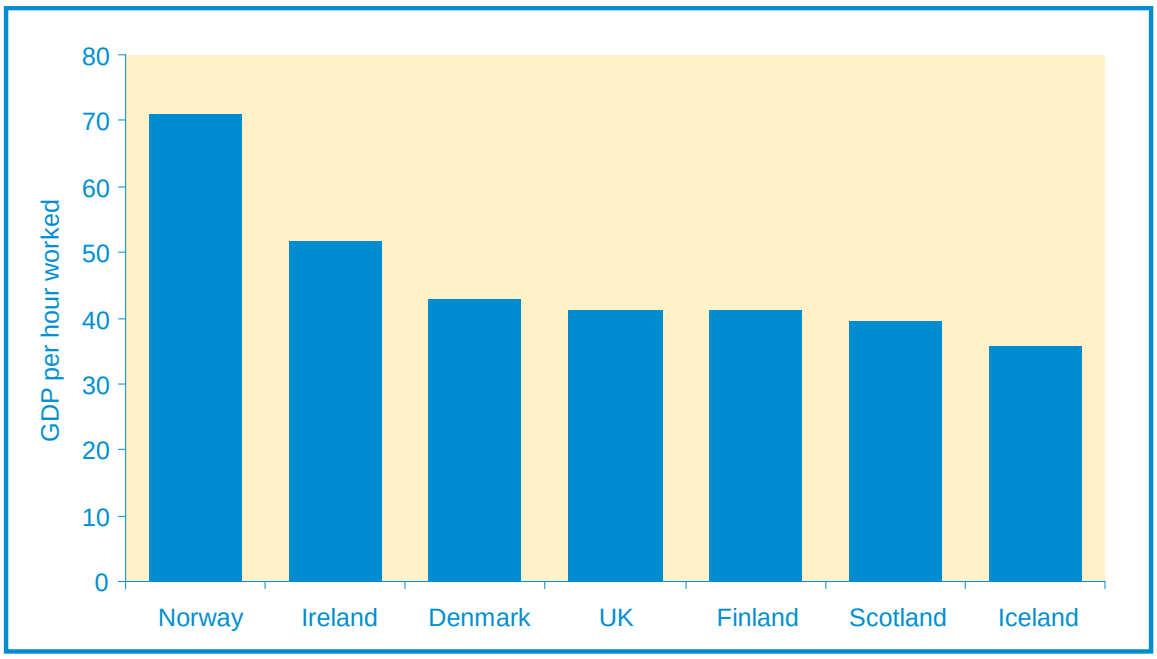
Figure 4. Public Investment as % of i) GDP and ii) General Government Expenditure



Source: Eurostat

As discussed above, economic growth can be raised by increasing the input of labour in the economy and/or by improving productivity and thereby increasing the output each unit of labour is able to produce. While labour input is typically subject to limits, such as the number of people of working age available to work and to the hours that can physically be worked, the mechanisms for increasing productivity are not typically subject to the same constraints. Therefore an alternative assessment of Scotland's past performance on growth and investment is to focus on levels of productivity in Scotland vis-à-vis Arc of Prosperity countries. As highlighted in Figure 6, Scotland's productivity (as measured by GDP per hour worked) lags behind that of both the UK and the Arc of Prosperity countries. Again this is an indication of Scotland's relatively poor performance, with regard to growth and investment, and illustrates the scale of the challenge faced.

Figure 5. GDP Per Hour Worked



Source: OECD estimates of labour productivity for 2006 (September 2007)

3.4. Affordability of Infrastructure Investment

On of the Scottish government's considerations must be the affordability of infrastructure investment. The Scottish public sector plans to spend £14bn in capital investment in the next three years. In addition the SG has had to identify new resources to fund the increasing costs of PPP/PFI projects commissioned by previous administrations. From 2007/08 to 2010/11 the cost of signed PPP/PFI projects has increased from some £0.5bn to £0.7bn per annum and will continue to increase up to a peak of approaching £1bn in 2024.

The table below shows the full commitment to signed PPP/PFI projects:

Table 1. Signed PPP/PFI Projects Unitary Payments (£m)

97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09
2	15	53	73	144	288	360	377	409	441	500	581
09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
672	787	812	830	840	860	890	900	921	938	947	963
21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
965	965	976	979	963	938	900	888	774	665	636	611
33/34	34/35	35/36	36/37	37/38	38/39	39/40	40/41	41/42			
601	546	519	521	434	358	189	125	114			

Note: Unitary payments cover 25-30 year costs of £5.3bn capital and maintenance, cost of finance at risk, asset related services and inflation.

3.5. Summary

Economic theory highlights that capital investment is a key driver of economic growth and will play an important role in delivering the Government's Purpose and meeting its targets. Consequently, the Government Economic Strategy, via the Strategic Priority Infrastructure Development and Place, makes clear that a priority of the Government is the delivery of world-class infrastructure in Scotland.

The Scottish Futures Trust, in partnership with Public Private Partnerships, local government projects and other forms of delivery such as strategic partnerships, will act as a catalyst for investment in Scottish infrastructure programmes and projects and delivering better and more efficient infrastructure for taxpayers.

4. Assessing the Infrastructure Need

4.1. Scope

This SBC has attempted to consider the infrastructure need of the whole Scottish public sector. Details of budgeted and aspirational infrastructure spend for the years from 2008-9 to 2017-18 have been collated from a variety of sources from across the public sector in Scotland, including the Scottish Government (covering agencies and NDPBs), Local Authorities, and NHS bodies. This work has been undertaken in parallel with the formulation of the Government's recently published Infrastructure Investment Plan (IIP). In this document, an attempt has been made to distinguish between budgeted spend, i.e. amounts which have formal approval, and aspirational spend – amounts bodies would like to invest in infrastructure, but may not be able to due to budget constraints. The nature of inputs received has been varied, especially in relation to aspirational spend and in years beyond the current spending review period. The inclusion of aspirational spend, and break down by infrastructure sectors recognisable to the markets rather than strictly by portfolio, prevents direct comparison with the IIP.

4.2. Why Assess the Infrastructure Investment Need

In developing the concept of the Scottish Futures Trust it has been necessary to understand a long term view of the public sector infrastructure requirement in Scotland in order to:

- Determine the investment "throughput" that a Scottish Futures Trust would be expected to assist deliver;
- Understand the investment value by sector such that models that have sector specific applicability can be better understood;
- Test the potential "value added" delivered by concepts evaluated across different sectors;
- Reflect the long term nature of any infrastructure investment by extrapolating the infrastructure requirement;
- Assess the ability of a Scottish Futures Trust to meet aspirational infrastructure requirements along with those currently budgeted.

4.3. Infrastructure Need Summary

The following table summarises the value of the infrastructure need for each of the next ten years by sector. Planned spend in the earlier years largely consists of formally approved budgets. The figures for the years from 2011-12 necessarily have a stronger aspirational element, and are more likely to be subject to change. Where forward information was not available no figure has been included which accounts for an apparent downturn in annual investment need over 10 years, which may be misleading.

The full details from which the summary table is drawn can be found in Annex 1.

Table 2. Scotland's Infrastructure Needs - Summary, 2008/09 to 2017/18

Sector (£m)	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	Total
Transport	1,050	1,231	1,223	1,577	1,277	804	804	804	804	804	10,378
Enterprise, Energy, Tourism	116	98	100	0	0	0	0	0	0	0	314
Climate Change & Water	682	648	500	500	500	500	500	500	500	500	5,330
Health	755	783	828	193	232	0	0	0	0	0	2,790
Regeneration & Housing	917	1,066	986	290	290	290	290	290	290	290	4,998
Sport	141	144	145	136	136	134	134	134	134	134	1,370
Higher & Further Education	335	365	368	362	362	362	362	362	362	362	3,602
Schools	660	303	139	423	400	400	400	400	400	400	3,925
Justice	230	191	206	186	186	186	186	186	186	186	1,929
Rural Affairs & Environment	81	87	89	0	0	0	0	0	0	0	257
Other central government	41	45	48	0	0	0	0	0	0	0	134
Local Authorities	825	357	61*	519	519	0	0	0	0	0	2,280
Total	5,833	5,317	4,692	4,185	3,901	2,676	2,676	2,676	2,676	2,676	37,307

Notes: This table includes aspirational spend and spending by Local Authorities, privately financed bodies and projects and therefore exceeds the capital budget allocation in chapter 3.

* - The approach to deriving these figures has led to an anomalous figure for LA investment in 2010/11. This is recognised but has not been resolved in the time scales available for the SBC.

5. The Concept of SFT

5.1. Overview

As set out in the previous chapters the main driver behind the concept of SFT is the desire to drive and deliver efficient infrastructure investment in Scotland.

Through the development process for this SBC the potential scope for SFT to contribute to the delivery of efficient infrastructure investment in Scotland has widened considerably beyond pure costs of funding.

SFT is now regarded conceptually as an initiative whose aim is to make scarce public sector investment go further but, equally importantly, an initiative which will have an embedded purpose of producing long-term, reliable, affordable and good quality infrastructure.

To deliver this initiative, SFT has been conceived as a new organisation with a unique overview and cross cutting role in the delivery of Scottish infrastructure investment.

A key role for SFT, therefore, will be to strengthen public sector capability in infrastructure planning, procurement and delivery though the provision of expertise and financial resources.

5.2. Developing the Concept

Currently there is no single body which takes an overview, or responsibility, for the planning, delivery, or success of infrastructure investment in Scotland. Although there is now an Infrastructure Investment Plan produced by the Scottish Government published to coincide with the Scottish budget, it is more an information document rather than a tool used proactively for driving investment appraisal, delivery efficiency, or market building.

So, at a macro level the potential has been recognised for SFT to play a role in forward planning of infrastructure investment, to facilitate aggregation and releasing of value from the bulk buying power of a significant investment programme. This release of added value may come through efficient financing, or it may come via better developed and co-ordinated programme based approaches to procurement and delivery.

As part of a wider efficiency agenda SFT can also provide the focal point for the drive for better scoped and managed procurements. It may do this through guidance or quality assurance: Significant Projects Review Group, Gateway, Key Stage Review (KSR) or other reviews, or it may become a co-deliverer of significant projects or programmes, providing specialist skills and support where needed. It is not the intention for SFT to take responsibility away from procuring authorities, but many would agree that when faced with high value, complex or novel infrastructure delivery, public sector bodies need, and would often welcome, independent quality assurance or specialist support.

There is also scope for SFT to be an innovator and developer of new delivery models, responding to changing market circumstances such as the forthcoming move to IFRS.

To realise this potential value SFT will have to work closely and co-operatively with the existing public sector bodies and agencies involved in infrastructure delivery. Core to the concept of SFT is that SFT as an initiative is “owned” by the public sector in its widest sense.

5.3. Constraints

In developing the SFT concept, as described in the previous chapters there are a number of primary constraints which have to be given careful consideration:

- Vires: the legal powers that Scottish Ministers have, including powers to borrow;
- Relevant Accounting Standards: the application of which determines what scores against the public sector balance sheet;
- State Aid: European legislation which seeks to prevent distortion of competition, this encompasses use of Government guarantees;
- EU Procurement Rules: the application of which drives the need for competition when services are being procured or paid for;
- ONS Classification: the formal determination of whether an entity is publicly or privately classified, typically based on the influence and controls embedded within an institutional form.

Note that accounting standards are only a “constraint” in restricting the additionality of investment over and above public sector budgets that has been delivered in recent years through the use of private finance. The forthcoming change in the UK public sector from accounting under UK GAAP to IFRS accounting standards is likely to mean that PFI/PPP projects previously delivering the additionality of off-balance sheet finance are likely (for both existing and future projects) to be accounted for on the relevant public body’s balance sheet. The accounting standards constraint has been considered in relation to concepts that attempt to continue (or re-establish) this additionality.

These constraints have remained high profile throughout the development of this SBC, and will continue to require close attention as SFT moves through business planning, towards implementation.

5.4. Shaping SFT

Taking the starting point of SFT as an initiative, whose delivery is supported by a new organisation, the Delivery Team produced a number of individual working concepts to support potential individual activities for SFT. These individual concepts were evaluated and a shortlist produced. (This process is described in more detail in Chapter 6.)

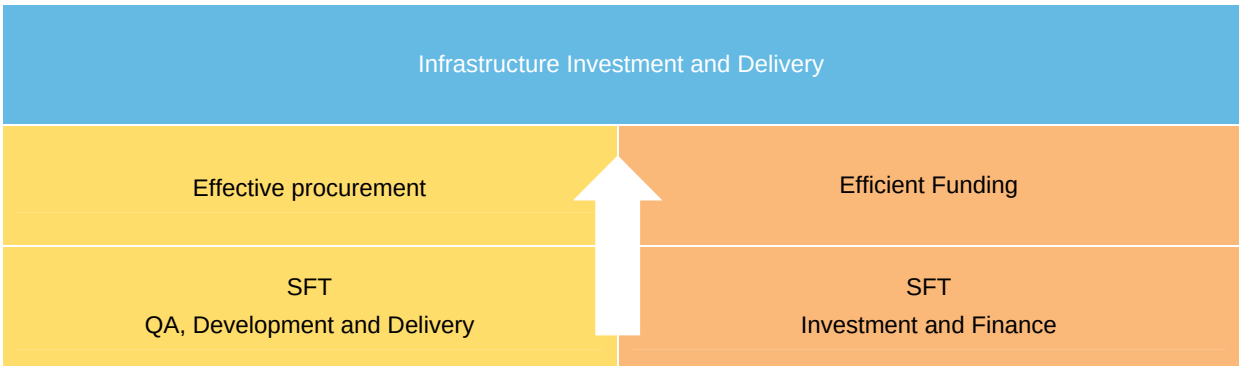
What emerged from this conceptual development process was more substance to SFT as an initiative, with potential identified for SFT in four clearly identifiable areas of activity:

1) SFT as a provider of quality assurance, guidance and standardisation;
2) SFT as a developer and co-deliverer of projects and programmes;
3) SFT as an investor of risk capital;
4) SFT as an aggregator or conduit for funding.

5.5. SFT Activity

These four areas can be further combined as shown in the diagram below:

Figure 6. SFT Activity



5.6. SFT Ownership and Governance

If SFT is to be established as a new organisation it will be in the strongest position possible to deliver the potential efficiency and added value it seeks, if SFT's public sector governance is reflective of a broad base of the public sector in Scotland. Bearing in mind the delivery map shown in Chapter 2, which highlights the potential interfaces, alliances and overlaps for SFT, SFT will be most effective if is integral to the delivery map, rather than superimposed on to it.

5.7. Summary

The SFT concept has been developed from a single idea regarding improvement in the cost of project funding, to being a much wider efficient infrastructure investment initiative, underpinned by a raft of activities, all with the common denominator of making public sector investment go further, whilst ensuring investment is producing long-term, reliable, affordable and good quality infrastructure.

As an organisation, SFT will seek to deliver efficiency through appropriate use of its own funds, and by the management and aggregation of funding requirements for significant projects, or programmes of infrastructure investment.

To maximise the potential value gained from optimising funding, SFT will carry out these investment and funding functions in conjunction with quality assurance, investment planning and delivery support activities, in effect addressing two pillars of infrastructure delivery: effective procurement and efficient funding.

6. Concept Evaluation

6.1. Overview

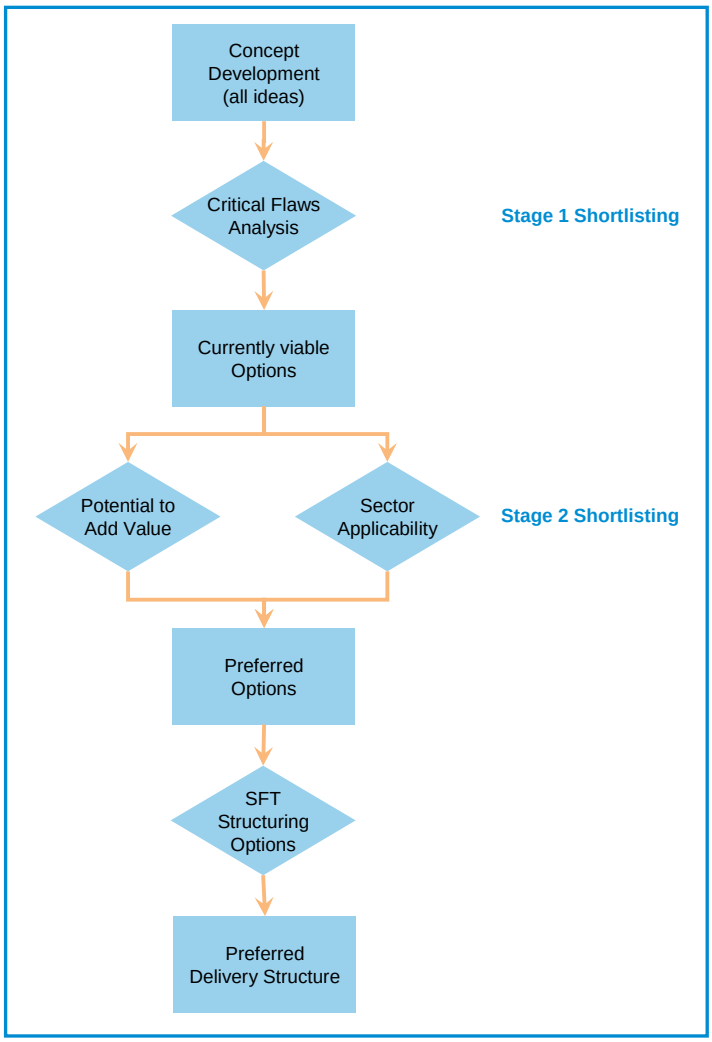
As outlined in the previous chapter the concept of SFT is one of an initiative designed to make scarce public sector investment go further, whilst ensuring that the equally important objectives of infrastructure that is long-term, reliable, affordable, and good quality are kept to the forefront of infrastructure investment decision making.

As part of the development of this SBC a wide range of concepts were developed in order to inform the potential scope of SFT, these concepts were then refined and evaluated in order to clarify the most deliverable and beneficial activities of SFT, as well as helping to develop the most appropriate organisational form for SFT.

6.2. Methodology

The options evaluation for the Strategic Business Case has followed a four-stage process shown in the following diagram and described in more detail below:

Figure 7. Options Evaluation Process



- **Concept Development** – where all potential options for a Scottish Futures Trust to participate in public sector infrastructure development have been considered. The ideas captured ranged from those generated in pre-election manifesto papers, to recent SFT SBC brainstorm sessions. This was intended to be a broad ideas generation stage, where no concept was excluded.

- **Stage 1 Shortlisting** – in this stage, each concept was exposed to a critical flaws analysis by assessing the concept against the five key constraints outlined at section 5.3 above, namely Vires, Accounting Treatment, State Aid, EU Procurement Rules and ONS Classification. In each of these categories a 1-5 scoring mechanism was adopted, as follows:

Score	Significance
1	Showstopper risk, no mitigation possible
2	High risk, little mitigation possible
3	Risk evident but mitigation possible
4	Small risk, mitigation likely
5	No risk

Any concept that scored a 1 or 2 in any of these categories was "parked" at this stage and the remaining currently viable options taken to the second stage of Shortlisting. The reason for "parking" options rather than discarding them at this stage is that, as discussed, SFT should follow a development path, and if some of the constraints that caused an option to score a 1 or 2 were to be removed in the future, then that activity could again become relevant for the future development of SFT.

- **Stage 2 Shortlisting** – in this stage, the remaining concepts were subjected to further analysis and scored against 2 additional factors:

  a) Their potential to add value; and

  b) The potential for wide sector applicability, as follows:

Potential to Add Value		Sector Applicability	
Score	Significance	Score	Significance
1	No added value	1	No application
2	Marginal added value	2	Very limited application
3	Added value, significant risk	3	Application in 1 or 2 sectors
4	Added value, some risk	4	Wide application
5	Significant value, low risk	5	Application across the board

Any concept that scored a 1 or 2 in terms of its potential to add value was also parked. A score of 1 or 2 in sector applicability indicated a narrow potential application, but as the value in that sector could be significant, it was not used as a filter at this stage. The remaining options were collated into a final list of the preferred options for activities that the SFT could undertake.

- **Structuring** – The activities of the SFT are, to a large extent, linked to its structure and form as a "body". As such, elements of structuring have been considered in the earlier stages of options evaluation. However, there are a number of options available in terms of the detailed structuring and these were analysed in more depth at this stage. The final determination of structure being guided by the principle of form follows function.

The outcome of the options evaluation process is a preferred option for the scope of SFT activities and its structure.

The preferred options for activities of SFT following the short listing process are discussed further in this Section, whilst the structuring of SFT as an organisation is covered in Section 7.

6.3. Preferred Option(s)

The outcome of the options evaluation process is that the SFT should be tasked to further develop and undertake the following range of activities in support of an overall SFT initiative:

Concept
Asset provision by alternative entities
Innovation in rail infrastructure delivery
Finance aggregator for SG funded private bodies
Finance conduit / framework funder (aggregated & competed private senior debt)
Efficiency measures in existing PPP deals
Underpinned Financing of new NPD projects
Social housing - funding change catalyst / aggregator
Funding vehicle for asset backed regeneration
Promoting / introducing model for tax incremental financing (TIF)
Risk capital investment in infrastructure
Programme / significant project development & procurement - Schools, waste, flood defence, hub etc.
Asset efficiency / value realisation (inc surplus assets)
Supporting on Balance Sheet NPD
Advice / infrastructure planning / diligence functions

Key

- Financing Additionality
- Financing Efficiency
- Delivery Activities

Concept

Asset provision by alternative entities

Provision of assets is facilitated via an entity which is an organisation with a genuine reason for alternative residual use of the assets created on its behalf and is itself a private sector classified body, e.g. provision of schools accommodation by a University or hospital accommodation by a medical faculty. This model would be congruent with policy initiatives to (for instance) create closer links between schools and universities. Significant further exploration of risks and structure is required to determine the feasibility of this structure.

Innovation in rail infrastructure delivery

This option focuses primarily on the role that SFT could play in supporting the delivery of rail projects through an NPD ("Non-Profit Distributing") structure, to maximise value. Procurement strategy development for rail infrastructure is being progressed independently of work on the SFT, so at this stage, this concept simply seeks to recognise potential links.

Finance aggregator for SG funded private bodies

The SFT could be set up in the private sector to consolidate and manage the external finance requirements of a number of bodies which are classified as private sector bodies by the ONS, and which are currently used to deliver government policy, such as universities, colleges, Registered Social Landlords ("RSLs") and Scottish Water. Currently, these bodies are part funded through capital grant from SG but it is potentially possible for the combined finance requirement to be raised from the debt markets, against the strength of the body's own covenant.. This should insulate the SFT entity from project risk, reduce the reliance on upfront capital funding from SG and release portfolio efficiencies by aggregating finance requirements across sectors into a single portfolio of bank and bond finance on a rolling programme basis.

Finance conduit / framework funder (aggregated & competed private senior debt)

The proposition is that the SFT could be set up as an organisation that arranges finance for projects or programmes to deliver greater efficiencies from planned investment. This could include facilitation of Local Authorities grouping together for a Bond issue. It is envisaged that the SFT could raise private sector debt to fund an investment programme and adopt a due diligence role to mitigate risk. There would be benefits in lower cost of finance form the "bulk funding" of aggregated projects. The benefit of this would be in lower cost, more flexible senior debt funding and there may also be an opportunity to minimise the cost of risk capital.

Efficiency measures in existing PPP deals

This considers the potential opportunity that exists for SFT to leverage value from existing PPP projects by taking a role co-ordinating contract improvements and potentially re-financings. Such opportunities may broaden in the future as accounting rules change giving the potential, for example, for consideration of underpinning of elements of senior debt or other restructuring in future re-financings.

Any such approach would need to address the private sector interests as owner of the entity delivering the PPP project as well as those of the public sector.

Concept

Underpinned Financing of new NPD projects

This concept would potentially see underpinning by the Scottish Government of a proportion of senior debt (to be determined on a sectoral, or project basis) applied to new NPD projects in Scotland. This could enable the initial senior debt to be secured on very attractive terms, helping to drive down the cost of such funding. Full regard would have to be given to risks retained through underpinning obligations.

Social housing – funding change catalyst / aggregator

Social housing has been considered as a separate sector given the specific nature of the revenue stream from tenants which supports the servicing of funding (rather than being reliant on 100% government funding). A concept has been considered whereby the SFT could enhance the level of housing investment by changing the financing assumption that the units built would remain in the social housing sector in perpetuity. This could reduce the level of public sector grant funding required and therefore, increase the number of units that could be constructed. This could be complemented by a role as a funding aggregator or conduit in this sector. It is important in this concept that tenancy arrangements are not disrupted.

Funding vehicle for asset backed regeneration

This concept relates to a potential role for SFT in structuring and potentially aggregating private sector funding to leverage against public sector assets and promote regeneration

Promoting / introducing model for tax incremental financing (TIF)

Several public sector bodies in Scotland are exploring routes to access tax incremental funding, where increased business rates resulting from investment in a specific development zone are hypothecated to the repayment of finance raised to facilitate regeneration. This is generally focussed on business rates, but could involve a range of structures including developer levies. There is a potential role for SFT in further developing this model and potentially standardising and acting as a broker / aggregator for private funding.

Risk capital investment in infrastructure

This concepts sees the SFT as an investor (or potentially co-investor) of risk capital in infrastructure. A role as investor requires SFT to be capitalised, and the concept includes establishment of an SFT investment vehicle structured as a joint venture between the Scottish public sector (investing a proportion of the capital) and private sector investors (each investing a proportion). It is anticipated that the investment vehicle would be private sector classified.

Programme / significant project development & procurement – Schools, waste, flood defence, street lighting, hub etc.

This concept is founded on looking at investment need on a programme basis to improve costs and delivery. It envisages an SFT entity working with public sector stakeholders in instigating and leading a sector specific investment programme and driving efficiency through: a) aggregation of funding; b) standardisation of documentation; c) development of suitable commercial delivery vehicles; d) utilisation of risk capital at a portfolio level; e) management of deal flow; f) facilitation of delivery expertise across the public sector; and g) use of due diligence disciplines. It is anticipated that this concept could be applied across a number of sectors and could deliver an increase in investment by making more efficient use of existing, current or planned financial investment.

Concept

Asset efficiency / value realisation (inc surplus assets)

There is a potential role for SFT in promoting efficient management of assets across the Scottish public sector, including creating structures that promote joint working through sharing of assets and in simplifying the realisation of value from surplus assets for public sector bodies

Supporting on Balance Sheet NPD

This concept is for the SFT to play a leading role in continuing a programme of NPD projects across sectors in Scotland, adding value through standardisation, due diligence and potentially combined with the finance conduit function.

Advice / infrastructure planning / diligence functions

There is an opportunity for SFT to be the vehicle that offers a solid platform of skills and co-ordination to support SG's range of project, programme and financing activities. Such a body would need to be representative of all sectors and levels of government within the Public Sector. It is not envisaged that SFT would necessarily replace all existing delivery or procurement bodies, but it would at least need to consider and manage the interfaces between the various bodies. Its principle objectives would therefore be: a) to ensure consistency in advice to Ministers; b) to produce guidance and standardisation that is effective and commercially relevant; c) to develop innovative delivery models; d) to apply QA rigorously, ensuring better offerings to the market; e) to drive efficiency and remove duplication in the public sector; and f) to allow representation of all market interests.

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7. The Preferred Option for SFT

7.1. Overview

Based on the outcome of the evaluation process outlined in the previous chapter, this chapter sets out an outline proposal for the SFT initiative, and covers the initial activities, structure and governance of a proposed SFT organisation.

This chapter also reviews the likely costs and potential value added of SFT. At this early stage any quantification of costs and benefits must be regarded as indicative, further detailed development and business planning is anticipated as part of an implementation stage.

It is also recognised that SFT, once established, will be able to develop its activities over time. Ensuring the governance of SFT is established correctly is therefore essential in order to ensure SFT remains focused on its primary objective of supporting an initiative of efficient infrastructure investment and delivery.

7.2. The SFT Toolkit

The scope of SFT's activities rest in the shortlist generated by the evaluation process outlined in chapter 6. This shortlist in effect provides a toolkit from which various scenarios can be constructed. The SBC Delivery Team has scenario tested a number of options, utilising the toolkit in a variety of combinations. For Instance:

- SFT as a developer/deliverer of programmes, using conduit finance and SFT risk capital;
- SFT as the facilitator of efficiency measures in existing projects;
- SFT supporting the delivery and financing of a significant NPD project.

7.3. Organisational Structure

The proposed organisational structure for SFT has been largely driven by its functions.

Based on the original strategic objective of more efficient infrastructure investment, and the detailed analysis of potential SFT activities, SFT has developed as having 4 main areas of business activity:

i) SFT as a provider of policy support, quality assurance, guidance and standardisation;

ii) SFT as a developer and co-deliverer of projects and programmes;

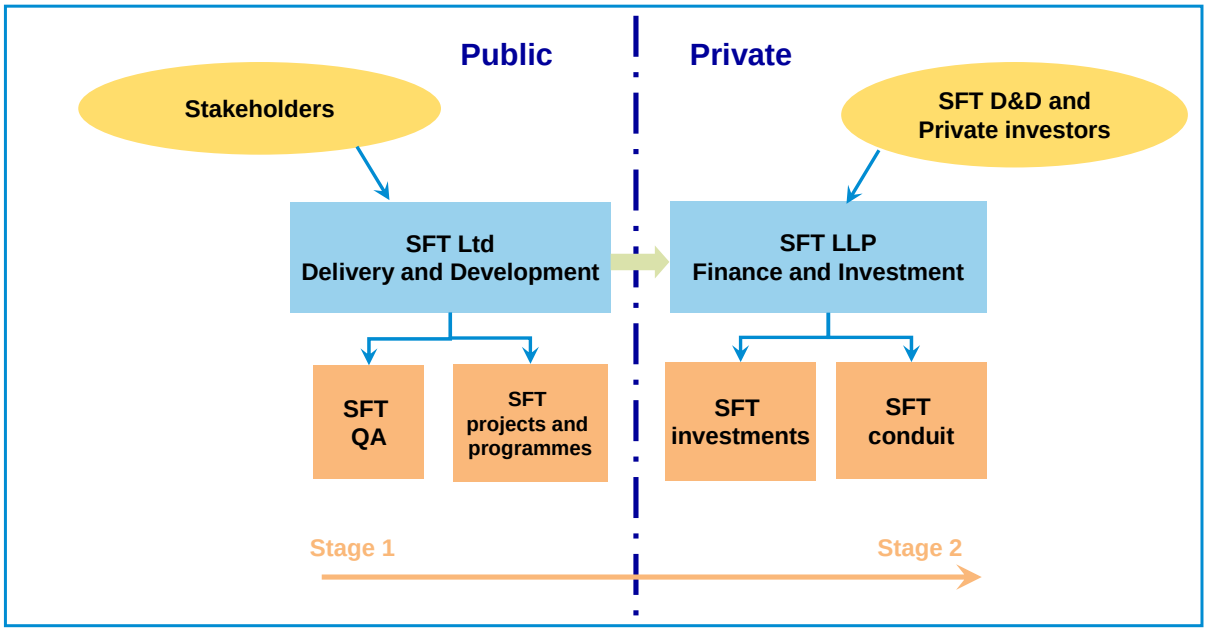
iii) SFT as an investor of risk capital;

iv) SFT as an aggregator or conduit for funding.

The first two business activities (infrastructure planning, policy support and quality assurance, and project and programme development) sit best within a public sector classified body. It is not intended that this function would be in competition with private sector advisors in any way. The second two activities (investment and finance) sit better in the private sector, not least as risk capital is to be raised from private investors.

Therefore the structure of SFT is likely to look as the diagram below (although it is recognised that this structure may still develop over time):

Figure 8. SFT Organisational Structure



7.4. Governance

SFT has always been conceived as being representative of the whole public sector, and, if it is to deliver its efficiency potential, it has long been recognised that this original ambition must be crystallised in SFT's governance. There is however always a balance to be struck between appropriate representation and governance, and effective management.

For the immediate next phase SFT will be moved forward more efficiently under direct oversight of Scottish Ministers. However, once its more detailed business case is confirmed, it could be overseen by an Infrastructure Board for Scotland, possibly made up of senior representatives from across the public sector and chaired by the Cabinet Secretary. The purpose of the IBfS would be to oversee SFT delivering its strategic objectives, and to input to the future strategic direction of SFT.

SFT Finance and Investment will be a separate private sector classified entity in which SFT D&D has a minority share. Careful structuring of the constitutional documents will be required for this entity to ensure the public sector can exert appropriate influence whilst not undermining its private sector classification. Its potential organisational form has not been assessed in detail, although the flexibility and transparency of a Limited Liability Partnership (LLP) structure is initially attractive. It is anticipated that it is likely to fall to be regulated by the FSA. It will have its own management team who will report to the LLP members committee.

The details of how investment will be raised from the private sector has not been explored in any detail as part of this SBC, rather that work will fall to SFT Delivery as part of the business planning for SFT Finance and Investment. However, it has been noted through the SFT consultation that the private

sector has raised concerns over the downturn in infrastructure dealflow. This concern should be addressed in the case for SFT F&I.

The working assumption is that State Aid clearance will require to be sought for SFT's activities. This will likely take somewhere between 3-6 months. Initial discussions have been held with the State Aid unit in the Scottish Government, and they will continue to be kept informed of developments.

The proposed twin organisational structure has precedents in the public sector[12], however more detailed work is required on the corporate structuring and form of SFT, which it is anticipated will be carried out as part of a more detailed business planning exercise, post this SBC.

7.5. Resources

SFT has not been conceived as a large organisation, rather it is envisaged as a small focused team, resourced by senior and experienced infrastructure delivery professionals. To be successful SFT must be able to attract, employ and retain experienced staff who have delivery experience from working across various sectors, on publicly and privately financed remits.

Neither is the aim of SFT to displace an effective advisory community. In taking an overview and helping the public sector capture bulk buying power, SFT is undertaking innovative and new activity close to government, and when SFT is supporting the public sector as it conceives, develops or engages in complex infrastructure procurements, it is strengthening the client capability, the governance and management of the project or programme.

SFT also has a role to play as a catalyst, conceiving and developing innovative ways of delivering infrastructure investment, opening new markets as a result.

Where SFT is required to undertake large specific assignments it is envisaged it will resource specifically to deliver those particular projects or programmes; either by secondment, recruitment or advisory support.

7.6. The Cost of SFT

The implementation of SFT has always been regarded as a development path (as explained in Chapter 9). In the short term a series of steps require to be gone through to establish SFT (as envisaged above), in the longer term SFT may have wider opportunities as a result of legislative or constitutional changes that lead to a change in shape or direction.

As the activities of SFT will ramp-up over time it is envisaged at the outset it will have a small headcount and that its staffing will increase over time. Initially it is assumed it has 6/7 staff, including support staff, by 2011 it is assumed it has around 20 employees, including support staff. These estimates provide a range of possible costs.

The working assumption is that SFT Development and Delivery will be established as quickly as possible and that SFT Finance will be established and operational by 2010-11, therefore the bulk of start-up costs land in 2009-10, these being primarily advisory and recruitment costs.

[12] Partnerships for Schools established to develop and deliver £2.5 – 3bn of investment in schools in England per annum, is an NDPB 100% owned by DFES, but is a contractual JV between PUK and DFES. BSFI the investment company for PfS is a private sector classified LLP formed between DFES and PUK.

As for many other organisations , payroll will be the main recurring cost for SFT. This has been estimated over a 5 year horizon in order to provide some quantum for this SBC, but this must be regarded as indicative pending more detailed business planning. The staffing levels suggested would support core SFT activities, however should SFT undertake significant assignments, such as becoming a programme developer in a particular sector, then additional dedicated staff (or advisory support) would likely be required. SFT resourcing beyond core levels would be justified through normal business planning and approvals.

Based on these early estimates the potential funding requirement for core SFT activities over 5 years is summarised below:

Table 3. The Estimated Costs of SFT

£000	2008-9	2009-10	2010-11	2011-12	2012-13
Payroll (incl pension& NI)	1,000	1,300	3,700	4,200	4,300
Premises	50	50	100	100	100
Marketing/PR	50	50	50	50	50
Advisory	100	250	250	250	250
Contingency	250	350	500	550	600
Start-up costs	1,050	1,100	1,300	750	250
Total	£2,500	£3,100	£5,900	£5,900	£5,550

These figures must be regarded as indicative estimates only. To *sense test* these estimates some comparisons can be drawn:

- The Strategic Investment Board in Northern Ireland had an initial annual payroll budget (updated to 2008-9 prices) for a staff of 11 of approximately £1.75m;
- Partnerships UK(around 70 staff) has a current annual budget of approximately £14m;
- The 4Ps has an annual budget of around £6m.

7.7. The Potential Added Value of SFT

As the supporter of an initiative, SFT's activities will be wide and varied, therefore trying to predict added value quantitatively is not an easy task, however qualitatively there are perhaps three main areas where we can assess SFT's added value:

i) Project level efficiency

ii) Programme level efficiency

iii) Finance costs

Project Level Drivers of VfM

- QA processes improving project preparation and execution
- Procurement team strengthening
- Use of standardised contracts and other project documentation
- Strong bidder competition arising from the above

There is substantial evidence that regardless of procurement route, procurement delay, and associated re-scoping leads to additional cost both in terms of construction inflation and bid-costs that contractors seek to recover over programmes of work[13]. Benefits in this area cannot be accrued evenly across all sectors as there are varying diligence processes and degrees of standardisation already in place. It has however been assessed that in some sectors improved due diligence for major projects (often subject to more substantial delays) could lead to benefits in the 2-3% range, with a range of 1.5-2% for more standard projects. Again in some sectors, improved standardisation could lead to savings in the 1-2% range.

Programme Level Drivers of VfM

- Effective policy communication to market
- Improved stakeholder participation
- Building market confidence and so supply side capacity
- Market shaping to create a new/deeper supply capability
- Project pipeline management to better match supply and demand
- Supporting joint working amongst Authorities
- Economies of scale through shared facilities
- Reduced transaction costs through replicability
- Exercising public sector bulk purchasing power in relation to risk transfer negotiation

As an initial estimate, again across only a proportion of the overall infrastructure spend, market co-ordination could bring savings at least in the order of 1%. The potential savings from better coordination and sharing between public sector bodies are higher, as they could influence the quantum of infrastructure required, not just the cost of delivery. These have been assessed as in the 3-5% range, but are available over a lower proportion of the overall spend where there is genuine potential for sharing.

Cost of Finance

Financing costs can only be reduced where forms of project finance are implemented as described elsewhere. For future projects, use of bulk purchasing power to achieve finer terms of finance than a single Authority transaction, and techniques such as underpinned financings, should lead to savings of at least 1.5 – 2% for applicable projects. The concepts applicable to the housing sector demonstrate a potential there to improve on this level of saving, potentially at least in the 2.5 – 7.5% range.

[13] Analysis of 36 schools PPP projects (selected as a sample as good data is readily available) shows the impact on capital costs through time slippage during procurement alone was worth between 2.6-5%, or approximately £83 to £160m. Time slippage risk during construction is transferred for these PPP contracts.

These assessments take no account of any potential value released through organisational efficiencies.

Aggregating these areas of potential saving across applicable sectors gives an overall efficiency, or added value target, for SFT in the range of 3-5% of total infrastructure programme spend. This figure has been adopted as a reasonable working assumption for the Strategic Business Case.

Combining the estimates for SFT Costs and potential benefits demonstrates a potential for a benefit:cost ratio in excess of 20:1 - a significant contribution to Value for Money (VfM) in infrastructure investment across Scotland.

7.8. Capitalising SFT

Part of the proposal for SFT (Finance and Investment) is that potentially it has an investment fund which, for instance, it could use to co-invest in NPD projects, alongside private sector investors.

As SFT itself is to be run on NPD principles then any returns from those investments, above a pre-determined level, could either be reinvested in the fund and therefore cycled back into infrastructure investment, or they could be used to offset operating costs, or it may be possible in some way to cross subsidise SFT (Development and Delivery) activities.

The creation of the fund would likely be a one-off cost, the quantum of investment for public and private investors would reflect the desired size of fund apportioned between public and private sectors by the relative percentage holding in the proposed SFT LLP (in effect a joint venture). The public sector could invest assets, rather than funds, as its stake in the joint venture, but this approach raises some challenging policy issues.

A great deal of detailed work requires to be undertaken to scope and structure correctly this aspect of SFT. This level of detail is outwith the scope of this SBC, and so this analysis and development it is anticipated as being carried out as part of the detailed business planning stage for SFT F&I.

8. Implementation Planning

8.1. Overview

Implementation of SFT as needs to be considered at several levels:

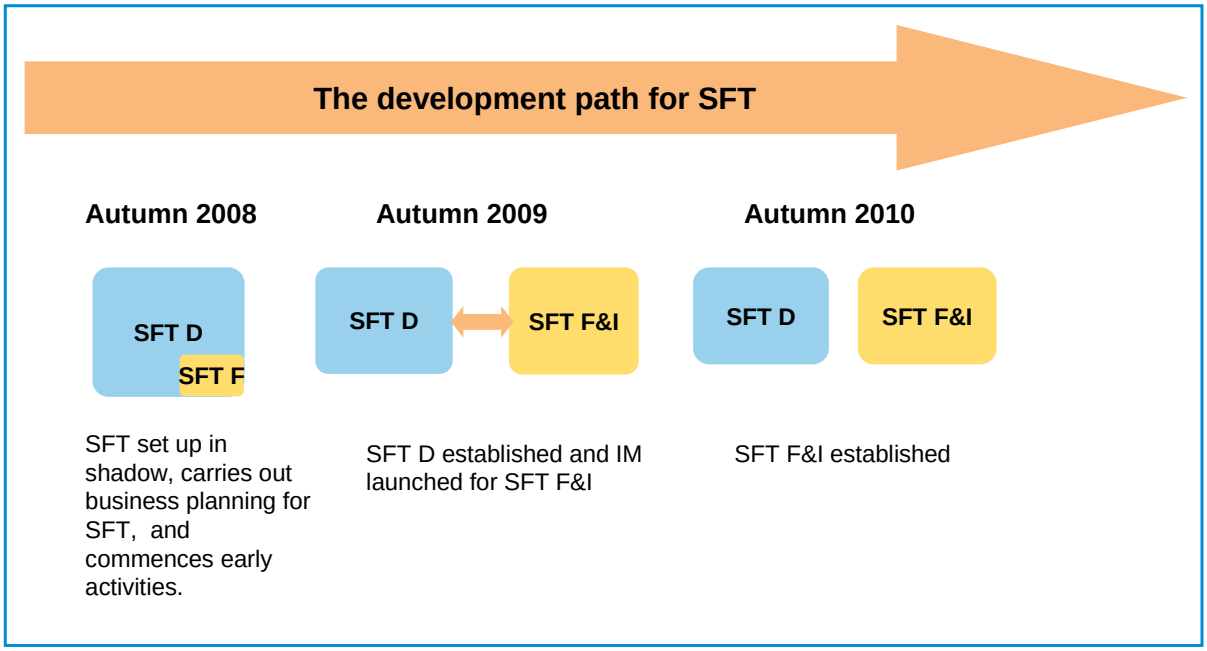
- The identification, launch and implementation of SFT as an initiative;
- The establishment of SFT as an organisation;
- The need for SFT, whilst it is in organisational development stages, to make its mark, and commence early activities in an effective manner.

8.2. The Development Path for SFT

Therefore there are a number of key milestones on the development path for SFT.

A detailed SFT implementation plan will require to be drawn up by the shadow SFT management team, however the development path for the SFT organisation (SFT Development and Delivery, and SFT Finance and Investment), and key milestone dates, are estimated as shown below.

Figure 9. Implementation of SFT



As can be seen in the above diagram the suggested SFT implementation plan is to first establish SFT and task it with the detailed business planning for its activities and SFT Finance and Investment.

The purpose of the SFT Finance and Investment launch would be to secure private sector investment to sit alongside public sector investment in order to capitalise SFT. This capitalisation could have several uses including creation of an investment fund in order to allow SFT to invest in projects, envisaged as being on an NPD basis.

8.3. Implementing SFT's Activities

As regards establishing the full range of SFT activities, this too will be developed over time. This reflects the immediate potential of some of the activities, whereas others will require more development and planning, and some would require legislative changes and further devolved powers.

This development path could be seen as three stages:

i) Early activities

ii) Development Scope

iii) Future Aspirations

So, in parallel with the organisational and corporate development path for SFT there are a number of early activities identified, which could be undertaken from autumn 2008.

8.4. Early SFT Activities

- Establish consolidated QA approach to procurement, including implementation of a major projects review group (for significant projects);
- Commence programme delivery of hub pathfinders, for community based infrastructure;
- Establish programme support arrangements for residual waste investment;
- Establish programme development arrangements for a future schools investment programme;
- Provide guidance, structuring and compliance for ongoing NPD PPP programmes;
- Commence development/delivery of an on-balance sheet Local Authority bond issue;
- Undertake further detailed development of innovative asset provision models;
- Commence development and piloting of a funding and aggregation model for the housing sector.

In the medium to longer term SFT may develop as follows:

8.5. Medium Term Development Scope

- Introduction of Underpinning for new NPD PPPs and associated funding aggregation (including competition of panel funding);
- Roll-out of a funding and potential aggregation model for the housing sector;
- If found to be deliverable, development and implementation of innovative asset provision models in appropriate sectors.

8.6. Future Development Scope

- Coordinator of Scottish Government bond issue;
- Advisor on Scottish finance policy in relation to infrastructure, including tax breaks for infrastructure bond investment and advising on impact of Eurostat accounting.

8.7. Stakeholder Support

The formal consultation process in relation to the Scottish Government's paper of December 2007 has largely run in parallel to the production of this SBC, however, the consultation process completed on the 14 March 2008 therefore allowing the SFT Delivery Team to review all the responses in order to inform this SBC.

The Delivery Team has not been tasked with any further stakeholder consultation in developing the Strategic Business Case though it is recognised that this will be required. Going forward a consultation and communication plan will be put in place by the shadow SFT management team in order to inform the detailed development of SFT and to ensure cross public and private sector support for it.

8.8. Implementation Risks

Drawing from the consultation responses and work carried out by the Delivery Team, a number of key implementation risks have been identified. A more detailed risk matrix will require to be developed reflecting SFT's implementation stages.

Table 4. Key Implementation Risks

Risk	Mitigation
Insufficient support from the public sector for SFT activities.	• Need to place SFT initiative within a strategic policy and stakeholder context. • Structured consultation and communication plan to be developed and implemented.
Failure to secure State Aid clearance for SFT's activities	• Early dialogue with legal advisers and State Aid specialists to ensure appropriate structuring and management of clearance process.
Lack of interest from private sector investors in SFT Finance & Investment.	• Appropriately structured market sounding and engagement. • Clear political leadership and a well scoped and presented market offering. • Clear communication strategy and information control. • Use of senior and appropriately qualified professional staff. • Detailed development work required to scope an appropriate structure and level of return. • Governance and management must be appropriate, with sufficient private sector influence over decision making.
Failure to recruit sufficiently senior and experienced professionals for SFT	• Clear mission and business plan • Performance and market based remuneration and incentive packages

Risk	Mitigation
Failure to capture organisational efficiency benefits	• Effective leadership of SFT and buy-in from cross public sector bodies. • Senior political support. • Linkage to wider SG efficiency policies and review.

8.9. Interfaces for SFT

In Chapter 2 the existing infrastructure delivery landscape was explained, and it is into this landscape that SFT has to fit, whilst providing the desired cross cutting overview of infrastructure investment across sectors and institutional boundaries.

The issue of interface management also reflects some of the responses to the consultation paper which identified a number of potential overlaps for SFT with existing bodies and functions. The initial analysis of this infrastructure delivery landscape suggests that SFT will relate to existing bodies in a number of ways:

- It may overlap or merge with them;
- It will have shared activities with them;
- It will require to liaise and consult with them.

Some of the existing organisations and the possible relationship with SFT is set out below:

Table 5. Relationship between SFT and Other Public Bodies

	Possible overlap/merger	Shared activities	Liaison and consultation
IIG			x
SGFPU (delivery)	x		
SGPFCU		x	
SG CCE		x	
PUK		x	
TS		x	
Scottish Enterprise & HIE			x
SGED		x	
SG waste (delivery)	x		
SG Housing (delivery)		x	
Local Authorities		x	
Public Procurement Reform Board		x	

8.10. Measuring Success

SFT's success over time will be measured against its detailed business plan. The initial business plan, and the annual versions thereafter will have to be agreed by Scottish Ministers, and SFT's management team will have to report the outturn against plan

As standard practice, performance of the SFT management team should be incentivised and measured against delivery of the business plan.

9. Recommendation and Next Steps

9.1. Recommendation to the Cabinet Secretary for Finance and Sustainable Growth

This SBC has set out the case for the establishment of a SFT initiative, whose delivery would be supported by the creation of a new SFT organisation.

If the proposals set out in this SBC are acceptable to the Cabinet Secretary, the following recommendations are made:

i) SFT should be established (there are a number of options for achieving this quickly) and it could then be tasked with commencing SFT business planning and early win activities;

   a) Establish a significant projects review group as a first step towards better quality and more consistent assurance of infrastructure investment;

   b) Commence programme delivery of hub pathfinders, for community based infrastructure;

   c) Establish programme support arrangements for residual waste investment;

   d) Establish programme development arrangements for any future schools investment programme;

   e) Provide guidance, structuring and compliance for ongoing NPD PPP programmes;

   f) Commence development/delivery of a Local Authority bond issue;

   g) Undertake further detailed development of innovative asset provision models in the appropriate sectors;

   h) Commence development and piloting of a funding and aggregation model for the housing and Further Education sectors;

   i) Coordinate and promote the development of tax incremental financing and asset backed vehicle models in the regeneration sector.

ii) Budget requires to be identified to support the creation and running of SFT;

iii) An Infrastructure Board for Scotland should be considered once SFT is established, possibly chaired by the Cab Sec, with board membership representative of the “delivery map” set out in this SBC. The IBfS would be an oversight board for the SFT initiative.

iv) Transition arrangements require to be considered as part of the business planning stage;

v) There are a number of private sector market interests affected by SFT. It may be beneficial for SFT if the Cab Sec could hold a series of meetings with key individuals and institutions.

Annex

Annex 1. Scotland's Infrastructure Need, 2008/9 to 2017/8

Body	Portfolio and Sector	Budget / Private / Aspiration	TOTAL 2008-09 to 2010-11, £m	TOTAL to 2017-18, £m	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
SG	**The First Minister**	B	79	79	23	27	29							
	Finance & Sustainable Growth													
SG	Rail Services in Scotland	B	790	2,450	280	255	255	255	255	230	230	230	230	230
SG	Concessionary Fares	B	7	14	5	1	1	1	1	1	1	1	1	1
SG	Other Public Transport	B	651	2,163	158	263	231	231	231	210	210	210	210	210
SG	Motorways & Trunk Roads	B	975	3,339	245	348	382	382	382	320	320	320	320	320
SG	Ferry Services - Vessels & Piers	B	36	132	7	14	15	15	15	13	13	13	13	13
SG	Air Services – HIAL	B	21	67	7	7	7	7	7	6	6	6	6	6
SG	Forth and Tay Bridges Authorities	B	40	70	21	15	5	5	5	4	4	4	4	4
SG	Freight Industry	B	39	125	13	13	13	13	13	12	12	12	12	12
SG	British Waterways	B	7	22	2	2	2	2	2	2	2	2	2	2
SG	Sustainable & Active Travel	B	18	58	6	6	6	6	6	6	6	6	6	6
PO	Private Sector	P	919	1,939	306	306	306	660	360	tbc	tbc	tbc	tbc	tbc
SG	Scottish Enterprise	B	133	133	52	39	42	-	-	-	-	-	-	-
SG	Highlands & Islands Enterprise	B	28	28	13	8	7	-	-	-	-	-	-	-
SG	RSA	B	129	129	43	43	43	-	-	-	-	-	-	-
SG	Energy	B	20	20	6	7	7	-	-	-	-	-	-	-
SG	Tourism	B	4	4	2	1	1	-	-	-	-	-	-	-
SG	Scottish Water	B	1,830	5,330	682	648	500	500	500	500	500	500	500	500
	Health & Wellbeing													
SG	Health Boards	B	1,222	1,222	498	388	336	tbc	tbc	tbc	tbc	tbc	tbc	tbc
SG	Hub budget	B	300	520	23	141	136	90	131	tbc	tbc	tbc	tbc	tbc
SG	Hub aspirational	A	154	359	4	24	127	104	101	tbc	tbc	tbc	tbc	tbc
PO	Health – PPP under construction	P	689	689	230	230	230	tbc	tbc	tbc	tbc	tbc	tbc	tbc
SG	Affordable Housing Investment Programme	B	705	705	178	251	276	tbc	tbc	tbc	tbc	tbc	tbc	tbc

Body	Portfolio and Sector	Budget / Private / Aspiration	TOTAL 2008-09 to 2010-11, £m	TOTAL to 2017-18, £m	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
SG	Modernising Private Sector Housing	B	41	41	10	15	15	tbc	tbc	tbc	tbc	tbc	tbc	tbc
SG	Central Heating Initiative/ Warm deal	B	134	134	45	45	45	tbc	tbc	tbc	tbc	tbc	tbc	tbc
SG	Regeneration Programmes	B	87	87	26	41	20	tbc	tbc	tbc	tbc	tbc	tbc	tbc
SG	Communities Scotland running costs capital elements	B	0	0	0	0	0	tbc	tbc	tbc	tbc	tbc	tbc	tbc
SG	LA grants for Affordable Housing	B	357	357	119	119	119	-	-	-	-	-	-	-
SG	LA grants for Assistance to Glasgow owners	B	45	45	15	15	15	-	-	-	-	-	-	-
SG	LA Private Sector Housing Grant	B	137	137	68	68	0	-	-	-	-	-	-	-
SG	LA Vacant and Derelict Land grant	B	36	36	12	12	12	-	-	-	-	-	-	-
PO	Private/ Other spend on affordable housing	P	282	282	71	100	111	-	-	-	-	-	-	-
PO	Modernising Private Sector Housing	P	36	36	1	15	20	-	-	-	-	-	-	-
PO	Regeneration - private sector	P	150	500	50	50	50	50	50	50	50	50	50	50
PO	LA Affordable Housing Investment - private spend	P	143	143	48	48	48	-	-	-	-	-	-	-
PO	LA assistance to Glasgow owners - private spend	P	15	15	5	5	5	-	-	-	-	-	-	-
PO	LA Private Sector Housing Grant - private spend	P	50	50	18	32	0	-	-	-	-	-	-	-
PO	LA Vacant & Derelict Land grant - private	P	30	30	10	10	10	-	-	-	-	-	-	-
SG	Additional housing spend to meet aspirations	A	720	2,400	240	240	240	240	240	240	240	240	240	240
SG	Sportscotland (Exchequer) - Building for Sport	B	18	18	5	5	7	n/a	n/a	-	-	-	-	-
SG	Sportscotland (Lottery) - Building for Sport	B	11	15	2	5	4	2	2	-	-	-	-	-
PO	Upgrading facilities	B	234	781	78	78	78	78	78	78	78	78	78	78
PO	New facilities	A	167	556	56	56	56	56	56	56	56	56	56	56
	Education and Lifelong Learning													
SG	SFC – Universities	B	277	942	87	95	95	95	95	95	95	95	95	95
PO	UK DIUS – Universities	P	80	248	25	29	26	24	24	24	24	24	24	24
PO	Research funding for universities - other	P	300	1,000	100	100	100	100	100	100	100	100	100	100
SG	SFC – Colleges	B	284	970	89	97	98	98	98	98	98	98	98	98
PO	Research funding for colleges - other	P	100	415	25	35	40	45	45	45	45	45	45	45

Body	Portfolio and Sector	Budget / Private / Aspiration	TOTAL 2008-09 to 2010-11, £m	TOTAL to 2017-18, £m	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
SG	SG - Other Education	B	27	27	9	9	9	0	0	0	0	0	0	0
LA	Schools – LA	A	0	2,800	0	0	0	400	400	400	400	400	400	400
PO	Schools - PPP under construction	P	1,102	1,125	660	303	139	23	0	0	0	0	0	0
	Justice													
SG	Courts	B	49	189	10	19	20	20	20	20	20	20	20	20
SG	Fire	B	84	259	34	25	25	25	25	25	25	25	25	25
SG	Police	B	80	220	19	28	33	20	20	20	20	20	20	20
SG	Prisons	B	331	1,171	86	118	127	120	120	120	120	120	120	120
SG	Other justice	B	3	10	1	1	1	1	1	1	1	1	1	1
PO	Prisons - Addiewell - private sector	P	80	80	80	0	0	0	0	0	0	0	0	0
	Rural Affairs and the Environment													
SG	Zero Waste Fund	B	8	8	0	4	4	-	-	-	-	-	-	-
SG	Other environmental protection, sustainable development and climate change	B	19	19	10	4	5	-	-	-	-	-	-	-
SG	Rural devel't & other	B	147	147	48	49	50	-	-	-	-	-	-	-
SG	Research, analysis & other	B	32	32	10	11	11	-	-	-	-	-	-	-
SG	Marine and fisheries	B	31	31	8	12	11	-	-	-	-	-	-	-
SG	Natural heritage	B	6	6	2	2	2	-	-	-	-	-	-	-
SG	Forestry Commission Scotland	B	14	14	3	5	6	-	-	-	-	-	-	-
SG	**Administration**	B	25	25	9	8	8	-	-	-	-	-	-	-
SG	**Crown Office & Procurator Fiscal**	B	20	20	6	7	7	-	-	-	-	-	-	-
SG	**Scottish Parliament & Audit Scotland**	B	10	10	3	3	4	-	-	-	-	-	-	-
LA	**Local Authorities**	B	1,243	2,280	825	357	61	519	519					

Body	Portfolio and Sector	Budget / Private / Aspiration	TOTAL 2008-09 to 2010-11, £m	TOTAL to 2017-18, £m	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	Total		**15,842**	**37,307**	**5,833**	**5,317**	**4,692**	**4,185**	**3,901**	**2,676**	**2,676**	**2,676**	**2,676**	**2,676**
	Totals by nature of spend													
	Budget	B	10,825	24,639	3,904	3,735	3,186	2,484	2,525	1,761	1,761	1,761	1,761	1,761
	Aspirational	A	1,041	6,116	300	319	422	800	797	696	696	696	696	696
	Private sector	P	3,976	6,552	1,629	1,263	1,084	902	579	219	219	219	219	219
	Totals by spending organisation													
	Scottish Government	SG	10,221	24,337	3,245	3,563	3,413	2,231	2,270	1,923	1,923	1,923	1,923	1,923
	Local Authorities	LA	1,243	5,080	825	357	61	919	919	400	400	400	400	400
	Private sector and Other	PO	4,377	7,890	1,763	1,397	1,218	1,036	713	353	353	353	353	353

Notes: This table includes aspirational spend and spending by Local Authorities, privately financed bodies and projects and therefore exceeds the capital budget allocation in chapter 3.

The approach to deriving these figures has led to an anomalous figure for LA investment in 2010/11. This is recognised but has not been resolved in the time scales available for the SBC.

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