Established in 2001, the PPP Forum is the private sector industry body for public private partnerships delivering UK infrastructure. The Scotland Group of the PPP Form meets on a regular basis with the Cabinet Secretary for Infrastructure, Investment and Cities and with the Scottish Futures Trust ("SFT") to discuss the Scottish Government's Infrastructure Investment Plan and, in particular, the Non-Profit Distributing ("NPD") Programme for delivery of economic and social infrastructure in Scotland. We have been asked to provide views on the success of the SFT in delivering its mission statement "to improve the efficiency and effectiveness of infrastructure investment and use in Scotland by working collaboratively with the public bodies and industry, leading to better value for money and improved public services". More specifically, we have been asked to comment on the following:

- the SFT’s role in securing additional investment;
- the SFT’s role in securing better value for money and improved public services;
- the SFT’s role in fostering innovation to improve outcomes;
- the SFT’s role in encouraging collaboration to improve efficiency;
- the SFT’s efficacy in securing better outcomes including job creation, training and apprenticeships, environmental sustainability, broader community benefits and digital connectivity; and
- any other comments we might have on the SFT’s work towards achieving its key aims.

The SFT’s role in securing additional investment

The SFT’s role in securing additional investment is exemplified by the panoply of innovative funding mechanisms it has developed and championed to achieve value for money since its establishment in 2009, in circumstances of constrained capital budgets. These include:

- the revenue financed NPD programme
- the revenue and capital financed hub community-based infrastructure programme
- the tax incremental finance programme ("TIF")
- the growth accelerator model ("GAM")
- the National Housing Trust model
City Deals

Each of these mechanisms is designed to accelerate infrastructure investment, provide wider economic benefits and complement and provide additionality to other capital spending (such as the Schools for the Future programme) and SFT’s role is to manage this "mixed market" of procurement routes to provide value for money in infrastructure investment. With particular reference to the ongoing £3.5bn NPD programme, SFT has promoted innovative financing structures which have attracted funding from commercial banks, the European Investment Bank ("EIB") and pension and insurance funds, together with sub-debt from project sponsors on a capped return basis. Recent NPD deals to close incorporating a combination of EIB, pension fund and commercial bank debt include significant infrastructure projects such as the £310m M8, M73, M74 Motorway Improvements Bundle; the £472m Aberdeen Western Peripheral Route (“AWPR”) / Balmedie to Tipperty Bundle; the £159m Royal Hospital for Sick Children / Department of Clinical Neurosciences; and the £203m Dumfries & Galloway Royal Infirmary Project. The scale of these projects has attracted international investors, such as Allianz, to the Scottish market.

The success of the NPD and hub programmes in attracting infrastructure investment to Scotland has been recognised by the industry awards SFT has received for the variety of procurement methods that it has promoted in the face of competition from equivalent central procurement agencies in other countries such as the National Development Finance Agency in Ireland, the Strategic Investment Board in Northern Ireland and Infrastructure UK in England and Wales. In addition, the Welsh Government, with SFT acting as consultants, is contemplating a £1bn NPD programme of hospitals, roads and schools projects using SFT’s template NPD project documentation, again a testament to the success of Scotland's NPD programme as a model for procuring community-based infrastructure.

The SFT’s role in securing better value for money and improved public services

As part of its mandate to co-ordinate major infrastructure programmes and to manage their delivery, SFT oversees the running of a funding competition for each NPD project to procure senior debt at the most competitive rate, whether from the commercial banks, multilaterals such as EIB, or the capital markets including pension funding and taking advantage of historically low interest rates. Likewise with the hub programme, the SFT ran a framework funder competition for each of the five hub territories, again to secure senior debt at the lowest margins and to facilitate delivery of the hub programme, appointing Aviva for the hub north, hub east central and hub west territories and Nord LB for the hub south east and hub south west territories with this framework funding leading to estimated savings of £20 million across the 18 projects to be financed.
The development of standard form contractual documentation for NPD and hub projects by SFT, allocating risk to the contracting party best able to manage that risk, and the policing of project specific changes to that documentation have led to reduced procurement periods for those projects and hence reduced costs for procurers and bidders.

The TIF and GAM funding mechanisms are designed to fund enabling economic infrastructure to attract third party investment into infrastructure and regeneration projects. Current examples include the Glasgow Buchanan Street TIF and the St James Quarter GAM where significant institutional investment from TIAA Henderson Real Estate has been attracted as a consequence of the initial pump-priming investment in public infrastructure.

Value for money and improved public services are achieved by projects being delivered on time and on budget, with assets being maintained on a whole life basis and then being handed back to the procuring authority at the end of the concession period, typically 20 to 25 years, with a prescribed residual useful life.

SFT is also engaged in a programme to review public private partnership projects entered into prior to the introduction of the NPD programme to ensure that those projects are being monitored and operated in accordance with their contractual terms (for example by making deductions from monthly service payments for poor performance to ensure the prescribed service standards are met) and to seek to achieve operational savings.

SFT is working with health boards, local authorities and colleges in an asset disposal programme to raise funding from surplus assets to fund future investment in Scotland's infrastructure with preferred bidders for the surplus Glasgow and Kilmarnock College sites due to be selected this year and with capital receipts of £20 million anticipated in its current financial year.

The SFT's role in fostering innovation to improve outcomes

We have already discussed the innovative procurement models promoted by SFT funding infrastructure projects out of revenue budgets over a fixed concession period to provide additionality when capital budgets are constrained and to ensure that investment in Scotland's infrastructure can be maintained. The SFT works with the public sector to encourage the use of these models to procure economic and social infrastructure and through its key stage review process it ensures that the necessary rigour is applied in scoping projects focusing on the provision of serviced assets.
The SFT's role in encouraging collaboration to improve efficiency

One of the founding tenets of the hub programme is to promote co-operation and collaboration between different public sector participants in each hub territory in procuring social accommodation to provide a range of community services from jointly managed premises. Just by way of example, in the hub north territory the Aberdeen Healthcare Village jointly procured by NHS Grampian and Aberdeen City Council provides in excess of 10 community services including:

- diagnostic provision;
- treatment services – such as minor surgery, podiatry, physiotherapy, speech and language therapy and dietetics;
- community dental services;
- sexual health;
- outpatient suite for community-based clinics;
- nurse practitioner-led minor illness service;
- meeting and learning space to accommodate voluntary sector, etc; and
- teaching facilities.

SFT’s "Schools for the Future" programme also promotes joint working between local authorities to save costs and to enable a greater number of schools to be provided for a finite amount of capital expenditure.

The SFT's efficacy in securing better outcomes including job creation, training and apprenticeships, environmental sustainability, broader community benefits and digital connectivity

Infrastructure projects, by their very nature, generate jobs, first in the construction of the asset, then in its operation and maintenance. Each NPD and hub project imposes contractual community benefit obligations on the service provider, for example to provide apprenticeships during construction and to provide jobs during operation, training opportunities for students at local colleges during construction and operation, etc. Regular updates are provided by the SFT's "hub dashboard" as to the benefits provided to the community, the September 2015 dashboard stating that the hub programme currently supports 8,411 jobs, 318 apprenticeships and trainee places and 93 graduate places.

NPD and hub programme assets are designed to provide broader benefit to the community, whether by co-locating services at particular facilities or by making assets available for community use, and facilitating greater access to those assets.
SFT produces on an annual basis a statement of “The Benefits of SFT’s Work” which is validated independently by Grant Thornton and the London School of Economics and this provides a concise summary of the benefits and impact of SFT's work.

**Any other comments you might have on the SFT’s work towards achieving its key aims**

Given the success of the NPD and hub programmes in delivering economic and social infrastructure on time and on budget, it is essential that a visible and viable pipeline of projects continues to be provided to allow contractors, sponsors and advisers to plan ahead to ensure that resource is available to bid for projects as they come to the market. An enhanced infrastructure investment plan, with greater clarity on procurement routes, with particular reference to NPD, would give the industry more certainty, in particular given the competition for funders and contractors that will be generated by the imminent Welsh NPD programme, the new programme of PPP projects being promoted by the National Development Finance Agency in the Republic of Ireland (which was announced on 29 September this year) and the circa £400 billion of major capital projects in England such as Thames Tideway and the Silvertown Tunnel in London, the next generation of nuclear power stations, HS2 and Crossrail anticipated over the next five years.

Future major transport projects to be let by Transport Scotland, including the A82, A9 and A96, would benefit from greater clarity as to the proposed procurement route again to allow investors and contractors to plan for these opportunities.

The hub programme has achieved a commendable level of visibility as to future pipeline with a detailed schedule on SFT’s website setting out the stage that each hub project sits in its procurement journey divided into those where construction has been completed, those currently in construction, those in development and those which are qualifying projects and specifying whether they are to be funded out of capital or revenue budgets. The current NPD programme pipeline is also detailed on SFT's website allowing bidders to plan ahead accordingly.

A number of Design, Build, Finance and Maintain ("DBFM") projects have been delayed across the five hub territories as a consequence of a change in approach to classifying infrastructure projects in the form of public private partnerships arising following the introduction of the European System of Accounts ("ESA 10") rules in September 2014, and this has also impacted on the NPD programme. The Office for National Statistics ("ONS") is currently considering a number of changes to the hub DBFM structure proposed by SFT
to address the introduction of ESA 10 and to achieve a private sector classification for these DBFM projects. Once this classification has been achieved and the ONS has agreed these changes, it will be incumbent on SFT to promote an orderly market in terms of the timing of the financial close of the delayed DBFM projects, in particular given that there are only two framework funders for those projects, Aviva and Nord LB. This independent programme management role will ensure that the market participants in each territory buy in to the timetable for financial close for each of the outstanding DBFM projects.