

SCOTTISH FUTURES TRUST

Kenneth Gibson MSP
Convener
Finance Committee
Scottish Parliament
Edinburgh, EH99 1SP

Dear Kenneth,

Scottish Parliament Finance Committee – Scrutiny of the Draft Budget 2014-15 Further Information from the Scottish Futures Trust - 30 October 2013

Thanks to the Committee for taking evidence from the Scottish Futures Trust as part of your 1024/15 budget scrutiny. Members asked for various items of follow-up information and I am pleased to be able to provide those to you:

1. 2012-13 Outturn

[3180]

The figure quoted to the committee of “in excess of £30 million of additionality” related to NPD construction and NHT house acquisition. It does not include the full effect of NPD design and development work that would normally be funded out of capital budgets. As discussed with the Committee, this work has been driving significant activity for designers and engineers in 2012-13 and the first half of 2013-14. Given the different nature of NPD funded projects to those funded with capital – where we are not writing cheques for this work now, but will pay a unitary charge in the future - we will have to assess across the projects being designed what value of work has been completed. This assessment is being undertaken currently with the assistance of an independent cost consultancy to build a complete picture of the total capital equivalent value generated through the NPD programme. I anticipate that this work will be completed by end November and we will forward the outcome to the committee.

2. European Comparators

[3185]

In my letter to the Finance Committee of 5 February 2013, I provided a detailed comparison of Scotland’s NPD programme with those across Europe. In summary, that showed that at an annual average of £150 per head of population over the coming years, Scotland’s NPD programme is comparatively larger than the historic market leader, France which closed an average £82 per head of population per annum over 2010-12. Behind France, the next five countries had averages of between £12 and £45 per person per annum. We have checked

more recent information with France and the Netherlands being the two most active countries with £57 and £56 per person respectively in 2012 (see Annex A).

3. Jobs Supported [3186]

Various different methodologies exist for estimating the number of direct and indirect jobs created by construction projects. Given the breadth of different sectors and project types across the programme, it is most instructive to use a high-level estimate based on the total programme value and duration. Scottish Government input-output statistics suggest an average in excess of 6,500 jobs supported through the 5-years of significant construction activity 2013-14 to 2017-18, around 4% of the total Scottish construction workforce.

4. Greenfaulds High School [3187]

The Greenfaulds high school was announced in September 2012 as part of Phase 3 of the Scotland's Schools for the Future Programme. Our current published pipeline document shows that the projects is in the hub programme development phase and is expected to reach financial close in the 2nd quarter of 2014.

5. Example of SME Engagement [3188]

SMEs have delivered the great majority of construction activity across the schools completed to date in the Scotland's Schools for the Future Programme. Across the two pilot schools in Lasswade and Eastwood, 94% of work packages by value have been awarded to SMEs within 50 miles of the site. 145 jobs have been created, with 61 of those created in SME companies within the council boundary of each project. Further information is in Annex B.

6. Capital Profile Changes [3191]

Members asked how much of the profile change in 2013-14 is down to things just taking longer than anticipated and how much of it is genuinely down to cost savings. As discussed with the Committee, projects in procurement have moved forward at speed and the early projects are performing well against their milestones published in outline and full business cases. Projects have taken longer in the pre-procurement phase which is a critical phase for avoiding subsequent cost creep.

Mr Swinney in his evidence on 4th November expressed that the balance will be more to do with delay than with savings and I explained to the Committee that separating the two is very difficult as project preparation and cost management are inextricably linked. In a case where project preparation takes longer than anticipated, in order to achieve greater certainty on specification and avoid cost increases, the forecast capital profile changes because the construction activity is later than anticipated, and less overall than it would have been had the intervention not been made.

Further information from Audit Scotland, in its Review of Major Capital Projects in Scotland¹ suggests an average cost growth between initial approval and contract award of around 12% for projects completed between 2002 and 2007. Good project preparation has avoided such growth, with the two college projects closed in 13-14 contracted for under their initial approval cost estimates, showing a significant saving of over £28m compared to the historic average of cost growth.

7. 2013-14 First Half Year

[3193]

Following completion of the assessment discussed in Section 1, I will be able to report to the Committee our estimate of the full capital equivalent value of work undertaken in the first half of 2013-14.

8. Project Dates

[3193]

The programme for projects reaching Financial Close is included in the pipeline document published by SFT, the latest version of which was appended to the written submission. In summary, it shows the following eight projects programmed to reach financial close by the end of 2013-14: M8/M73/M74 motorway bundle, Maryhill and Eastwood health centres bundle, NHS Lanarkshire health centres bundle, Ayrshire College, Wick high school, Brechin high school, James Gillespie's high school in Edinburgh and Alford community campus.

I hope this further information is useful to Members in their scrutiny of the 2014-15 Draft Budget, and will forward the results of the ongoing assessment discussed in Sections 1 and 7 as soon as it is complete.

Yours sincerely



Barry White
Chief Executive

¹ http://www.audit-scotland.gov.uk/docs/central/2008/nr_080624_major_capital_projects.pdf



Annex A European PPP Deals

Country	£m per head population
France	57
Netherlands	56
UK	39
Ireland	30
Belgium	21
Spain	17
Portugal	5
Italy	3
Germany	2

£m per head of population – Value of infrastructure PPP deals closed in 2012 per head of population

From European PPP Expertise Centre data.

Annex B Scotland's Schools for the Future Community Benefits

			Eastwood High School	Lasswade Community Campus, Midlothian
				
Status			Completed	Completed
Completion			2Q 2013	2Q 2013
Project Value			£28,962,207	£36,648,233
Local Authority			East Renfrewshire	Midlothian Council
SME CONTRACT AWARDS	Value of subcontract work awarded to Local SME's Within 50 Miles	%	94%	94%
	Value of subcontract work awarded to Local SME's Within Council Boundary	%	30%	34%
	Value of subcontract work awarded to National SME's Within Scotland	%	97%	95%
New Jobs	Nr of New Jobs Created Within 50 Miles	Nr	74	71
	Nr of New Jobs Created to Local SME's Within Council Boundary	Nr	39	22
Training & Education	Work Placement (14-19 years)	Days	66	TBC
	Work placement (College/Uni Student)	Days	14	TBC
	Visits By Schools To Site (Pupil numbers)	Nr	70	112
	Graduate Recruitment	Nr	2	2
	Apprentice/Trainees supported by New projects	Nr	9	6