United Kingdom - Scotland

PPP Units and Related Institutional Framework

European PPP Expertise Centre

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1. Introduction - United Kingdom

The United Kingdom has historically been one of the largest markets for PPPs worldwide. However, within the United Kingdom, PPPs have been used in very different ways and at different levels of intensity.

The first PPP projects were started in the early 1990s and, despite changes of government, there was a steady increase in their use throughout that decade, with most activity being branded under the Private Finance Initiative (PFI). In addition to the PFI, the UK also makes significant use of other types of PPP, such as joint ventures, concessions and information and communication technology (ICT) PPPs. Consequently, the number and value of closed PPP projects remains high by international standards.

Post-1997 much of government policy was devolved, to varying degrees, to Scotland, Wales and Northern Ireland. Therefore, although HM Treasury (which, for comparison purposes, in fact serves as both a ministry of finance and ministry of the economy) retains overall control over tax and spending levels, the choice over how most of the money is spent within the devolved areas, and the procurement route chosen, is a matter for the relevant devolved administrations. This has led to significant differences in approach within the UK and also in how PPPs are used.

The EPEC "PPP Unit" reports for the UK are therefore structured to reflect these key differences:[1]

- for **England** and areas of spending that are not devolved (defence and some aspects of energy policy), the report illustrates the role of the PPP unit within Infrastructure UK (IUK), which is part of HM Treasury, in coordinating PPP policy for those areas for which it is responsible and its relationship with other key entities during the project cycle. It also sets out the history of the PFI prior to devolution;
- for **Scotland**, the report focuses on the work of the Scottish Futures Trust and its relationship with other key entities within Scotland and, where appropriate, the relationship with IUK and HM Treasury; and
- for **Northern Ireland**, the report focuses on the work of the Strategic Investment Board and its relationship with other key entities within Northern Ireland and, where appropriate, the relationship with IUK and HM Treasury.

It should be noted that in all areas of the UK there has been significant devolution to local/municipal level. This means that local authorities play a key role in the procurement of PPPs.

This report deals with Scotland and has the following structure:

- Section 2 gives an introduction to PPPs in Scotland
- Section 3 sets out the PPPs conducted in Scotland to date;
- Section 4 describes the role and structure of the central PPP unit;

[1] For **Wales**, a report on the work of the Welsh Assembly Government and its relationship with other key entities within Wales and, where appropriate, the relationship with IUK and HM Treasury, has not been produced.

- Section 5 presents the role of other key public sector entities in PPPs;
- Section 6 sets out the legal framework for PPPs; and
- Section 7 provides an overview of the project cycle.

The report contains five annexes:

- Annex 1 provides an overview of the role and responsibilities of the central PPP unit in a template format;
- Annexes 2 and 3 provide an outline of two key PPP delivery models in Scotland;
- Annex 4 sets out part of the pipeline for PPP projects; and
- Annex 5 contains an overview of key macroeconomic indicators for the UK.

Glossary of Key Terms for the UK PPP Unit Reports

Private Finance Initiative (PFI) – PFI is the most common type of PPP used in the UK since the early 1990s. These are long-term contracts (typically 20-35 years) where the private sector constructs the project's assets (for example a building) and raises the required funding, usually on a project finance basis (i.e. where contractual payments from the public sector represent the primary security for funders).

Revenue Expenditure (also called Resource) and Capital Expenditure – government spending in the UK is often divided into revenue and capital as an accounting and budgeting tool. Revenue relates to spending on items that are consumed in the process of providing public services i.e. recurring spending, whilst capital relates to expenditure on fixed capital assets, capital grants and the acquisition of certain financial assets.

Standardisation of PFI Contract (SOPC) – SOPC is the standard contract on which most PFI contracts are based. SOPC is used, to varying degrees, as the basis for PPP contracts across the UK.

Green Book – This is the standard guidance document for evaluating projects issued by HM Treasury.

OGC (Office of Government Commerce) Gateway Review – a standardised review process based around the Green Book.

SOC/OBC/FBC (Strategic Outline Case, Outline Business Case, Final Business Case) – Stages of business case development largely standardised across the UK with some local/departmental variations. Business cases present the different options available and eventually the characteristics of a chosen project. This information is used to justify a project going ahead and consequently the successful presentation of these business cases is often linked to the approval process.

2. Introduction - Scotland

2.1. Introduction

Scotland has been at the forefront of the PPP market since the concept was introduced in the 1990s. PPP policy and guidance is determined by the Scottish Government in Scotland. However, the general PPP principles have historically followed those of the Standardisation of PFI Contracts (SOPC) used elsewhere in the UK[2]. More recently, Scotland has pursued a non-profit distributing (NPD) PPP structure, which was established to deliver a "regulated" return to the private sector and better value for money for taxpayers. The NPD and *hub* models are described in more detail in Annexes 2 and 3.

2.2. Early PPP History

Prior to devolution in 1993, the UK Government's Scottish Office developed PPPs with health boards and local authorities for hospitals, schools, roads and waste water treatment plants. The use of PPPs for social infrastructure was in line with the rest of the UK.

Following devolution, the then Scottish Executive pursued PPPs for social infrastructure and roads, with a greater proportionate investment than England (in particular in schools). A small PPP unit within the Scottish Executive developed PPP policy as a devolved matter from the UK Government but broadly followed UK guidance produced by HM Treasury.

2.3. Current Situation

Following a change in government in 2007, the Scottish Futures Trust (SFT) was established in late 2008 to deliver best value in infrastructure investment across Scotland. SFT's primary focus is on delivering this through efficiency gains at programme and project levels and on enabling innovative funding solutions.

SFT is not only concerned with the delivery of PPP projects. It also aims to utilise as many financial tools as is appropriate for individual projects and programmes. SFT seeks to promote/develop alternative funding and financing structures, such as "Tax Incremental Financing" (TIF), the "National Housing Trust" (NHT), the NPD and the "*hub*" initiative. The *hub* initiative sees public sector organisations within a defined territory working in partnership with each other and with a private sector delivery partner with whom they will form an institutional PPP.

SFT also seeks to leverage European financing into projects and is currently exploring the use of JESSICA (Joint European Support for Sustainable Investment in Inner City Areas), an initiative known as the SPRUCE fund in Scotland (Scottish Partnership for Regeneration in Urban Centres), which will support a range of

[2] This is set out in more detail in Section 6 and the UK-England PPP Unit Report.

regeneration, renewable and energy efficiency projects in selected local authority areas. In particular, SFT is seeking to use SPRUCE financing to deliver streetlighting projects.

3. PPP Market in Scotland

3.1. Signed PPP Projects

As shown in Figure 1, Scotland has signed 93 PPP contracts to date, four of which have expired, i.e. reached the end of the initial contract, and a further four are for projects currently in their construction phase. The 93 projects cover a number of sectors such as education, health, wastewater and roads.

Figure 1 - PPP Deals by Status

	No. of Projects	Capital Value (GBP m)
Expired	4	25
Operational	85	5,724
Signed	4	436
TOTAL	93	6,185

Source: Scottish Government, October 2011

As shown in Figure 2, the vast majority of deals thus far have used the UK-wide Private Finance Initiative (PFI) model. This is likely to change as the NPD and *hub* models are rolled out and projects reach financial close.

Figure 2 - PPP Deals by Model

	No. of Projects	Capital Value (GBP m)
PPP/PFI	88	5,729
NPD	5	456
TOTAL	93	6,185

Source: Scottish Government, October 2011

As with the wider UK, the main procuring entities for PPPs have been health bodies and local authorities (as shown in Figure 3) reflecting the predominance of PPP projects involving hospitals and schools.

Figure 3 - PPP Deals by Procuring Entity

	No. of Projects	Capital Value (GBP m)
Education	1	9
Health	31	1,332
Local Authorities	45	3,585
Other Public Sector	1	3
Scottish Executive and Agencies	5	663
Police	1	17
Water & Sewerage	9	576
TOTAL	93	6,185

Source: Scottish Government, October 2011

As shown in Figure 4, although the majority of projects are in the school and health sectors, Scotland has also used PPPs to pursue projects in other areas of infrastructure (e.g. prisons and roads).

Figure 4 - PPP Deals by Type

	No. of Projects	Capital Value (GBP m)
Colleges	1	9
Hospitals	29	1,329
Health (non-hospital)	2	3
Schools	38	3,400
Prisons	2	112
Transport	4	612
Waste water	9	575
Waste management	2	47
Waste to energy	1	43
ICT	3	22
Other	2	32
TOTAL	93	6,185

Source: Scottish Government, October 2011

3.2. Pipeline

Overall spending on infrastructure is under significant pressure in Scotland. The Scottish Government receives funding from the UK Government in two main budget categories. Capital budgets fund investment in infrastructure and other assets and revenue budgets fund on-going service delivery. The capital budget available to the Scottish Government will fall by nearly 50% in real terms from a peak of GBP 4 billion in 2009/10 to around GBP 2.1 billion in 2013/14 (at 2010/11 prices).

Despite this challenging fiscal environment, Scotland has a strong PPP pipeline with a value of GBP 2.5 billion covering the health, education and transport sectors. These projects will be largely funded from the Scottish Government's central revenue budget but be procured via local authorities (schools and "*hub*" projects), health boards, college boards and other public bodies such as Transport Scotland (known as "revenue funded" projects). Procuring authorities are expected to fund certain aspects of the PPP payments (e.g. facilities management and lifecycle maintenance). The pipeline of projects can be found on SFT's website[3] and is summarised in Annex 4.

[3] www.scottishfuturestrust.org.uk

Waste PPPs continue to be procured by local authorities and are expected to represent a further GBP 620 million of investment in PPPs in Scotland (see Box 1 and Figure 5).

In SFT's view, sustainable infrastructure investments are important to economic recovery and the delivery of such infrastructure can be made via a number of means. SFT uses several project delivery models such as the NPD, PFI, *hub* and the National Housing Trust.

Box 1 - Waste PPPs in Scotland

The requirements of the EU's Waste Framework Directive and the Scottish Government's "Zero Waste Plan" will require a significant amount of new waste processing and treatment infrastructure in Scotland. A key aspect of the Scottish Government's policy with regard to waste is the introduction of a landfill ban from 2020. This, coupled with the increasing cost of landfill tax, will require all of the 32 local authorities in Scotland to have access to residual waste treatment capacity in the near future. It has been estimated that approximately GBP 1 billion of investment will be needed over the next ten years in Scotland alone.

SFT works closely with the Scottish Government, COSLA (Convention of Scottish Local Authorities), SOLACE (Society of Local Authority Chief Executives) and Zero Waste Scotland to develop initiatives that support delivery of new waste treatment services at a local level. One example of this is the Food Waste Programme where, working in partnership with Zero Waste Scotland, SFT is supporting local authorities to deliver new food waste collection and treatment services.

Many local authorities in Scotland are seeking to procure such services under a PPP contract. However, unlike the waste programme in England, there is no supported borrowing from the Scottish Government.

A summary of the current pipeline of residual and food waste PPP projects that SFT is supporting is given in the table below. In addition to the projects listed, there are other possible PPP projects for residual waste in Aberdeen, Dundee and other major conurbations in Scotland but these are still at an early stage of development.

Figure 5 – Pipeline of Waste PPPs in Scotland

Local Authority	Value (GBP m)	OJEU	Construction Start/Period
Glasgow City	150	Dec 2009	2015/16
West Lothian	50	Feb 2010	2015/16
Edinburgh & Midlothian Food Waste	20	Feb 2011	2015
Edinburgh & Midlothian Food Waste	150	Dec 2011	2017
North, South & East Ayrshire	100	Autumn 2012	2018
Clyde Valley	150	Autumn 2012	2018

4. Central PPP Unit

4.1. History

The Scottish Futures Trust (SFT) was established in September 2008 by Scottish Ministers to improve the efficiency and effectiveness of infrastructure investment in Scotland in general, not just PPPs. It was set up to work collaboratively with public bodies and commercial enterprises, thereby leading to better value for money and providing the opportunity to maximise investment in Scotland. SFT appointed its first Chief Executive in 2009.

SFT's role includes the delivery of PPPs but also covers non-PPP projects such as the procurement of housing and schools by local authorities in Scotland.

SFT's effectiveness is monitored through an independently verified benefit statement, which identifies the annual savings realised in infrastructure investment and asset management activities directly attributable to SFT's work[4]. In 2010/11 SFT delivered savings and benefits of GBP 129 million (net of operating costs), which represents a 16% increase on the GBP 111 million in savings it made in 2009/10.

[4] The primary financial target of SFT is to release between GBP 100 million and GBP 150 million each year for increased investment in infrastructure (based on 2009/10 levels of spending) net of its own GBP 5 million budget.

Figure 6 - History of SFT

Sep 2008	SFT established
May 2009	Chief executive appointed
Aug 2010	First *hub* territory established (South-East *hub* territory)
Sep 2010	First benefit statement issued (GBP 111 million net savings and benefits reported)
Sep 2010	First phase of National Housing Trust launched
Nov 2010	Scottish Government announce SFT to deliver GBP 2.5 billion revenue funded pipeline
Mar 2011	First project using Tax Incremental Financing granted full approval
Nov 2011	Second phase of National Housing Trust launched
Dec 2011	First Non-Profit Distributing project to enter procurement

4.2. Tasks

SFT's key objectives over the infrastructure investment cycle are to[5]:

- improve value for money in infrastructure investment;
- identify common ground and broker and improve collaboration among public bodies;
- innovate and bring fresh approaches and models for infrastructure investment in Scotland;
- act as a focal point for public sector infrastructure investment in Scotland;
- act as a central development/delivery vehicle where this is appropriate;
- seek and promote opportunities for appropriate aggregation or common approaches to aspects of infrastructure investments; and
- identify and implement opportunities to reduce the cost of funding for infrastructure.

[5] According to SFT's Management Statement and Financial Memorandum, October 2009.

SFT is active in many areas of infrastructure delivery, not just PPPs, as described below:

- Housing - The National Housing Trust (NHT) funds affordable housing over a five to 10-year period using a mixture of government guaranteed local authority debt and private sector equity. The initiative has been designed to deliver affordable housing when traditional capital budgets for housing are constrained. NHT also aims to aid the economy and keep people in jobs, particularly in the construction industry, by enabling developers and house builders to kick-start construction on stalled developments. The NHT initiative involves homes being purchased jointly by a local authority (debt) and private sector developer (equity), under a Limited Liability Partnership (LLP) structure, and rented out for a fixed period. As well as purchasing completed units, the model also envisages the provision of management and maintenance services during the proposed rental period. The properties will be sold between years five and 10 of the rental period and the proceeds will repay the up-front funding of the initiative and provide returns. Phase 1 of the NHT initiative is expected to see around 600 homes delivered, 16 homes have already been built.

- Tax Incremental Financing (TIF) - TIF enables local authorities to borrow to fund infrastructure projects and repay this borrowing through the capture of incremental non-domestic business rates generated as a result of private sector investment that has arisen in response to the public sector infrastructure investment. TIF is used frequently in the United States to fund regeneration projects. SFT has developed the approach in Scotland and is currently working with seven pilot projects, which are expected to contribute to regeneration and growth across seven local authority areas. The GBP 400 million of TIF public expenditure is expected to enable private sector investment of over GBP 2 billion.

- Schools - SFT is working with the 32 local authorities in Scotland to drive forward the Scottish Government's GBP 1.25 billion "Scotland's Schools for the Future" programme (GBP 450 million of which will be delivered under the GBP 2.5 billion revenue funded pipeline via the *hub* initiative). SFT's role is to manage the programme to help local authorities achieve the best value for money for their investment in new schools. SFT has also completed a "lessons learnt" exercise to review design in Scotland's recent secondary schools. This is the first in a series of reviews that promote information sharing and best practice.

- Renewable energy - The Scottish Government has indicated a commitment to generating 100% of the country's electricity needs from renewable sources by 2020. There is therefore significant interest in the development of Scotland's potential for renewable energy. SFT and COSLA are exploring ways to support local authorities in the development of renewable energy projects. This follows a change in legislation which has enabled Scottish local authorities to sell electricity from specific renewable sources. In June 2011, SFT and COSLA published a report on "the commercial aspects of local authority renewable energy production". SFT is also currently developing two streetlighting business cases. Finally, SFT is exploring the use of the SPRUCE fund for these projects should the business cases be accepted. SPRUCE is a source of funding for regeneration and energy efficiency projects across 13 eligible local authority areas. It seeks to lever significant co-investment from the public and private sectors.

- Asset management - Given the economic challenges and growing need for savings in the public sector, SFT aims to foster a comprehensive approach to Scotland's public sector property asset management (across the central and local estate) to minimise costs and maximise value.

Overall, SFT currently leads or supports a portfolio of projects to the value of around GBP 9 billion. SFT's current priorities are the delivery of the GBP 2.5 billion NPD and *hub* PPP pipeline, to pilot a new asset management approach and to develop improved ways of managing risk and contingency in projects.

4.3. Coverage

SFT provides support and advice to all levels of government, both central and local, and across all public agencies involved in the delivery of infrastructure in Scotland. This involves working with the Scottish Government, local authorities, National Health Service (NHS) Boards, the Scottish Further and Higher Education Funding Council and Transport Scotland.

4.4. Role of the Central PPP Unit in the Project Cycle

SFT acts across all phases of the infrastructure investment cycle: needs identification, options investigation, investment appraisal, procurement, financing, design, construction, lifecycle management/maintenance, and asset management/disposal, with a particular focus on planning, financing, procurement and asset management.

4.5. Location

For policy/administrative purposes, SFT is classified as a public corporation. Its expertise is, however, derived from the private sector. The Scottish Ministers are ultimately accountable to the Scottish Parliament for the activities and performance of SFT.

SFT's sponsoring division within the Scottish Government is the Infrastructure Investment Unit (IIU), which is part of the Finance Directorate. The IIU is the primary source of advice to Scottish Ministers on the discharge of their responsibilities in respect of SFT. SFT has full operational independence.

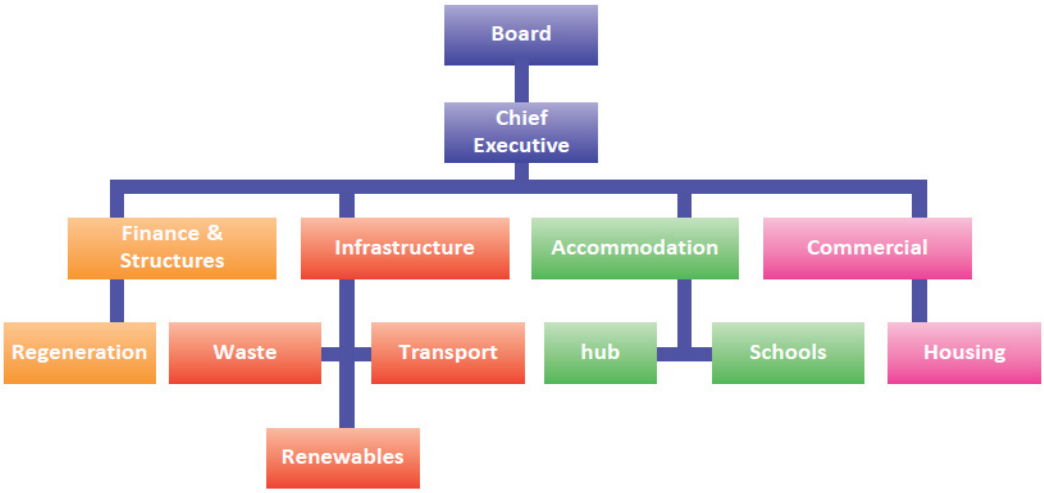
SFT's offices are in Edinburgh; however, it provides support nationally, working closely with local authorities and public agencies across all areas of Scotland.

4.6. Organisational Structure and Governance

SFT organisational structure

SFT's organisational structure is illustrated in Figure 7. SFT is governed by a Board (appointed by Ministers, see below). A Chief Executive assumes overall operational responsibility for SFT's work streams and staff.

Figure 7 - SFT Organogram



Staffing

As at January 2012, SFT had a team of around 29 permanent and nine non-permanent members of staff. The team, drawn from public and private sector backgrounds, has a range of technical, legal and financial skills, and brings commercial expertise in infrastructure financing, procurement and delivery into the public sector.

SFT uses secondees from the public and private sectors to augment internal experience and add specific skills and capacity as required. It also aims to build experience in relevant public sector organisations through strategic inward secondments (SFT currently has three secondees working in its office and project offices).

SFT's staff are deployed in four main teams: *accommodation* (including schools, *hub* and asset management); *infrastructure (*including transport, waste and renewables); *housing* (including NHT and other delivery models) and *finance and structures* (including NPD and TIF).

Governance

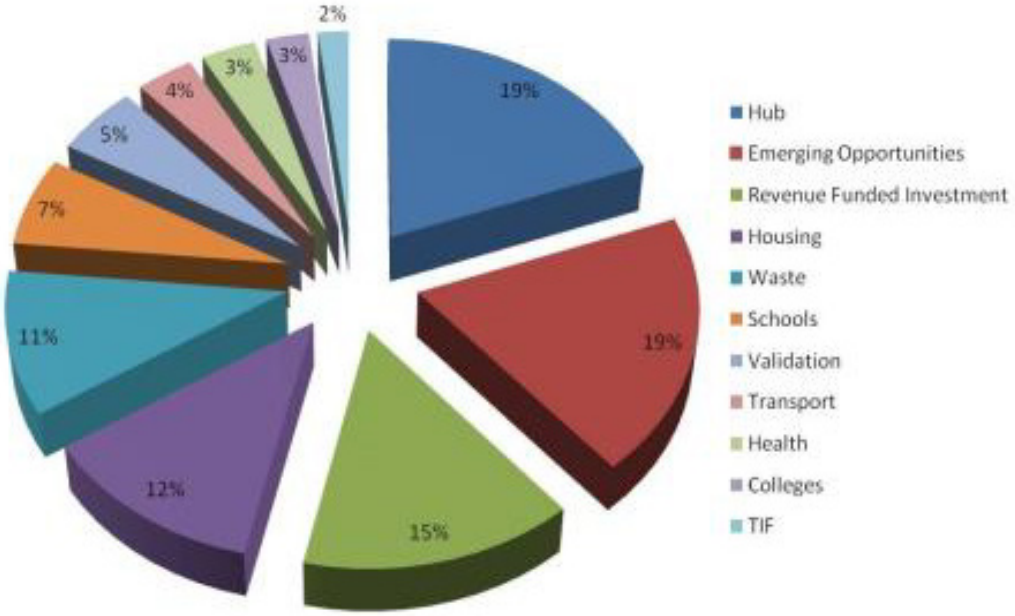
SFT is bound by the terms of its memorandum and articles of association and is governed by the Board, which has seven members: a non-executive chairman, four non-executive directors, the Chief Executive and the Director of Finance. The Board also has audit and remuneration sub-committees. The Board has experience of the public and private sectors and is presided over by the Chairperson who is appointed by Scottish Ministers and acts as principal spokesperson for SFT.

The Chief Executive establishes SFT's corporate and business plans and proposes to the Scottish Government an annual plan for service delivery. The Chief Executive leads the executive team in delivering its remit of improving value for money in infrastructure investment in Scotland.

4.7. Funding

Funding for SFT services forms part of the Scottish Government's resource budget. Each year SFT publishes its annual business plan, setting out its priorities for the year based on its corporate plan and policies/priorities in relation to infrastructure investment. The business plan is developed independently of government. SFT has full authority to incur costs within its set budget. Staff members are employed by SFT and are not civil servants. SFT's budget for 2011/12 amounts to GBP 5.5 billion and is broken down as follows:

Figure 8 - SFT Budget (2011/12)



5. Key Entities in the PPP Framework

Institutional responsibilities for PPPs in Scotland are shared between different bodies.

5.1. Infrastructure Investment Unit

The Infrastructure Investment Unit (IIU) is part of the Scottish Government's Finance Directorate and co-ordinates analysis and advice to Ministers on public sector infrastructure investment. The key functions of the IIU include sponsorship of SFT, policy advice to Ministers on the "Infrastructure Investment Plan" (see Section 7), acting as secretariat to the Infrastructure Investment Board (IIB), and management of the database of infrastructure projects. In carrying out its role, the IIU works closely with other Scottish Government directorates, particularly those with major capital expenditure responsibilities, and with other public bodies as well as with SFT.

The Minister responsible for the IIU is the Cabinet Secretary for Infrastructure and Capital Investment.

5.2. Infrastructure Investment Board

In response to recommendations from Audit Scotland and the Public Audit Committee on major capital projects, the Infrastructure Investment Board (IIB) was established in Scotland to take on an executive role in infrastructure governance, working alongside individual portfolio investment boards.

The key functions of the IIB, which reports directly to Audit Scotland and the Public Audit Committee, are to:

- provide strategic scrutiny of high-value major infrastructure projects at an early stage;
- use management information to review the governance and delivery of the capital programme, including the "Infrastructure Investment Plan", and, where appropriate, specific major projects;
- provide advice to Scottish Ministers about capital investment priorities to inform decision-making;
- review portfolio-level governance and decision-making structures; and
- explore options for implementing new financing models (working with SFT).

All Scottish Government-funded infrastructure projects fall within the remit of IIB, with the exception of those undertaken by local government and Scottish Water.

The IIB provides senior level scrutiny and challenge, for example, by seeking to understand major variances in particular projects and ensure that appropriate remedial action is taken. In parallel, IIB periodically reviews the governance of individual elements of the programme, to satisfy itself that arrangements are robust and, where relevant, make recommendations for improvement.

The IIB has a senior "corporate membership" of eight permanent members:

- the Director General Finance (Scottish Government);
- the Director of Commercial and Procurement (Scottish Government);
- the Deputy Director of the Infrastructure Investment Unit (Scottish Government);
- the Director General Communities and Governance (Scottish Government);
- a senior economist nominated by the Chief Economic Adviser (Scottish Government);
- the Chief Executive of Transport Scotland;
- the Chief Executive of the SFT; and
- one non-executive member of the Strategic Board.

5.3. Individual Government Departments

Employability, Skills and Lifelong Learning Directorate

This Directorate forms part of the Scottish Government's Learning & Justice Division. It is responsible for Scottish Government policy on all aspects of learning that take place after individuals leave school (from basic employability training through to post-doctoral research). The Minister responsible is the Cabinet Secretary for Education and Lifelong Learning.

The Directorate provides advice to the Cabinet Secretary on the revenue funded college projects that are currently being procured (or are in preparation for procurement) using the NPD model.

Learning Directorate

This Directorate also forms part of the Scottish Government's Learning and Justice Directorate-General. It has lead responsibility for improving outcomes for learners, to ensure there is an effective school system. The Minister responsible is the Cabinet Secretary for Education and Lifelong Learning.

The Directorate provides advice to the Cabinet Secretary on the Scottish Schools for the Future Programme, including the GBP 450 million of revenue funded schools projects to be delivered under the *hub* initiative.

Health and Information Directorate

This Directorate forms part of the Scottish Government's Health and Social Care Directorate-General. It is responsible for finance and information issues relating to NHS Scotland and the development and implementation of health and community care policy.

NPD and *hub* health projects are led by the relevant health board or *hub* territory as part of an overall investment programme in the health estate co-ordinated by the Scottish Government Health Finance and Information Directorate.

SFT's role is to support the Scottish Government's Health Finance and Information Directorate, coordinate this sector as part of the overall revenue funded investment programme, manage centrally the NPD contract and provide support to procuring health boards in delivering the best possible value for money for their projects.

The Minister responsible is the Deputy First Minister and Cabinet Secretary for Health, Wellbeing and Cities Strategy.

Energy and Climate Change Directorate

This Directorate forms part of the Scottish Government's Enterprise, Environment and Digital Directorate-General. It is responsible for helping deliver a low carbon society, with sustainable economic growth and reduced greenhouse gas emissions.

SFT works closely with this Directorate in developing models for delivery of renewable energy and energy efficiency projects such as streetlighting.

The Minister responsible is the Minister for Energy, Enterprise and Tourism, which forms part of the portfolio of the Cabinet Secretary for Finance, Employment and Sustainable Growth.

Housing and Regeneration Culture & Commonwealth Games Directorate

This Directorate is part of the Scottish Government's Governance and Communities Directorate-General. It is responsible for increasing the rate of sustainable economic growth by working with partners to ensure the right quality, quantity and types of housing; to ensure the delivery of a successful Commonwealth Games with an effective Scotland-wide legacy; and for supporting the development and promotion of culture and creative industries in Scotland and abroad.

SFT works with this Directorate on NHT and other housing initiatives that may emerge. The Minister responsible is the Minister for Housing and Transport. However, ultimate responsibility for housing investment rests with the Cabinet Secretary for Infrastructure and Capital Investment.

5.4. Local Procuring Authorities

Scottish local government consists of 32 elected councils (local authorities) which provide services to the people of Scotland (e.g. education, social care, waste management, cultural services). The Scottish Government works with local government and provides funding and the framework for accountability and performance. Each local authority is governed by a council. The council is made up of councillors directly elected by the residents of the area they represent (referred to as a council ward). Each ward will have three or four councillors.

Local authorities receive funding from various sources including an agreed settlement from central government (provisionally agreed for three years). Approximately one third of the Scottish Government's capital budget is allocated directly to local authorities. The Scottish Government also provides a block grant to local authorities which amounts to around 85% of their net revenue expenditure, with the remainder funded largely from local taxation.

Local authorities have responsibility for education and will act as the procuring bodies for the Scottish Schools for the Future programme being delivered by SFT. Six local authorities in Scotland are also currently procuring waste facilities in their areas via PPP structures. SFT is also working with seven areas with a view to establishing TIF projects in their areas. Several local authority areas have also executed NHT agreements. Furthermore, SFT is currently working with authorities to promote best value and practice when procuring assets such as energy facilities and streetlighting.

5.5. Other Public Agencies

Transport Scotland

Transport Scotland is the national transport agency for Scotland. It is accountable to the Scottish Parliament and the public through the Scottish Ministers. Transport Scotland is responsible for procuring major public transport projects in Scotland and should procure two projects under the current GBP 2.5 billion revenue funded pipeline (the M8 project and the Aberdeen Western Peripheral Route).

The Scottish Further and Higher Education Funding Council (SFC)

SFC is the national strategic body that is responsible for funding teaching and learning provision, research and other activities in Scotland's 41 colleges and 19 universities and higher education institutions. SFC is a non-departmental public body of the Scottish Government and was established in 2005, replacing the former Scottish Further Education Funding Council (SFEFC) and the Scottish Higher Education Funding Council (SHEFC), and brought together funding and support for Scotland's colleges and universities under one body. SFC's board consists of up to 16 members, including the Chair and the Chief Executive. Members of the SFC are appointed by the First Minister of the Scottish Parliament and have a collective responsibility for the proper conduct of the SFC's affairs.

SFC provides funding to further and higher education institutes for capital projects including the three colleges that are procuring projects under the NPD model (The City of Glasgow College, Inverness College and Kilmarnock College). SFC provides support, advice and recommendations to Scottish Ministers on the suitability, progress and readiness for approval of these NPD projects, in conjunction with SFT.

Convention of Scottish Local Authorities (COSLA)

COSLA is the representative body for local authorities in Scotland and its priority is to promote the position of local government in Scotland. Scottish local authorities co-operate through, and are represented collectively by, COSLA. By providing a forum to discuss common issues, COSLA seeks to gather the views of member councils and communicate these to key stakeholders, including the Scottish and European Parliaments.

SFT liaises with COSLA on a regular basis to keep it informed on SFT's work with local authorities and to share general experiences. SFT keeps COSLA informed with regard to the development and use of new funding models that are available to local authorities.

Infrastructure UK [6]

The UK Government's June 2010 Emergency Budget, announced that Infrastructure UK (IUK) has a remit to provide a stronger focus on the UK's long-term infrastructure priorities and to meet the challenge of facilitating significant private sector investment over the longer term. IUK is a separate unit within HM Treasury, providing advice to the Commercial Secretary to the Treasury who leads on infrastructure issues and reports to the Chancellor of the Exchequer.

IUK's remit primarily covers England, with SFT and the Strategic Investment Board undertaking a similar role in Scotland and Northern Ireland respectively.

SFT operates separately from IUK but it keeps IUK informed of SFT developments such as the use of NPD and *hub* models in Scotland. The two organisations have built a strong relationship to ensure that new concepts, commercial structures and models are shared in order to promote best practice in infrastructure investment across the whole of the UK.

[6] More information on the work of IUK is contained in the UK-England PPP Unit Report.

6. Legal and Policy Framework[7]

6.1. PPP-Specific Legislation

There is no specific PPP legislation for Scotland. The normal principles of Scottish law support and apply to PPPs without the requirement for general enabling legislation, although individual pieces of legislation have been introduced as necessary to deal with particular aspects of PPP transactions (for example, the application of certain construction and insolvency laws).

6.2. Procurement Law

As with all publicly procured goods and services, the procurement of a PPP project is in line with European procurement laws and recent practice has been to use the competitive dialogue process.

6.3. Contractual Forms

The NPD standard form contract and the *hub* DBFM standard form contract have been developed by SFT for accommodation projects. The standard form contracts are largely consistent with the UK's Standardisation of PFI Contracts (SOPC) and maintain the following basic principles:

- the private sector provides the authority with serviced accommodation;
- payment only commences once the accommodation is complete and ready for use; and
- the authority pays for available facilities, and deductions are made from the annual service payment if the facilities are not available or the services are not provided in accordance with the authority's requirements.

The current GBP 2.5 billion pipeline will be procured using either the NPD or *hub* DBFM standard form contract. Both forms of contract are deliberately as similar as possible to each other to maximise efficiency and minimise costs in procurement for public and private sector users of the documents and to facilitate joined-up contract management across sectors in the future. SFT's approval is required for derogations from the standard form contracts.

The key points of difference between SFT's *hub* DBFM and NPD standard form contracts and SOPC are:

- equity return sharing and capping for *hub* DBFM projects and a mechanism for payment of surpluses to the authority for NPD projects; and
- changes to the risk transfer on areas such as title risk, energy consumption risk, insurance premium risk sharing, general change in law and vandalism.

[7] More information on the overall legal and policy framework for the UK is contained in the UK-England PPP Unit Report.

A further notable difference between SFT's standard form contracts and previous standard form contracts used for accommodation projects in Scotland is the exclusion of "soft" facilities management (FM) services and a more narrowly defined scope of "hard" FM service that excludes internal redecoration.

Hub-specific features

The authority contracts with a special purpose vehicle (SPV), a wholly owned subsidiary of the "hubco"[8] for the relevant territory, in a similar way to traditional PPPs. In accordance with the Scottish Government's requirement that equity returns on revenue funded projects must be fixed or capped, a mechanism has been provided under which profits earned by the SPV that would otherwise be paid to equity investors will be shared equally with the authority once a minimum threshold level of equity return has been achieved. If profits are such that the equity return would exceed a second threshold were all profits to be distributed to equity, all further profit distributions will be payable to the authority. The authority's share of excess profits may either be paid to it in lump sums or be used to reduce the future service payments.

Further information on the *hub* model can be found in Annex 2. The *hub* DBFM standard form project agreement and user guide can be found on SFT's website.

NPD-specific features

As set out in Annex 3, the NPD model is defined by the broad core principles of:

- enhanced stakeholder involvement in the management of projects;
- no dividend bearing equity; and
- capped private sector returns.

The SFT standard NPD contract reflects the above key features. Further information can be found in SFT's *NPD Explanatory Note* which is available on the SFT website along with the standard form NPD project agreement and user guide.[9]

6.4. Financing Matters

Background

NPD and *hub* DBFM projects have the same core principle as the UK PFI model in that the SPV is paid a "unitary charge" by the authority only once the building is available for use. This approach incentivises the SPV to deliver the asset on time, and any cost overruns beyond the agreed budget are the responsibility of the SPV.

During the operational phase of a project, the unitary charge is payable subject to deductions (measured against agreed service standards) and this also incentivises good performance by the SPV in accordance with agreed service specifications. Deductions are calculated using a payment mechanism, agreed as part of the

[8] In each territory public bodies participating in a *hub* team up with a private partner to form a joint venture company known as a "hubco". The hubco delivers the pipeline of projects.

[9] **http://www.scottishfuturestrust.org.uk/publications/non-profit-distributing/**

contract. In Scotland, a standard payment mechanism has been developed to encourage a simplified and consistent approach.

Project financial structure

As with traditional UK PFI structures, the private sector (SPV) finances the construction upfront and projects are relatively highly geared (80-90% of "project finance" senior debt). The remaining 10-20% is funded by junior finance from the private sector. The authority has one "golden equity share" to qualify it for board membership. On NPD projects to date, junior finance has been provided by way of subordinated debt (there is no dividend bearing equity). Other NPD projects may include alternative financing structures such as mezzanine debt.

Subordinated debt solutions create an "equity-like" structure as subordinated debt is considered "quasi equity" by lenders. It is priced akin to equity. The level of return on subordinated debt will be bid in competition, which drives down returns, e.g. *hub* is designed to be a mix of subordinated debt and equity but equity returns are capped. Returns beyond an agreed threshold are partially or wholly returned to the authority.

It should be noted that in Scottish PPPs the Scottish Government does not provide guarantees in respect of PPP debt.

Financing market – current situation

Debt and equity providers are widespread in the UK and many banks have specialist project finance and PPP teams that are experienced in assessing the risks involved and structuring what can often be complex transactions. Historically access to project finance for PPPs has been relatively straight forward.

Since 2008 though, access to project finance has become more restricted in Scotland, the UK and Europe. As banks experienced liquidity issues, many PPP projects stalled. Only in 2011/12 is a PPP pipeline being seen again in Scotland.

SFT meets regularly with various representatives of the financing market. Some banks which have historically provided major lending to PPP projects no longer participate in this market. This phenomenon means that the current revenue funded pipeline of projects requires some alternative forms of financing.

SFT is currently exploring alternative financing solutions to the traditional bank term loans. A number of options are being considered, such as:

- Capital markets: SFT is exploring the option to credit enhance and use bonds from the outset of the project (i.e. bond financing of both construction and operating periods). There is a history of delivering PPPs using bond finance in Scotland although this was achieved through "monoline" guarantees; and
- Transition financing: in this structure, banks finance the project construction using short-term money (e.g. seven years) and refinance the debt on the capital markets once the project had achieved stable operations. This structure would require the authority to pay an increased unitary charge if financing costs had increased at the point of the predetermined refinancing date.

Scottish Government funding support

The current pipeline of PPP projects, which are being delivered through *hub* and NPD, are funded largely by central Scottish Government funding. Figure 9 below sets out the typical cost allocation between the Scottish Government and the procuring authority.

Figure 9 - Approach to Cost/Risk Distribution in NPD and *hub* DBFM models

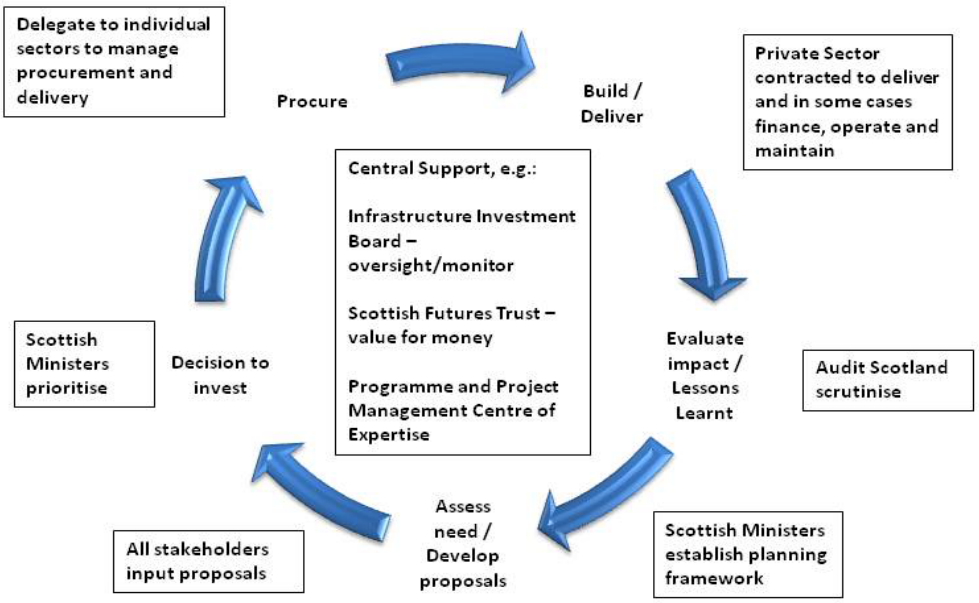
Type of cost	Scottish Government	Procuring authority
Public sector development costs	0%	100%
Public sector advisory costs	0%	100%
Public sector enabling capital expenditure	0%	100%
Public sector enabling revenue expenditure	0%	100%
Private design and construction costs	100%	0%
Project development costs (including staffing costs, SPV and lenders external advisory costs)	100%	0%
Financing costs (interest and fees)	100%	0%
SPV costs (construction and operations)	100%	0%
Lifecycle maintenance	0-50%	50-100%
“Hard” facilities maintenance costs	0%	100%

7. Outline Project Cycle[10]

7.1. Key Stages in the Project Cycle

The key stages in a project's delivery cycle are summarised in Figure 10 below:

Figure 10 - Infrastructure Investment – The Delivery Cycle



Source: Scottish Government Infrastructure Investment Plan 2011

As noted in Section 4, SFT's key objectives and focus over the infrastructure investment cycle are to:[11]

- achieve and improve value for money;
- promote collaboration between public bodies;
- innovate and bring fresh approaches and models for infrastructure investment in Scotland;
- act as a focal point for public sector infrastructure investment in Scotland;
- act as a central development/ delivery vehicle where this is appropriate;
- seek and promote opportunities for appropriate aggregation or common approaches to aspects of infrastructure investments; and

[10] Further information regarding the overall UK approach to the project cycle, in particular to business case preparation, can be found in the UK-England PPP Unit Report.

[11] Management Statement and Financial Memorandum, SFT, October 2009.

- identify and implement opportunities to reduce the cost of funding for infrastructure.

Prioritisation and needs analysis (decision to invest)

The Scottish Government has overall responsibility for determining Scotland's strategic investment needs and requirements and it leads on the priority given to a range of potential investments. Government priorities are articulated through periodic "spending reviews" and "infrastructure investment plans". Local authorities and other public bodies may also be given responsibility for prioritising and allocating funding given to them for specific projects in their area or sector. SFT provides support and advice to both Scottish Government and procuring authorities on a project's suitability and 'fit' with the *hub* and NPD models and on establishing a project's specification.

However, overall responsibility for the delivery of programmes and individual projects is delegated to the appropriate level and varies across sectors. The main areas of portfolio spending (e.g. Transport Scotland, NHS Scotland, Scottish Higher and Further Education Funding Council) have dedicated finance functions and governance in place to ensure effective management of their infrastructure expenditure.

Project procurement and delivery

Pre-procurement: when a procuring authority is developing the scope of its project, SFT provides a "challenge function" to ensure the efficiency of public buildings and better value for money for taxpayers.

Procurement: the procurement of large public sector capital projects follows EU procurement rules and is advertised by way of an OJEU notice. The procuring authority decides which procurement procedure is most appropriate for its project. Generally, the competitive dialogue process is used on revenue funded PPP projects.

Construction: the private sector will construct the facility in accordance with the authority's requirements and against an agreed programme. The authority is responsible for the monitoring of the private partner's performance during construction.

Project operations and lessons learned

Once the construction of the asset is completed, the authority's focus is on the provision of facilities management services and lifecycle activities.

During 2010/2011, SFT carried out a review of operational PPP contracts to assess whether any savings could be realised (e.g. maximising the usage of assets, market testing provisions). A key conclusion of the review is that significant savings can be achieved by more effective contract management. SFT aims to act as a centre of expertise in this area, providing ongoing support on existing contracts.

7.2. Project Approval and Validation

Figure 11 summarises the key project stages and assurance/validation framework that supports capital projects in Scotland and how this fits with the assurance/approvals processes. Management of the approval process for most PPP projects in Scotland is the responsibility of the relevant department or agency but when delegated authority limits require it (i.e. the project cost is greater than the body‘s authority to spend), Scottish Ministers need to give their approval. The procuring authority prepares business cases at appropriate points in the process to meet these approval points.

In addition, large capital projects and/or revenue funded projects are subject to Scottish Government “Gateway Review” (see Box 2) and SFT’s “Key Stage Review” at key points in the procurement process. SFT assists Ministers in providing this approval: at a programme level on matters such as compliance and programme budget, and at project level on matters such as value for money.

Gateway Reviews

In Scotland, capital projects with a value of over GBP 5 million are subject to “Gateway Reviews”, which apply to all organisations covered by the terms of the Scottish Public Finance Manual. The number of reviews carried out will depend on the project. The general approach is summarised in Box 2. Gateway Reviews are undertaken by the Scottish Government Gateway Review team and are normally carried out over three days. They usually involve interviews, gathering evidence and a report which is sent to the senior responsible officer (SRO) of the procuring authority. The Gateway Review team will compare its findings with best practice and experience of other programmes or projects to provide recommendations to the procuring authority. Gateway Reviews are carried out in advance of the key decision points within a programme or project's lifecycle. The key decision points and the associated Gateways are set out in Box 2.

Box 2 - Gateway Reviews

Gateway 0: Strategic Assessment - This Gateway is specifically designed for programmes. It investigates the direction and planned outcomes of the programme, together with the progress of its constituent projects. It can be repeated over the life of the programme at key decision points.

Gateway 1: Business Justification - This first project review comes after the "Strategic Business Case"[12] has been prepared. It focuses on the project's business justification prior to the key decision on approval for development proposal.

Gateway 2: Delivery Strategy - This review investigates the "Outline Business Case"[13] and the delivery strategy before any formal approaches are made to prospective suppliers or delivery partners. It may be repeated in long or complex procurement situations.

Gateway 3: Investment Decision - This review investigates the "Full Business Case"[14] and the governance arrangements for the investment decision. It takes place before a work order is placed with a supplier and funding and resources are committed.

Gateway 4: Readiness for Service - This review focuses on the readiness of the organisation to go live with the necessary business changes, and the arrangements for management of the operational services.

Gateway 5: Operations Review and Benefits Realisation - This review confirms that the desired benefits of the project are being achieved, and the business changes are operating smoothly. The review can be repeated at regular intervals during the lifetime of the new service/facility.

SFT's Key Stage Review

In parallel with the Gateway Review process, it is a condition of Scottish Government funding support that all projects in its programme are, in addition to any existing project approvals processes, externally validated by SFT. SFT undertakes validation by carrying out "Key Stage Reviews" (KSRs) of projects at key stages of the procurement. This process is designed to support the successful delivery of revenue funded projects whether delivered through the NPD or the *hub* DBFM model. It provides an assessment of the project's readiness and its application of best practice (including SFT's value for money guidance) to projects before they move onto the next stage in the procurement process.

The core reviews in the KSR process usually occur at the following stages of the procurement process:

- pre-issue of OJEU notice or pre-submission of a new project request for hub DBFM projects;

[12] The Strategic Business Case is presented at the project initiation stage to ensure strategic fit, deliverability and value for money.

[13] The Outline Business Case is presented at the pre-market stage to assess all options in detail.

[14] The Full Business Case is presented at the pre-final negotiation stage with all the spending commitments set out.

- pre-close of dialogue; and
- pre-financial close.

In some cases, where it becomes apparent that projects are not developed enough to receive a full sign off following a standard KSR, additional follow-up reviews may need to be carried out at the following stages:

- pre-issue of invitation to participate in the dialogue; and/or
- pre-preferred bidder appointment.

Each review is an assessment of whether the project is suitably developed in terms of:

- project readiness;
- affordability;
- value for money; and
- commercial robustness.

The reviews are carried out at no cost to the procuring authority. The process involves the assessment of the readiness of projects against a *pro forma* list of questions at each key stage of the procurement.[15]

[15] Further information on SFT's KSR process can be found on its website: **www.scottishfuturestrust.org.uk**.

ANNEX 1 – Overview of the Central PPP Unit and its Institutional Framework

1. General Structure of the Central PPP Unit (SFT)

Location within government	A public corporation and company limited by shares owned by the Scottish Ministers
Reporting and accountability	Report to Scottish Minister for Infrastructure and Capital Investment
Part of general procurement unit	No
Current PPP sectors	Education, health, transport (roads), waste.
Coverage	National (Scotland)
Funding	Public
User fees	No
Success-based fees	No
EU funding	No
Staffing	29 permanent staff (PPP and non-PPP)
Secondments	3 secondments 6 fixed-term/temporary staff
Public-private mix	Diverse. Many with mixed public and private sector backgrounds
Difficulties in attracting staff with PPP expertise	No
Difficulties in retaining staff	No

2. Operational Framework for the Central PPP Unit

Project Planning	
Involved in identification/planning	Support
Develop business case/feasibility study	Support
Assess feasibility	Yes, in conjunction with relevant department
Approve[16]/qualify as PPP	Yes, in conjunction with Government Finance Department
If so, is this binding	Yes
Provide recommendations to approval bodies	Yes
Assist in finding advisers	SFT has established an advisory framework for accommodation projects
Sit on steering/oversight committee for the project	Yes
Sit on project team/group	Yes (as required)

Procurement Process	
Act as procuring authority for the project	No
Approve tender documentation	Yes, manages standard form contract derogations
Sit on steering/oversight committee for the project	Yes (upon invitation)
Sit on project team/group	Yes (upon invitation)
Involved in contract negotiation	No, provides advice on standard contract
Bid evaluation	No, supports development of evaluation criteria prior to procurement
Bid approval	Approval of certain elements of the final project
Involved in post preferred bidder negotiations	No, provides advice as required
Involved in financial closing (e.g. closure of the swap)	Yes, advises on interest rate strategy and approves financing element of project on behalf of Scottish Government
Approve the final contract	Yes, approves standard contract derogations
Sign the final PPP contract	No
Approve the financing documentation	No

16 Where approval differs from an opinion. An approval requirement means that without approval a project cannot continue. An opinion on the other hand is a recommendation which is non-binding for the authority.

Project Implementation	
Approve renegotiation during construction	No
Approve renegotiation during operations	No
Payment oversight	No
Contract management	SFT can provide advice on best practice*
Monitor project implementation	No

*SFT is also exploring the development of a “shared service” for PPP contract management in Scotland.

Market Development	
Determine and share best practice (guidance material, lessons learnt)	Yes
Develop PPP policy	Yes
Develop standard documentation (e.g. RFPs, PPP contracts)	Yes
Promotion of PPPs (e.g. market awareness)	Yes
Training	Yes, public sector only
Database development and management	Yes

ANNEX 2 – *Hub* Model

Background

The "*hub*" initiative was developed by SFT on behalf of the Scottish Government as a means of improving the planning, procurement and delivery of infrastructure that supports community services. The Scotland-wide *hub* initiative reflects a national approach to the delivery of new community infrastructure, which is expected to be valued at more than GBP 1 billon over the next 10 years.

It brings together local public sector organisations (local authorities, health boards and emergency services) to increase joint working and the shared delivery of sustainable community buildings.

Five geographic *hub* territories across Scotland will each deliver a range of capital (design and build) and revenue (DBFM) funded projects in their respective territories. The five territories are; North, South East, West, East Central and South West, each with a population of approximately 1 million. In each territory the participating public bodies will team up with a private partner to form a joint venture company known as a "hubco" that will deliver a pipeline of projects. Under this joint initiative, a supply chain of contractors, designers and consultants is created.

Two key objectives for *hub* are:

- improving the efficiency and effectiveness of the delivery of community-based facilities; and
- increasing the scale of joint working between public bodies.

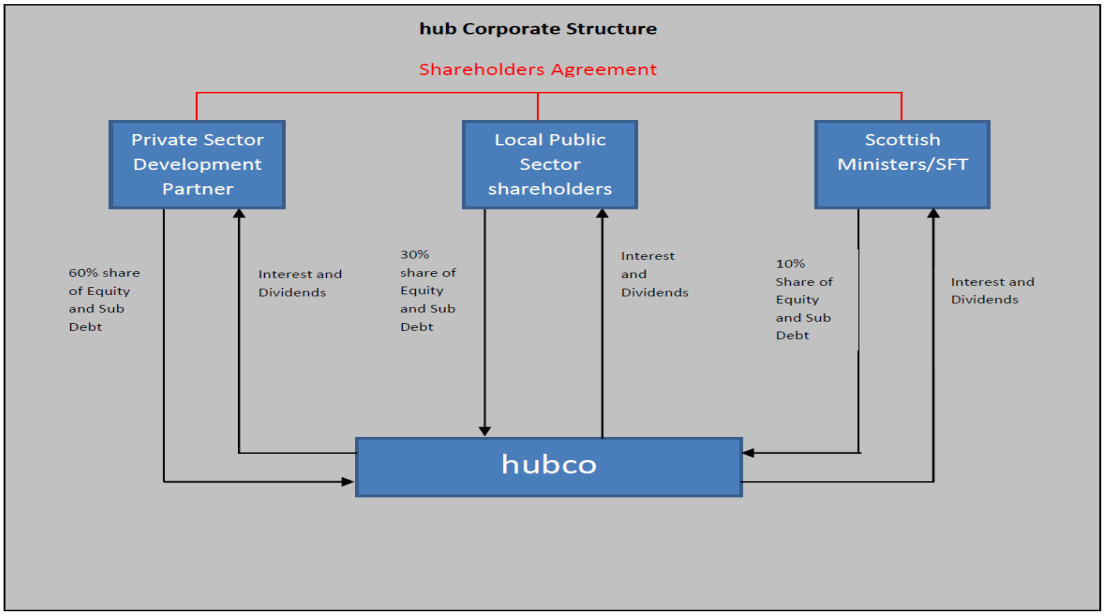
Hub structure

The *hub* initiative will see the public sector organisations ("Participants") within a *hub* territory working in partnership with each other and with a private sector delivery partner. The Participants will, collectively within each *hub* territory, run their own procurement process to identify their preferred private sector development partner with whom they will form an institutional PPP. They are guided and supported in this by SFT. Hubco will deliver certain partnering services to the Participants to support the planning, procurement and delivery of infrastructure projects within the *hub* territory – developing proposals and, subject to satisfying certain tests including value for money, delivering those proposals through its supply chain.

The shareholding of hubco will be split as follows:

- 60% private sector development partner;
- 30% Participants (this is optional as Participants may opt to be "partners" not shareholders); and
- 10% SFT.

Figure A2 - *hub* Corporate Structure



The agreement has a term of 20 years, with an option to extend for a further five years where agreed between hubco and one or more of the Participants.

The Participants in each territory will have the opportunity to put forward individual projects that will be used to form a 'project pipeline' which hubco will deliver through one of the following options:

- a design and build contract (or build only for projects which have already reached design development) under a capital cost option; and
- a DBFM under a revenue cost option.

One other key objective for *hub* is to increase opportunities for strategic asset management for local public bodies. *Hub* involves over 60 public sector bodies collaborating to improve procurement activities. This provides a platform for exploring other avenues for joint working; an example is set out in Box A1.

Box A2 - First *hub* Project Delivered

The first building to be delivered under *hub* was Edinburgh's GBP 4.3 million Drumbrae Library and Community *hub*. It will offer a range of services on a single campus site, including a library, office accommodation, police, ICT access points, payments for rents, careers and learning guidance access points, health information point and parenting support. The project was delivered through the *hub* South East territory, which covers the Edinburgh, Lothians and Scottish Borders area.

SFT's Role

SFT's *hub* Programme Delivery Office (PDO) is responsible for the day-to-day management of the *hub* initiative and it reports to the *hub* National Programme

Board, which consists of representatives from SFT, the Scottish Government and health boards.

SFT has developed a standard form *hub* DBFM contract which all *hub* procuring bodies will utilise when contracting with delivery partners.

ANNEX 3 – Non-Profit Distributing Model

Background

The NPD model for revenue funded projects is defined by the broad core principles of:

- enhanced stakeholder involvement in the management of projects;
- no dividend-bearing equity; and
- capped private sector returns.

NPD is not a "not for profit" model. Its aim is rather to eliminate uncapped equity returns associated with the traditional PFI model and limit these returns to a reasonable fixed rate set in competition.

The NPD model retains the benefits of traditional PPP structures, such as:

- optimum risk allocation;
- whole life costing;
- maximised design efficiencies;
- robust programming of lifecycle maintenance and facilities management;
- performance-based payments to the private sector;
- a single-point delivery system, reducing interface risk for the public sector client; and
- improved service provision.

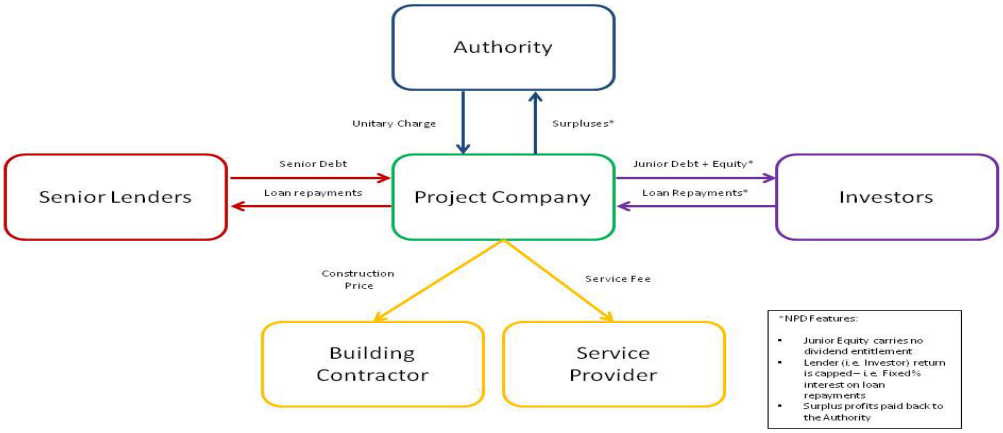
It is aimed at producing the following additional benefits:

- capped returns to ensure that a "normal" level of investment return is made by the private sector and that these returns are transparent;
- operational surpluses generated by the project company that are reinvested in the public sector; and
- the public interest being represented in the governance of the NPD structure, which increases transparency and accountability and facilitates a more pro-active and stable partnership between the public and private sector parties.

Structure and key features

The procuring authority contracts with an SPV which is majority owned and controlled by private sector investors. The authority owns a "golden share" in the SPV which gives it certain controls over the SVP's corporate, governance and management structures. The SPV's articles of association incorporate the mandatory NPD articles (produced by the SFT) that enshrine the fundamental principles of the NPD model. The structure of an NPD project is similar to that of a traditional PPP project, as shown below:

Figure A3 - NPD Model Structure



There are a number of features of this structure diagram that differ from the traditional UK PFI model. For example, projects funded using the NPD model pay a fixed return to the holders of the SPV's subordinated debt. All other distributions to equity (i.e. the holders of the shares and junior debt holders) are prohibited.

In addition, the NPD model enables surpluses to be distributed back to the public sector.

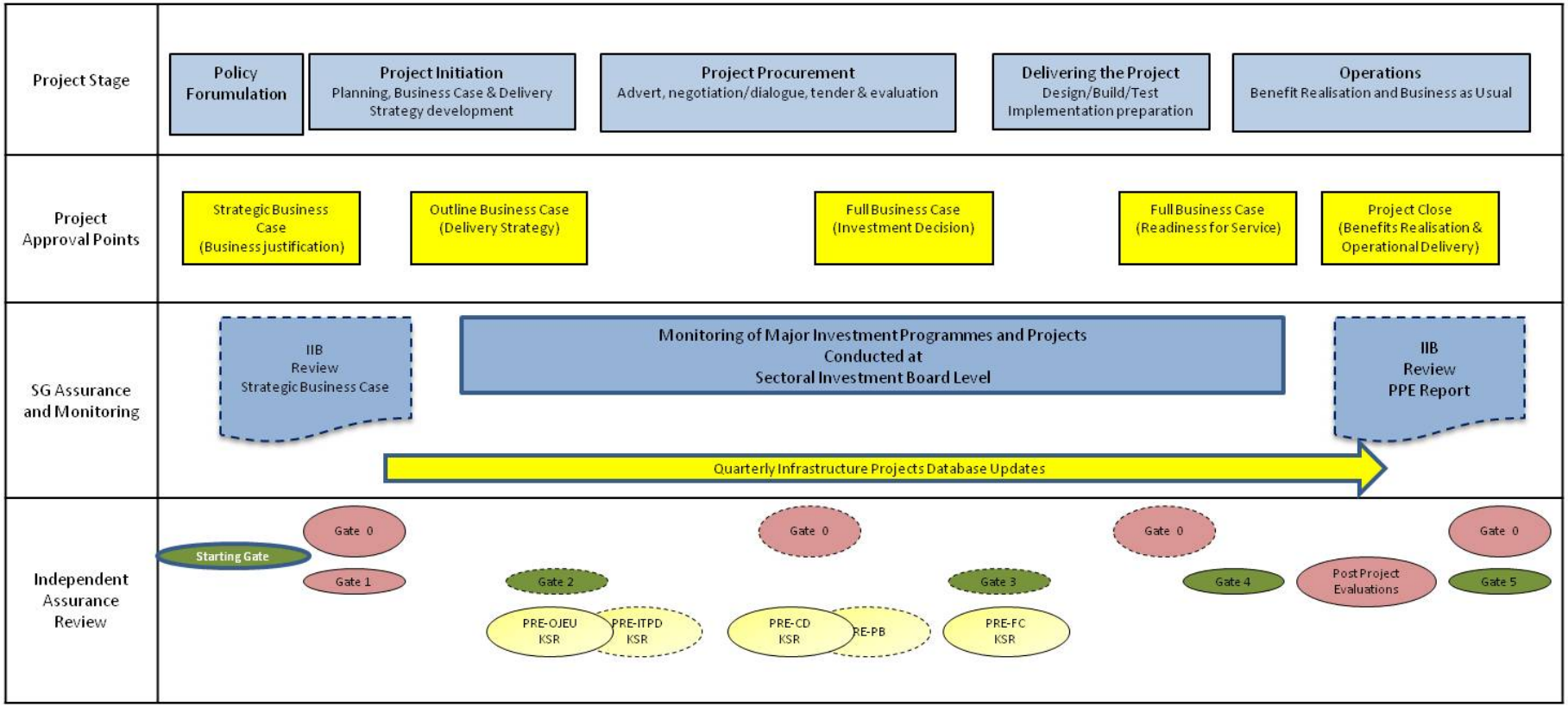
The contract also provides for a Public Interest Director (PID) to be appointed to the board. This creates a greater degree of accountability and transparency in the governance and management of the SPV's affairs. The PID brings an independent and broad view to the board and monitors the project company's compliance with NPD principles. One of the PID's particular roles is to review and instigate opportunities for efficiency savings as well as opportunities for gains to be made through refinancing of senior debt (much like the authority's right under SOPC4). SFT nominates a PID for each NPD project.[17]

[17] For further information, SFT's NPD explanatory note is available at: **www.scottishfuturestrust.org.uk/publications/funding_and_finance**.

ANNEX 4 – Pipeline of "Revenue Funded" Projects

(based on information available at December 2011)	Delivery Structure	Approx. Value (GBP m)	OJEU date	Construction Start/Period
TRANSPORT				
M8 bundle	NPD	320	Spring 2012 (TBC)	Start: Mid 2013 / 36 months
Aberdeen Western Peripheral Route (AWPR)	NPD	450	TBC	Start: TBC / 30-36 months
HEALTH				
Various Primary Care Projects	*hub*	250	N/A	Start 2012-15 / 12-18 months
Royal Hospital for Sick Children/ Dept. Of Clinical Neurosciences	NPD	150	Q1 2012	Start: Late 2013 / 36 months
Ayrshire & Arran Acute Mental Health & North Ayrshire Community Hospital	NPD	45	TBC	TBC / 18months
Scottish Blood Transfusion Centre	NPD	35	TBC	TBC / 18 months
Dumfries & Galloway Royal Infirmary	NPD	200	TBC	TBC / 30 months
Balfour Hospital, Orkney	NPD	60	TBC	TBC / 24 months
EDUCATION				
City of Glasgow College	NPD	200	In procurement	Spring 2013 / 36 months
Inverness College	NPD	50	In procurement	Spring 2013 / 24 months
Kilmarnock College	NPD	50	Spring 2012	Summer 2013 / 24 months
Various DBFM secondary & primary Schools	*hub*	450	N/A	From Q3 2012 / 12-24months

ANNEX 5 – Infrastructure Investment – The Delivery Cycle



Gateway Reviews
Gate 0 = Strategic Assessment
Gate 1 = Business Justification
Gate 2 = Delivery Strategy
Gate 3 = Investment Decision
Gate 4 = Readiness for Service
Gate 5 = Operations Review and Benefits Realisation

Key Stage Reviews = KSR
Pre issue of OJEU notice / advert = Pre OJEU
Pre Invitation to Participate in Dialogue = Pre ITPD
Pre Close of Dialogue = Pre CD
Pre Preferred Bidder Appointment = Pre PB
Pre Financial Close = Pre FC

Source: Scottish Government Infrastructure Investment Plan 2011.

ANNEX 6 – Macroeconomic Indicators – United Kingdom

The UK is classified as a high-income OECD member by the World Bank. The IMF estimates that its GDP in 2011 was USD 2 480 billion, with GDP per capita amounting to USD 39 604. Chart 1 shows GDP per capita expressed as a percentage of the average value for the EU27 group. As shown, since 2004 UK GDP per capita has been following a slightly downward trend. Nonetheless, it remains above both the EU27 and the EU15 (EU member countries which joined before 2004) average.

As shown in Chart 2, UK GDP growth follows very closely the EU15 trend. The UK's economy was growing at between 2 and 3% before the international financial crisis, when GDP growth dropped to zero in 2008 and to -4.8% in 2009. The recovery has been in line with the EU average (the UK's GDP rose by 1.3% in 2010 and 1.1% in 2011) and IMF forecasts predict that the UK's growth rate will return to pre-crisis levels as from 2013.

Chart 3 shows the UK government budget balance compared with the EU15 and EU12 average. As shown, the UK has been running a significantly higher deficit than both the EU15 and EU12 averages, both prior to and during the crisis. IMF forecasts expect the deficit to gradually decrease in the following years but to remain consistently higher than the EU averages until 2015.

The UK's debt stock has consequently been influenced by the high level of deficit spending. As shown in Chart 4, debt increased sharply between 2007 and 2009 (from 44% of GDP in 2007 to 69% in 2009) and now matches the EU15 average. IMF forecasts expect UK debt to peak in 2013 (85%) and then decline.

UK sovereign debt currently enjoys triple-A ratings from Fitch, Moody's and S&P. Moody's placed the UK's rating on negative outlook in February, following concerns about the impact of the eurozone crisis on the growth prospects of the UK economy.

The World Economic Forum (WEF) ranks the UK economy 10th in terms of competitiveness (6th in terms of infrastructure). The 2012 World Bank *Doing Business* report ranks the UK as 29th in terms of business regulation.

United Kingdom

United Kingdom of Great Britain and Northern Ireland

Capital:	London
Population:	62,262m
- **growth**:	0.5%
- **density**:	255/km^2

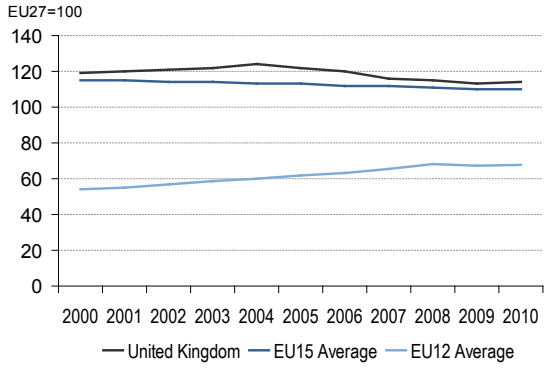
Macroeconomic and fiscal indicators	
GDP:	(2011, Nominal, 09/2011, IMF estimate)
- total:	USD 2 480.98 billion
- per capita:	USD 39 604
Real GDP growth:	+1.13 %
Government budget (% of GDP, 2011)	(02/2012, EIU estimate)
- revenue:	40.9
- expenditure:	49.5
- balance:	-8.6
Public debt:	81.9

Long-term sovereign debt ratings (updated 21/02/2012)	
Fitch:	**AAA (Stable)**
Moody's:	**Aaa (Negative)**
Standard & Poor's:	**AAA (Stable)**

Rankings	
WB Doing Business 2012 rank:	**7**
- change in rank since 2010:	-1
WEF Global Competitiveness 2011 rank:	**10**
- Infrastructure subindex rank:	6

Chart 1

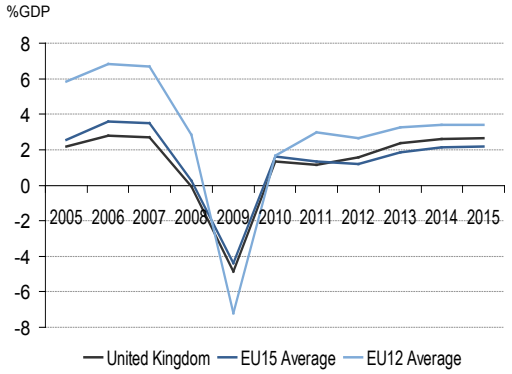
UK GDP per capita



Source: *Eurostat, April 2011*

Chart 2

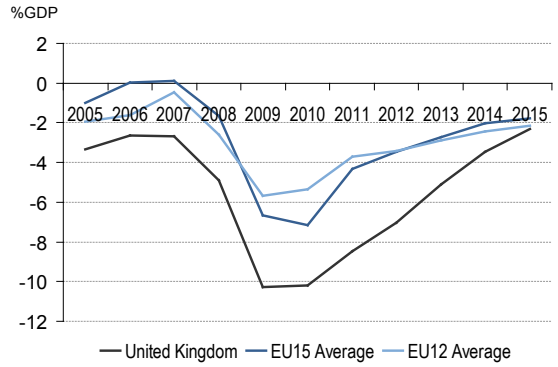
UK GDP growth



Source: *IMF World Economic Outlook, September 2011*

Chart 3

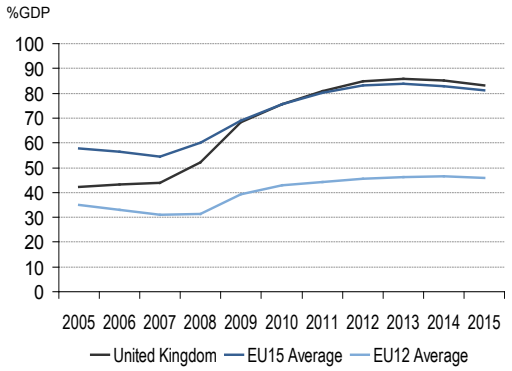
UK government budget balance



Source: *IMF World Economic Outlook, September 2011*

Chart 4

UK government debt



Source: *IMF World Economic Outlook, September 2011*

EU15 (member countries before 2004): *Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.*

EU12 (recent member countries): *Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.*

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