SCOTTISH HOSPITALS INQUIRY

Hearing commencing on 9 May 2022

Bundle 7 - supplementary bundle

SCOTTISH HOSPITALS INQUIRY

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MANAGEMENT STATEMENT AND FINANCIAL MEMORANDUM

Scottish Futures Trust Ltd

Version: 1 **Date: 26 October 2009**

SCOTTISH FUTURES TRUST

1. INTRODUCTION

1. This management statement and associated financial memorandum (MSFM) have been drawn up by the Scottish Government Finance Directorate („the Directorate‟) in consultation with Scottish Futures Trust (SFT), a Public Corporation and company limited by shares.

2. Subject to the provisions of any future legislation relating to SFT, the management statement sets out the broad framework within which SFT will operate, in particular:

- SFT‟s overall aims, objectives and targets in support of the Scottish Ministers‟ wider strategic aims;
- the powers and guidelines relevant to the exercise of SFT‟s functions, duties and powers;
- the conditions under which any public funds are paid to SFT; and
- how SFT is to be held to account for its performance.

3. The associated financial memorandum sets out in greater detail certain aspects of the financial framework within which SFT is required to operate.

4. The management statement and associated financial memorandum do not convey any legal powers or responsibilities.

5. The Management Statement and Financial Memorandum (MSFM) shall be reviewed and updated periodically by the Directorate in conjunction with SFT, normally at least every 2-3 years.

6. The guiding principle shall be that, while at all times meeting high standards of propriety and of good financial management, SFT will have the maximum operational independence.

7. On behalf of Scottish Ministers, the Portfolio Accountable Officer shall ensure that the financial controls upon SFT are appropriate and sufficient to safeguard public funds.

8. SFT or the Directorate may propose amendments to the MSFM at any time. Any such proposals by SFT will be considered in the light of the Scottish Ministers‟ policy aims, operational factors and the track record of SFT itself. The Directorate and SFT shall agree what changes, if any, are to be incorporated in the MSFM. Legislative provisions, including those of the Companies Act under which the SFT is established, shall take precedence over any part of the MSFM.

9. SFT shall satisfy the conditions and requirements set out in the MSFM. Any question regarding the interpretation of the MSFM shall be resolved by the Directorate in consultation with SFT.

10. Copies of the final MSFM shall be made publicly available through the SFT website. Copies of the MSFM shall also be placed in the Scottish Parliament Information Centre and provided to the sponsoring Division in an electronic format for inclusion on the Scottish Government website.

SCOTTISH FUTURES TRUST

PART 2: MANAGEMENT STATEMENT

1. FUNCTIONS DUTIES AND POWERS

1.1 Status

1.1.1 SFT is a company limited by shares responsible to Scottish Ministers through the Scottish Government‟s Finance Directorate ("the Directorate").[1]

1.1.2 SFT was established by the Scottish Ministers in September 2008 as a new arms‟ length body to support the efficiency and effectiveness of public infrastructure planning, funding and delivery, leading to real and improved value for money solutions. The Scottish Futures Trust Ltd (Company No.348382) is a company established under the Companies Act 1985, 1989 and 2006. SFT is a company limited by shares.

1.2 Functions, duties and powers

1.2 SFT is bound by the terms of its Memorandum and Articles of Association. These also set out some features of its roles and responsibilities and aspects of operation for the Board and others. The Memorandum and Articles of Association are attached as Appendix A to this MSFM.

1.3 Classification

1.3.1 For policy/administrative purposes SFT is classified as a Public Corporation.

1.3.2 For national accounts purposes SFT is classified to the public corporations sector.

1.3.3 References to SFT include, where appropriate, all its subsidiaries and joint ventures that are classified to the public sector for national accounts purposes (excluding such bodies in which SFT has a minority interest). If such a subsidiary or joint venture is created, there shall be a document setting out the arrangements between it and SFT.

2. AIMS, OBJECTIVES AND TARGETS

2.1 Overall Aims

2.1.1 The aim of the Scottish Futures Trust is to improve the efficiency and effectiveness of infrastructure investment in Scotland by working collaboratively with public bodies and commercial enterprises, leading to better value for money and providing the opportunity to maximise the investment in the fabric of Scotland and hence contribute to the Scottish Government‟s single overarching purpose to increase sustainable economic growth

[1] Note that references in this document to the Scottish Government Finance Directorate, while correct as at the date of this Management Statement, should be read as references to whichever Scottish Government Directorate has responsibility for SFT from time to time.

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

2.2 Objectives

2.2.1 SFT‟s key objectives across the infrastructure investment cycle are to:

i. **improve value for money** in infrastructure investment

ii. identify common ground and broker and improve **collaboration** between public bodies;

iii. **innovate** and bring fresh approaches and models for infrastructure investment;

iv. act as a **focal point** for public sector infrastructure investment in Scotland;

v. act as a **central development / delivery vehicle** where this is appropriate;

vi. Seek and promote opportunities for appropriate **aggregation or common approaches** to aspects if infrastructure investment;

vii. Identify and implement opportunities to **reduce the cost of funding** for infrastructure;

2.3 Guiding Principles

2.3.1 In striving to meets its objectives, SFT will be guided by:

i. Proper recognition of the **financial and non-financial aspects of value for money**;

ii. **Government policy and priorities** for infrastructure investment and related topics;

iii. The rules applying to government expenditure and their **impact on budgets and affordability**

iv. The positive impact **of high-quality design** and space planning on people‟s lives;

v. **Sustainability** in general and the need **to reduce carbon footprint** in particular;

vi. The needs of the **supply-side** in all aspects of infrastructure investment and from multinationals to SMEs.

vii. The **individual autonomy** of different public sector organisations;

viii. Its **non-profit distributing** status and **public-service ethos**.

ix. The needs and aspirations of **communities** on which infrastructure has a significant impact;

2.4 Targets

2.4.1 The primary financial target of the SFT once fully operational is to release between £100m and to £150 million each year for increased investment in Scotland‟s infrastructure, based on 2009/2010 levels of spending. Specific and measurable deliverables are set out in each year‟s business plan.

2.4.2 Its non-financial target is to be recognised by public and private sector infrastructure investment stakeholders as an expert body which is a focal point for public action in infrastructure planning and investment.

2.5 Setting and Changing Objectives and Targets

2.5.1 This MSFM sets SFT‟s objectives and targets. Any changes to SFT‟s objectives and key targets shall be agreed within SFT‟s corporate planning process (See Section 4 below).

3. RESPONSIBILITIES AND ACCOUNTABILITY

3.1 The Scottish Ministers

3.1.1 The Scottish Ministers are ultimately accountable to the Scottish Parliament for the activities and performance of SFT. Their responsibilities include:

i. approving SFT‟s strategic objectives, overarching targets and the policy and performance framework within which SFT will operate (as set out in this Management Statement and associated Financial Memorandum (MSFM));

ii. keeping the Parliament informed about SFT‟s performance;

iii. approving the resource budget for services to be delivered by SFT, and to the extent required, securing the necessary Parliamentary approval;

iv. carrying out responsibilities specified in the Articles of Association, including appointments to the Board, approving the terms and conditions of Board Members, collaborating with the Chairperson over appointment of the Chief Executive; and laying of an annual report and accounts before the Parliament;

v. issuing an annual letter agreeing SFT‟s proposal for services and the annual fee Ministers will agree to fund for those services;

vi. agreement of five yearly corporate plans; and

vii. meeting with the SFT board at least annually to discuss performance progress and future objectives.

3.2 The Portfolio Accountable Officer

3.2.1 The Director General Economy is the Portfolio Accountable Officer – as designated by the Principal Accountable Officer for the Scottish Administration – with responsibility for programme expenditure and related activities undertaken by the sponsor Directorate.

3.2.2 In particular the Portfolio Accountable Officer shall ensure that:

i. SFT‟s strategic aims and objectives support the Scottish Ministers‟ pursuit of value for money in infrastructure investment;

ii. the financial and other management controls applied by the Directorate to SFT are appropriate and sufficient to safeguard public funds and for ensuring that SFT‟s compliance with those controls is effectively monitored ("public funds" include not only any funds provided to SFT by the Scottish Ministers but also any other funds falling within the stewardship of SFT, including gifts, bequests and donations);

iii. the internal controls applied by SFT conform to the requirements of regularity, propriety and good financial management;

iv. any funding provided to SFT is within the scope and the amount authorised by Ministers; and

3.2.3 The Portfolio Accountable Officer will appraise the performance of the Chairperson of SFT annually.

3.2.4 The responsibilities of a Portfolio Accountable Officer are set out in more detail in the Memorandum to Accountable Officers for Parts of the Scottish Administration – see Annex 1 of the section on Accountability in the Scottish Public Finance Manual (SPFM).

3.3 The sponsoring Division in the Finance Directorate

3.3.1 Within the Finance Directorate, Capital and Risk are the sponsoring Division for SFT. The Division, in consultation as necessary with the Portfolio Accountable Officer, is the primary source of advice to Scottish Ministers on the discharge of their responsibilities in respect of SFT, and the primary point of contact for SFT in dealing with the Directorate. The sponsoring Division shall carry out its duties under a senior officer who shall have primary responsibility for overseeing the activities of SFT.

3.3.2 The sponsoring Division shall advise the **Scottish Ministers** on:

i. updates to the objectives and targets for SFT in the light of the Scottish Ministers" wider strategic aims

ii. an analysis of SFT"s proposal for services and the appropriate corresponding fee for such services in the light of the Scottish Ministers" overall public expenditure priorities;

iii. SFT"s performance against its strategic objectives and its value for money remit.

3.3.3 In support of the **Portfolio Accountable Officer**, the sponsoring Division will:

on performance and risk management

i. monitor SFT"s service delivery on a continuing basis through an adequate and timely flow of information from SFT on performance, budgeting, control and risk management, including early sight of SFT"s Statement on Internal Control;

ii. ensure that the activities of SFT and the risks associated with them are properly and appropriately taken into account in the Scottish Government"s risk assessment and management systems;

iii. ensure that appointments to the Board are made timeously and in line with the Code of Practice of the Office of the Public Appointments Commissioner for Scotland (OCPAS);

on communication with SFT

iv. inform SFT of relevant Scottish Government policy in a timely manner; advise on the interpretation of that policy; and issue specific guidance to SFT as necessary;

v. bring concerns about the activities of SFT to the attention of the Chief Executive or full Board if necessary, and require explanations and assurances from the Chief Executive or Board that appropriate action has been taken.

on working in partnership

vi. work in partnership with SFT to help it achieve value for money.

3.4 The Chairperson of SFT

3.4.1 The Chairperson of SFT is appointed by Scottish Ministers and acts as principal spokesperson for SFT. Following the initial set up arrangements the appointment procedures for the Chairperson will be in line with the Code of Practice of OCPAS.

3.4.2 The Chairperson is responsible to the Scottish Ministers. The Chairperson shall aim to ensure that SFT‟s policies and actions support the wider strategic policies of the Scottish Ministers and the realisation of the Scottish Government‟s Infrastructure Investment Plan; and that SFT‟s affairs are conducted with probity. The Chairperson shares with other Board members the corporate responsibilities set out in paragraph 3.5.2, and in particular for ensuring that SFT fulfils the aims and objectives set by the Scottish Ministers.

3.4.3 The Chairperson has particular leadership responsibility on the following matters:

i. formulating the Board‟s strategy;

ii. ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Scottish Ministers/Directorate;

iii. promoting the efficient and effective use of staff and other resources;

iv. encouraging high standards of propriety; and

v. representing the views of the Board to the general public.

3.4.4 The Chairperson shall also:

i. ensure that SFT operates according to the requirements of the Memorandum and Articles of Association for SFT;

ii. ensure that all members of the Board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and receive appropriate induction training, including on the financial management and reporting requirements of public sector bodies and on any differences which may exist between private and public sector practice;

iii. advise the Scottish Ministers of the needs of SFT when Board vacancies arise, with a view to ensuring a proper balance of professional and financial expertise;

iv assess the performance of individual Board members on an annual basis;

v. Appoint, following agreement of Scottish Ministers, the Chief Executive. The Chairperson will lead the appointment process and will chair the Appointment Panel. The appointment process will follow the guidance for public appointments set out by the Office of the Commissioner for Public Appointments in Scotland. The Appointment Panel will include a member of the Scottish Government. Ministers will approve the remuneration and terms and conditions of employment (normally prior to advertising the vacancy);

vi. set performance objectives for the Chief Executive which give due weight both to the proper management and use of public monies and to the delivery of outcomes in line with SFT‟s objectives. Review annually the performance of the Chief Executive and communicate the results of this to the Directorate.; and

vii. ensure that members of the Board uphold the requirements of the Companies Act as regards ethical standards.

3.4.5 Communications between the Board and the Scottish Ministers shall normally be through the Chairperson. The Chairperson shall ensure that other Board members are kept informed of such communications.

3.5 The SFT Board

3.5.1 Board Members will be appointed by the Scottish Ministers, in line with the OCPAS Code of Practice.

3.5.2 The Board has corporate responsibility for ensuring that SFT fulfils the aims and objectives set out in this MSFM and for promoting the efficient and effective use of staff and other resources by SFT in accordance with the principles of Best Value. To this end, and in pursuit of its wider corporate responsibilities, the Board shall:

i. establish the overall strategic direction of SFT;

ii. ensure that the Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of SFT, on the achievability of its targets, or delivery of is agreed services and determine the steps needed to deal with such changes;

iii. ensure that any statutory or administrative requirements for the use of public funds (ie all funds falling within the stewardship of SFT) are complied with; that the Board operates within the limits of any statutory authority and any delegated authority agreed with the sponsor Directorate, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account relevant guidance issued by the Scottish Ministers/sponsor Directorate;

iv. ensure that the Board receives and reviews regular financial information concerning the management of SFT; is informed in a timely manner about any concerns about the activities of SFT; and provides positive assurance to the Directorate that appropriate action has been taken on such concerns;

v. demonstrate high standards of corporate governance at all times, including by setting up and using an [independent] audit committee - in accordance with the guidance on Audit Committees in the SPFM - to help the Board to address the key financial and other risks facing SFT and to assure itself on the effectiveness of the internal control and risk management systems;

vi. provide commitment and leadership in the development and promotion of best value principles and characteristics throughout the organisation as described in section 3.6.3 below; and

vii. develop, maintain and review an effective and appropriate system of internal control as described in Section 4.6 below.

3.5.3 Individual Board members shall act in accordance with their wider responsibility as Members of the Board – namely to:

i. comply at all times with the ethical standards [paragraph 3.4.4 above] adopted by SFT and with the rules relating to the use of public funds, conflicts of interest and confidentiality;

ii. not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;

iii. comply with the Board"s rules on the acceptance of gifts and hospitality and of business appointments; and

iv. act in good faith and in the best interests of SFT.

3.6 The SFT Chief Executive

3.6.1 The Chief Executive of SFT is responsible for safeguarding the public funds (being those paid to SFT for the provision of services or any other funds as may be under the stewardship of SFT from time to time) for which he/she has charge; for ensuring propriety and regularity in the handling of those public funds; and for the day-to-day operations and management of SFT. He/she should act in accordance with the terms of this Management Statement and Financial Memorandum (MSFM).

3.6.2 The Chief Executive has a duty to secure best value, which includes the concepts of good corporate governance, performance management and continuous improvement. The principles of best value that should be secured and characteristics that should be displayed are set out below:

Best value principles:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.

Best value characteristics:

- Commitment and Leadership
- Sound Governance at a Strategic and Operational Level
- Accountability
- Sound Management of Resources
- Responsiveness and Consultation
- Use of Review and Options Appraisal
- A Contribution to Sustainable Development
- Equal Opportunities Arrangements
- Joint Working;

3.6.3 The Chief Executive will exercise the following specific responsibilities:

on planning, performance management and monitoring

i. establish SFT‟s corporate and business plans in the light of the aims and objectives set out in this document;

ii. propose to the Directorate an annual plan for service delivery in line with the business plan, and a cost for the range of services;

iii. establish a robust performance management framework which supports the achievement of SFT‟s aims and objectives as set out in the corporate and business plans, including assessment and measurement against objectives; and which enables full performance reporting to the Board, the Directorate and the wider public;

iv. ensure that timely forecasts and monitoring information on performance and finance are provided to the Directorate; that if overspends/ underspends against budget are likely or if the delivery of agreed services or performance targets are at serious risk, corrective action is taken through SFT‟s management control purposes and the Directorate is notified promptly; and that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Directorate in a timely fashion;

v. discuss with the Directorate any in-year change to the range of services to be delivered and agree any variation in cost required to reflect the change in services;

on advising the Board

vi. advise the Board on the discharge of its responsibilities as set out in this document and in any other relevant instructions and guidance issued by the Scottish Ministers/sponsor Directorate;

vii. advise the Board on SFT‟s performance compared with its agreed range of services and its aims and objectives;

viii. ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques as set out in the “Green Book” are followed as far as this is appropriate and practical;

ix. if the Chief Executive considers that the Board, or its Chairperson, is contemplating a course of action which he/she considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration or efficiency or effectiveness, make the Board aware of such inconsistency and insofar as it is not remedied to his/her satisfaction, report the matter to the Portfolio Accountable Officer.

on managing risk and resources

x. ensure that an appropriate system of risk management is embedded in the organisation to inform decisions on financial and operational planning and to assist in achieving objectives and targets;

xi. ensure that an effective system of programme and project management and contract management is maintained;

xii. ensure that all funds made available to SFT (including any approved income or other receipts) are used for the purpose intended by the Parliament, and that such monies, together with SFT‟s assets, equipment and staff, are used economically, efficiently and effectively;

xiii. ensure that adequate internal management and financial controls are maintained by SFT, including effective measures against fraud and theft;

xiv. maintain a comprehensive system of internal delegated authorities which are notified to all staff, together with a system for regularly reviewing compliance with these delegations;

xv. ensure that effective human resource management policies are maintained and that strategic human resource planning is related to SFT‟s objectives;

on accounting for SFT's activities

xvi. sign the accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Scottish Ministers;

xvii. sign a Statement on Internal Control in accordance with Section 4.6, for inclusion in the annual report and accounts;

xviii. ensure that an effective complaints procedure is in place (including, where applicable, reference to the Scottish Public Services Ombudsman) and made widely known; and

xix. give evidence when summoned before Committees of the Scottish Parliament on the use and stewardship of public funds by SFT.

3.6.5 The Chief Executive will ensure that SFT follows the requirements of the Freedom of Information (Scotland) Act 2002. This includes the establishment of a publication scheme for SFT and for the publication of information held by SFT.

3.6.6 The Chief Executive may delegate the day-to-day administration of his/her responsibilities to other employees in SFT. However, he/she will remain accountable for the responsibilities set out in this document.

3.6.7 The Chief Executive is responsible for informing the Portfolio Accountable Officer about any complaints about SFT accepted by the Scottish Public Services Ombudsman for investigation, and about SFT‟s proposed response to any subsequent recommendations from the Ombudsman.

3.6.8 In order to respond to Parliamentary Questions and to correspondence from Members of the Scottish Parliament about issues relating to SFT, Scottish Ministers will expect SFT to provide information within appropriate timescales providing that the cost of gathering any information not immediately available does not exceed the prescribed limit. In the case of correspondence on operational issues or particular cases about decisions of SFT, the Scottish Ministers will encourage MSPs (as well as MPs and MEPs) to write direct to the Chief Executive of SFT and they will also refer correspondence they have received to SFT for reply.

4. PLANNING, BUDGETING AND CONTROL

4.1 The corporate plan

4.1.1 Consistent with the timetable for public spending reviews, SFT shall submit to the Directorate the SFT corporate plan covering a 3-5 year period. The plan, or elements thereof, will be updated between public spending reviews as and when considered necessary.

4.1.2 The plan shall reflect SFT‟s aims and objectives set out in the MSFM.

4.1.3 The corporate plan shall set out:

i. SFT‟s key objectives and associated key performance targets for the next 3-5 years, and its strategy for achieving those objectives;

ii. alternative scenarios to take account of factors which may significantly affect the execution of the plan but which cannot be accurately forecast; and

iii. other matters as agreed between the Directorate and SFT.

4.2 The business plan

4.2.1 The business plan for the year immediately ahead shall be consistent with the corporate plan. The business plan shall be updated annually by SFT to include key targets and milestones for the forthcoming year.

The business plan will be the basis of SFT proposing the services that it will deliver.. Such services may be amended in-year in accordance with 3.6.3v above.

4.3 Publication of plans

4.3.1 Subject to any commercial considerations the corporate and business plans shall be published / made available on the SFT‟s website. Either the full plans or summary versions shall be made available to SFT staff.

SCOTTISH FUTURES TRUST

4.4 Reporting performance to the Directorate

4.4.1 SFT shall operate management information and accounting systems which enable it to review in a timely and effective manner its financial and non-financial performance against the objectives and targets set out in its Corporate Plan, and the range of annual objectives, services and budgets set out in its business plan.

4.4.2 SFT shall take the initiative in informing the Directorate timeously of changes in external conditions which make the achievement of objectives and/or delivery of agreed services more or less difficult, and which may require a change to the objectives set out in the corporate plan or range of services and budget set out in the business plan.

4.4.3 SFT‟s service delivery shall be reported to the Directorate regularly, accompanying invoices for the services that it has delivered;

4.4.4 SFT‟s performance in helping deliver agreed key objectives will be reported to the Directorate on a half yearly basis. Performance will be reviewed half yearly by officials from the Directorate. The Scottish Ministers will meet the Board formally on an as-required basis but at least annually to discuss SFT‟s performance, its current and future activities and any policy developments relevant to those activities.

4.4.5 SFT‟s performance against key targets will be reported in the SFT annual report and accounts [see Section 5.1 below]. Other forms of reporting performance to the public should also be considered.

4.5 Budgeting procedures

4.5.1 SFT‟s budgeting and invoicing procedures are set out in the associated financial memorandum.

4.6 Internal Control

4.6.1 SFT shall comply with the internal control requirements of the Combined Code and the Financial Reporting Council‟s Guidance for Directors on Internal Control dated October 2005 as if it was a UK listed Company. This includes that the board should maintain a sound system of internal control, reviewed at least annually and reported on in the form of a Statement on Internal Control in the annual report.

4.6.2 SFT shall notify any unusual or major incidences of internal control failures, including fraud and theft as soon as is reasonably possible.

4.6.3 The Directorate may, at any time, require an independent audit of SFT‟s internal control arrangements if it reasonably suspects that adequate systems are either not in place, or are failing to properly safeguard public funds.

5. EXTERNAL ACCOUNTABILITY

5.1 The annual report and statement of accounts

5.1.1 After the end of each financial year (1 April to 31 March) SFT shall publish an annual report of its activities together with its audited annual accounts. The report shall also cover the activities of any subsidiary or joint venture under the majority control of SFT.

5.1.2 The report and accounts shall comply with the requirements of the Companies Act and any accounts direction issued by the Scottish Ministers.

5.1.3 The report and accounts shall outline SFT‟s main activities and performance during the previous financial year against its stated objectives and targets, and set out in summary form SFT‟s forward plans.

5.1.4 Information on performance against key financial targets shall be included in the notes to the accounts and will therefore be within the scope of the audit.

5.1.5 The report and accounts will be submitted in draft to the Directorate and the final version will be laid before the Parliament by the Scottish Ministers before 31 December at the latest. SFT will be responsible for the publication of the report and accounts.

5.2 External audit

5.2.1 The Board of SFT will appoint auditors to audit SFT‟s annual accounts and pass them to the Scottish Ministers who shall lay them before the Parliament, together with SFT‟s annual report.

5.3 Value for Money (VFM) / Economy, Efficiency and Effectiveness (3E) Examinations

5.3.1 SFT agrees that the Auditor General for Scotland (AGS) may carry out examinations into the economy, efficiency and effectiveness with which SFT has used its resources in discharging its functions. For the purpose of these examinations the AGS has statutory access to documents and information held by relevant persons specified by an Order made under the Public Finance and Accountability (Scotland) Act 2000.

6. STAFF MANAGEMENT

6.1.1 SFT shall have responsibility for the recruitment, retention and motivation of its staff. To this end SFT shall ensure that:

i. the recruitment of its staff is based on fair and open competition and equal opportunities;

ii. the level and structure of its staffing, including seniority and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;

iii. staff are employed on the basis of a set of written terms and conditions agreed by the Board

iv. the performance of its staff at all levels is managed effectively and efficiently; their performance is appraised regularly; and SFT"s performance management and career development systems are reviewed from time to time;

v. proper consultation with staff takes place on key issues affecting them;

vi. adequate grievance and disciplinary procedures are in place;

vii. whistleblowing procedures consistent with the Public Interest Disclosure Act are in place;

viii. a code of business conduct for staff is in place

6.1.2 SFT will determine the pay, allowances and other remuneration elements to be applied to its employees on the following basis:

i. Within the context of public sector ownership and the pursuance of its overall aims, SFT shall seek to attract, retain and motivate leadership and talent in competition with other organisations both in the public and private sectors. Remuneration levels for individual posts shall be determined through gaining an understanding of market value, followed by a recruitment process which seeks to deliver best value for money for each role. Remuneration for individual posts shall be agreed by the Remuneration Committee of the Board.

ii. Remuneration for professional staff shall include: base salary; performance incentive scheme; access to the Local Government Pension Scheme and (where applicable) allowances (for business needs, car, relocation, etc.).

iii. The annual review of base salaries shall be undertaken by the Chief Executive and approved by the Remuneration Committee. Individual reviews will be based on a combination of performance and market conditions for a given role. Any overall increase in payroll costs should be justifiable based on market conditions and be deliverable within the agreed Business Plan.

iv. SFT is a performance-orientated organisation. It may develop a performance incentive scheme for professional staff that is closely related to both corporate and individual performance. The maximum performance incentive payment shall generally not exceed 10% of base salary for staff and 15% of base salary for Executive Directors. Any exception to this shall be agreed in advance with the Directorate. Any performance incentive payments shall be non-pensionable.

6.1.3 SFT should establish and maintain appropriate superannuation provision for employees. This superannuation scheme will be subject to approval by Scottish Ministers. SFT will inform the Directorate of any proposed significant changes to this superannuation scheme and obtain approval from Scottish Ministers to such changes.

7. REVIEWING THE ROLE OF SFT

7.1 The role of SFT shall be reviewed periodically, in accordance with the business needs of the Scottish Government and of SFT, normally at least every five years.

APPENDIX A

MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION

of SCOTTISH FUTURES TRUST CO. LIMITED

THE COMPANIES ACTS 1985, 1989 AND 2006

PRIVATE COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

SCOTTISH FUTURES TRUST LIMITED

1 The Company's name is Scottish Futures Trust Limited.

2 The Company's Registered Office is to be situated in Scotland.

3 The Company's objects are to encourage, facilitate, plan, fund, procure and deliver assets, infrastructure and other projects initiated or pursued wholly or partly by or for the benefit of governmental bodies, local authorities, other bodies wholly or partly funded through public funds, and non-profit distributing bodies, in Scotland (hereinafter referred to as "**Infrastructure**") including, without limitation, by:

3.1 developing, by itself or in partnership with other organisations, national, regional and/or sectoral strategies, plans, policies and programmes for the delivery of Infrastructure;

3.2 acting as a focal point for public sector action in Infrastructure investment, including (without limitation) by promoting and disseminating innovation, good practice, experience and value for money in Infrastructure investment;

3.3 identifying and promoting opportunities for investment in Infrastructure;

3.4 raising finance by any means from institutions and/or the public for the purposes of investing in Infrastructure;

3.5 procuring Infrastructure for itself or on behalf of other parties;

3.6 monitoring, reviewing, reporting on and validating the effectiveness of investment in Infrastructure;

3.7 supporting or facilitating any of the above objects by means of supporting, advising, providing consultancy services, or personnel to, or collaborating with, or entering into joint venture arrangements with other parties; and

3.8 doing all such other things or activities as are incidental or conducive to the attainment of the above objects.

4 In pursuance of the above objects (but not otherwise) the Company shall have the following powers:

4.1 To carry on, directly or indirectly, and whether by itself or through a subsidiary or subsidiaries, associated, affiliated or allied companies any business, project, venture, whether joint or otherwise, undertaking or enterprise of any description whether of a public or a private nature and any or all trades, activities and processes in connection with or ancillary or complementary, or necessary in relation to the business of the Company.

4.2 To carry on any business which, in the opinion of the Directors of the Company, can be carried out for the benefit of the Company or any business which is calculated directly or indirectly to enhance the value of any of the Company's property or rights, and to conduct and carry on any part of the Company's business as a separate concern, and to employ in any such separate business any particular part of the Company's capital, and to keep separate capital and income accounts of any such separate part of the Company's business.

4.3 To purchase, sell, feu, exchange, improve, grant securities over, rent, let on lease, hire, surrender, license, accept surrenders of, and otherwise acquire and/or deal with any land or interest in land and other property of any tenure or description, either for the Company exclusively or jointly with any other company, and to erect, pull down, repair, alter, develop, hold or otherwise deal with any land or buildings and adapt the same for the purposes of the Company's business.

4.4 To buy, sell, manufacture, repair, alter, improve, manipulate, prepare for market, let on hire and generally deal in all kinds of plant, machinery, apparatus, tools, utensils, materials, produce, substances, articles and things for the purpose of any of the businesses specified herein or likely to be required by customers or other persons having or about to have dealings with the Company.

4.5 To purchase or otherwise acquire all or any part of the business or assets of any person, firm or company carrying on or formed to carry on any business which the Company is authorised to carry on or possessed of property suitable for the purposes of the Company, and to pay cash or to issue any shares, stocks, debentures or debenture stock of the Company as the consideration for such purchase or acquisition and to undertake any liabilities or obligations relating to the property or business so purchased or acquired.

4.6 To sell, lease, exchange, surrender, or otherwise deal with the whole of the undertaking and assets of the Company, or any part thereof, for such consideration as the Company may think fit, and in particular for any shares (whether credited as partly or fully paid up or otherwise) debentures, or securities of any other company

4.7 To amalgamate, enter into partnership or into any arrangement for sharing profits, union of interest, joint adventure, reciprocal concessions or co-operation with any persons or company carrying on or proposing to carry on any business within the objects of the Company and to take or otherwise acquire and hold shares or stock in, or securities of, and to subsidise or otherwise assist any such company, and to sell, hold, re-issue with or without guarantee, or otherwise deal with such shares or securities.

4.8 To promote or form any other company or companies for the purpose of acquiring all or any part of the property and liabilities of the Company for the time being, or for any other purpose which may be directly or indirectly calculated to benefit the Company, and to pay or contribute towards the preliminary expenses of any such company or companies, or provide the whole or part of the capital thereof, or take shares therein, or lend money thereto upon debentures or otherwise.

4.9 To apply for and otherwise acquire any patents, brevets d'invention, licences, trademarks, rights to use processes, concessions and the like conferring an exclusive or non-exclusive, or limited right to use any process or invention, or any secret or other information as to any invention which may seem calculated directly or indirectly to benefit the Company, and to work out, devise, develop, test, demonstrate, improve and perfect any such process or invention, and to use, exercise, develop, grant licences in respect of, or otherwise turn to account any such patents, brevets d'invention, licences, trademarks, rights to use processes, concessions and the like, and the property, rights and information so acquired.

4.10 To lend money to such persons, upon such terms and subject to such conditions as may be desirable, and with or without security therefor.

4.11 To borrow or raise money or secure the payment of money or performance of obligations (whether by or of the Company or any other person) in such manner as the Directors shall think fit, and in particular by the granting of bonds, charges and rights in security and by the issue of debentures or debenture stock charged upon all or any of the Company's property both present and future, including its uncalled capital, and to re-issue any debentures at any time paid off.

4.12 To grant a Power of Attorney in favour of any person, partnership, firm, company or other body of persons, whether corporate or unincorporated, to carry out on behalf of the Company any act or acts that the Company may lawfully carry out and as the Company shall so authorise in a Power of Attorney.

4.13 To guarantee the payment of any debentures, debenture stock, bonds, mortgages, charges, obligations, interest, dividends, securities, moneys or shares or the performance of contracts or engagements of any other company or person, and to give indemnities and guarantees of all kinds.

4.14 To pay for any property, rights, privileges or concessions acquired or agreed to be acquired by the Company, and generally to satisfy any payment due by, or obligations of, the Company, by the issue of shares of this or any other company credited as fully or partly paid up, or of debentures or other securities of this or any other company.

4.15 To the extent permitted by law, to give financial assistance for the purpose of the acquisition of shares in the Company or the Company"s holding company for the time being (as defined by Section 736 of the Companies Act 1985) and to give such assistance by any means howsoever permitted by law.

4.16 To draw, make, accept, endorse, negotiate, discount, buy, sell, deal in, execute and issue promissory notes, bills of exchange, debentures, warrants, and other negotiable or transferable instruments, securities or documents.

4.17 To purchase, subscribe for, or otherwise acquire and hold shares, stocks, debentures, debenture stocks, or other interests in, or obligations of any other company or corporation, and to invest and deal with the moneys of the Company not immediately required for the purposes of the Company in or upon such securities and subject to such conditions as may seem expedient.

4.18 To remunerate any person or company for services rendered or to be rendered in placing or assisting to place or guaranteeing the placing or procuring the underwriting of any of the shares or debentures or other securities of the Company or of any company in which the Company may be interested or proposes to be interested, or in or about the conduct of the business of the Company.

4.19 To pay out of the funds of the Company all expenses which the Company may lawfully pay relating or incidental to the formation, registration and advertising of or raising money for the Company and the issue of its capital, or for contributing to or assisting any company either issuing or purchasing with a view to issue all or any part of the Company's capital in connection with the advertising or offering of the same for sale or subscription, including brokerage and commissions for obtaining applications for or taking, placing or underwriting or procuring the underwriting of shares, debentures or debenture stock.

4.20 To establish and maintain, or procure the establishment and maintenance of, any pension or superannuation funds (whether contributory or otherwise) for the benefit of, and to give or to procure the giving of donations, gratuities, pensions, allowances and emoluments to, any persons who are or were at any time in the employment or service of the Company, or any of its predecessors in business, or of any company which is a subsidiary of the Company or is allied to or associated with the Company or with any such subsidiary, or who may be or have been directors or officers of the Company, or of any such other company as aforesaid, and the wives, widows, families, relations and dependants of any such persons, and to establish, subsidise and subscribe to any institutions, associations, societies, clubs or funds calculated to be for the benefit of, or to advance the interests and well-being of the Company or of any other company as aforesaid, or of any such persons as aforesaid, and to make payments for or towards the insurance of any such persons as aforesaid, and to subscribe or guarantee money for charitable or benevolent objects, or for any exhibition or for any public, general or useful object and to do any of the matters aforesaid either alone or in conjunction with any such other company as aforesaid.

4.21 To remunerate any person or company rendering services to the Company.

4.22 To redeem or purchase any shares or securities of the Company.

4.23 To promote or sponsor any primary or secondary legislation of the Scottish Parliament or of the United Kingdom Parliament for enabling the Company to carry any of its objects into effect, and to oppose any proceedings or applications which may seem likely directly or indirectly to prejudice the Company's interests.

4.24 To do all such other things as are incidental or conducive to the attainment of the Company's objects or any of them in any part of the world, and either as principals, agents, contractors, trustees or otherwise and either alone or in conjunction with others and either by or through agents, sub-contractors, trustees or otherwise.

AND IT IS HEREBY DECLARED THAT:-

4.24.1 The word "company" in this clause, except where used in reference to the Company, shall be deemed to include any partnership, firm or other body of persons, whether corporate or unincorporate, and whether domiciled in the United Kingdom or elsewhere.

4.24.2 The words "United Kingdom" in this clause means the United Kingdom of Great Britain and Northern Ireland.

4.24.3 In this clause, words denoting the singular number only shall include the plural and vice versa.

4.24.4 The powers specified in each of the paragraphs of this clause shall be regarded as independent powers, and accordingly shall not be limited or restricted (except where otherwise expressed in such paragraphs) by reference to or inference from the terms of any other paragraph or the name of the Company. In all cases, the powers shall be capable of being exercised only in direct furtherance of the objects of the Company as set out in Clause 3.

5 The liability of the members is limited.

6 The Company's Share Capital is £100 divided into 100 shares of £1 each.

7 The Company shall be non-profit distributing, meaning that all income and property of the Company, howsoever derived, shall (other than on the winding-up of the Company) be applied solely towards the promotion of the objects of the Company as set out in Clause 3 and no portion thereof shall be paid or transferred directly or indirectly by way of profit to the members of the Company.

We, the subscriber to this Memorandum of Association, wish to be formed into a Company pursuant to this Memorandum; and we agree to take the number of shares set out in the table below.

Name and address of Subscriber	Number of shares taken by the Subscriber
Scottish Ministers St. Andrew's House Regent Road Edinburgh EH1 3DG	Two
Signature: …"*Stella Manzie*"..… For and on behalf of the Scottish Ministers	
Before this witness: - …"*Alistair Brown*"…………….(sign) …"Alistair Brown"………. (print name) …"Room 3B 77"………. (address) …"Victoria Quay"……………. …"Edinburgh EH6 6QQ"..….	
Total shares taken	Two

Dated: "9 September" 2008

THE COMPANIES ACTS 1985, 1989 AND 2006

PRIVATE COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

SCOTTISH FUTURES TRUST LIMITED

1 Preliminary

1.1 The Regulations in Table A in the Schedule to The Companies (Tables A to F) Regulations 1985 as amended by The Companies (Tables A to F) (Amendment) Regulations 2007 and The Companies (Tables A to F) (Amendment) (No. 2) Regulations 2007 as that Schedule was in force on the date of adoption of these Articles (hereinafter called "Table A") shall apply to the Company save to the extent that they are excluded by or are inconsistent with any of these Articles.

1.2 Regulations 5, 8, 46, 54, 64, 66 to 69 inclusive, 76 to 79 inclusive, 81, 82, 83, 87, 88, 89 91, 101, 102 to 108 inclusive, 110, 117 and 118 of Table A shall not apply to the Company.

2 Interpretation

2.1 Regulation 1 of Table A shall apply to these Articles as it applies to the Regulations in Table A.

3 Share capital

3.1 The Company shall be entitled, but shall not be bound, to accept and, in case of acceptance, shall be entitled to record in such manner as it may think fit notices of any trusts in respect of any of the shares of the Company. Notwithstanding any such acceptance and/or the making of any such record, the Company shall not be bound to see to the execution, administration or observance of any trust, whether expressed, implied or constructive in respect of any shares of the Company and shall be entitled to recognise and give effect to the acts and deeds of the registered holders of such shares as if they were absolute owners thereof. For the purpose of this Article 'trust' includes any right in respect of any shares of the Company other than an absolute right thereto in the registered holder thereof for the time being or such other rights in case of transmission thereof as hereinafter mentioned.

4 Non-distribution of profits and assets

4.1 No share shall carry any entitlement to a dividend or (except to the extent permitted by Article 16) other distribution.

4.2 No share shall be redeemable.

4.3 The Company shall not transfer any of its assets to any member or Affiliate other than for full consideration except as may be required by law.

4.4 Article 4.3 shall not apply to any distribution of assets to members on a winding up, but only to the extent permitted by Article 16.

4.5 The Company shall not transfer any assets to any person (not being a member or Affiliate) other than for full consideration except as approved by the members by ordinary resolution.

4.6 For the purposes of Article 4:

4.6.1 "**Affiliate**" means any entity that directly or indirectly controls, is controlled by, or is under common control with a member; and

4.6.2 "**Control**" has the meaning given in section 89J of the Financial Services and Markets Act 2000 and "controls" and "controlled" shall be construed accordingly.

5 Lien

5.1 The Company shall have a first and paramount lien on every share for all moneys (whether presently payable or not) payable at a fixed time or called in respect of that share and, in the case of a share standing registered in the name of a single person, for all moneys presently payable by that person or his estate to the Company. The Directors may at any time declare any share to be wholly or partially exempt from the provisions of this Article. The Company's lien on a share shall extend to any amount payable in respect of that share, whether by way of dividend or otherwise.

6 Proceedings at general meetings

6.1 A resolution put to the vote of a meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands a poll is demanded. Subject to the provisions of the Act, a poll may be demanded by any member present in person or by proxy.

7 Votes of members

7.1 Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person or by proxy or by a duly authorised representative shall have one vote, and on a poll every member shall have one vote for every share of which he is the holder.

8 Number of directors

8.1 The maximum number and minimum number respectively of the Directors may be determined from time to time by ordinary resolution of the Company. Subject to and in default of such determination there shall be no maximum number of Directors and the minimum number of Directors shall be one. Whensoever the minimum number of the Directors shall be one, a sole Director shall have authority to exercise all the powers and discretions expressed by these Articles to be vested in the Directors generally, and Regulations 89 and 90 in Table A shall be modified accordingly.

9 Alternate directors

9.1 Any Director (other than an Alternate Director) may appoint any other Director, or any other person approved by ordinary resolution and willing to act, to be an Alternate Director and may remove from office an Alternate Director so appointed by him.

9.2 An Alternate Director shall be entitled to receive notice of all meetings of Directors and of committees of Directors of which his appointor is a member, to attend and vote at any such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in his absence.

9.3 Any appointment or removal of an Alternate Director may be made by letter, cable, telex, telegram, facsimile message or electronic communication or in any other manner approved by the Directors. Any cable, telex, telegram, facsimile message or electronic communication shall be confirmed as soon as possible by letter, but may be acted upon by the Company meanwhile.

9.4 The remuneration of any Alternate Director shall be payable out of the remuneration of the Director appointing him, and shall consist of such portion of the last-mentioned remuneration as shall be agreed between the Alternate Director and his appointor.

9.5 An Alternate Director shall cease to be an Alternate Director if his appointor ceases for any reason to be a Director; but if a Director, having vacated office at a meeting of the Company, is re-appointed or deemed to have been re-appointed at that meeting, any appointment of an Alternate Director made by him which was in force immediately prior to his vacation of office shall continue after his re-appointment.

9.6 Every person acting as an Alternate Director shall be an officer of the Company and shall alone be responsible to the Company for his own acts and defaults, and he shall not be deemed to be the agent of or for the Director appointing him.

9.7 An Alternate Director shall not be taken into account in reckoning the minimum or maximum number of Directors allowed for the time being.

10 Appointment and removal of directors

10.1 At any time and from time to time the Company may by ordinary resolution:

10.1.1 appoint persons who are willing to act as non-executive members of the board of Directors ("**Non-Executive Directors**");

10.1.2 designate a Non-Executive Director to act as chairman of the board of Directors (the "**Chairman**"); and

10.1.3 remove from office any person appointed in accordance with Article 10.1.1 or 10.1.2.

10.2 At any time and from time to time the Non-Executive Directors may by resolution:

10.2.1 appoint a person who is willing to act as an Executive Director, either to fill a vacancy or as an additional Executive Director but provided that the number of Executive Directors shall not at that time exceed the number of Non-Executive Directors; and

10.2.2 remove from office any person appointed in accordance with Article 10.2.1.

10.3 The office of a Director shall be vacated if:-

10.3.1 he ceases to be a Director by virtue of any provision of the Act or he becomes prohibited by law from being a Director; or

10.3.2 he becomes bankrupt or makes any arrangement or composition with his creditors generally; or

10.3.3 he is, or may be, suffering from mental disorder and either:-

10.3.3.1 he is admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or, in Scotland, an application for admission under the Mental Health (Scotland) Act 1984, or

10.3.3.2 an order is made by a Court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs; or

10.3.4 he resigns his office by notice to the Company; or

10.3.5 he shall for more than six consecutive months have been absent without permission of the Directors from meetings of Directors held during that period and the Directors resolve that his office be vacated.

11 Remuneration of directors

11.1 The Company shall from time to time determine in general meeting the remuneration of the Directors or the process by which the remuneration of the Directors shall be determined.

12 Directors' expenses

12.1 The Directors (including Alternate Directors) may be repaid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or general meetings of the Company or in connection with the business of the Company.

12.2 Any Director who, being so requested by the Directors, performs special or extraordinary services on behalf of the Company, or who, for the purpose of discharging his duties, travels to or resides in any place other than that in which he usually resides may be paid such extra remuneration (whether by way of lump sum, commission or participation in profits or otherwise) as the Directors may determine.

13 Directors' gratuities and pensions

13.1 The Directors may grant retirement pensions or annuities or other gratuities or allowances including allowances on death, to any persons or to the widow or dependants of any person in respect of services rendered by him to the Company in any office or employment under the Company or indirectly as an officer or employee of any subsidiary company of the Company, notwithstanding that he may be or may have been a Director of the Company, and the Company may make payments towards insurances or trusts for such purposes in respect of such person and may include rights in respect of such pensions, annuities and allowances in the terms of engagement of any such person

14 Proceedings of directors

14.1 A resolution of which any Director has signified his approval by letter, facsimile message or electronic communication shall be as valid and effectual as a resolution in writing signed by that Director.

14.2 The Directors shall:

14.2.1 ensure that the Company's external borrowings do not exceed such limits as are set out by ordinary resolution of the members for each year running from 1 April to 31 March;

14.2.2 obtain the approval of the members by ordinary resolution to all proposed capital expenditure projects above such levels as may be set from time to time by the members by ordinary resolution. Any request for such approval shall be supported by a full economic appraisal*;* and

14.2.3 manage the Company's affairs in accordance with a management statement and financial memorandum as determined by members from time to time.

15 Directors' Meetings

15.1 Subject to the provisions of these Articles, the Directors may regulate their proceedings as they think fit.

15.2 A meeting of the Directors, or of a committee of the Directors, may be held either in person or by conference call, live video link, or any other suitable means agreed between the Directors or committee of Directors in which all participants may communicate simultaneously with all other participants. A Director taking part in a meeting by conference call, live video link or any other suitable means determined by the Directors or committee of Directors shall be deemed to be present in person at the meeting and shall be entitled to vote and be counted in a quorum accordingly. Such a meeting shall be deemed to take place where the largest group of those participating in the meeting is assembled, or, if there is no such group, where the Chairman of the meeting is. The word “meeting” when referring to a meeting of the Directors, or of a committee of the Directors, in these Articles shall be construed accordingly.

15.3 The Chairman shall preside at every meeting of the Directors at which he is present. If the Chairman is not present at a meeting of the Directors within five minutes after the time appointed for the meeting, the Non-Executive Directors present shall appoint one of their number to be chairman of the meeting.

15.4 Subject to Article 15.5, a meeting of the Directors shall be quorate only if at least one Non-Executive Director and at least one Executive Director are present. An Alternate Director shall be counted for the purpose of reckoning whether a quorum is present at any meeting of the Directors attended by him at which he is entitled to vote.

15.5 If no Executive Directors have been appointed or hold office at the time of the meeting, the quorum for a meeting of Directors shall be one.

15.6 Questions arising at any meeting of the Directors shall be decided by a majority of votes. Subject to Articles 15.7, 15.8 and 15.9, each Executive Director and Non-Executive Director shall have one vote.

15.7 If the number of Non-Executive Directors present and entitled to vote ("***X***") is less than the number of Executive Directors present and entitled to vote ("***Y***"), the Chairman shall have, in addition to his own vote, a further number of votes equal to ***Y-X***.

15.8 If in any case the application of Articles 15.6 and 15.7 results in an equality of votes, the Chairman shall have an additional, casting, vote.

15.9 If in any case the Chairman (or, if the Chairman is absent, the person appointed to chair the meeting pursuant to Article 15.3) is not entitled to vote, the remaining Non-Executive Directors present shall appoint from their number a person who is entitled to vote (the "**Replacement Chairman**") and the provisions of Articles 15.7 and 15.8 shall apply to the Replacement Chairman as they apply to the Chairman *mutatis mutandis*.

16 Winding-up

16.1 If the Company shall be wound up the assets remaining after payment of the debts and liabilities of the Company and the costs of the liquidation shall first be applied in repaying to the members the amounts paid or credited as paid on the shares held by them respectively and the balance (if any) shall be distributed among the members in proportion to the number of shares held by them respectively; Provided always that the provisions hereof shall be subject to the rights of the holders of shares (if any) issued upon special conditions.

17 Indemnity

17.1 Subject to the provisions of the Act but without prejudice to any indemnity which may otherwise be available, every Director, Managing Director, Auditor, Secretary or other officer of the Company shall be entitled to be indemnified by and out of the assets of the Company against:-

17.1.1 all charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto; and

17.1.2 any liability incurred by him in:-

17.1.2.1 defending any proceedings, whether civil or criminal, in which judgement is not given against him; or

17.1.2.2 in connection with any application in which relief is granted to him by the Court from liability for negligence, breach of duty or breach of trust in relation to the affairs of the Company.

17.2 The Company may purchase and maintain for any officer or auditor of the Company insurance against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the Company.

SCOTTISH FUTURES TRUST

Name and address of Subscriber

Name and address of Subscriber
Scottish Ministers St. Andrew's House Regent Road Edinburgh EH1 3DG
Signature: ………"*Stella Manzie*"………..… For and on behalf of the Scottish Ministers
Before this witness: - …"*Alistair Brown*"…………….(sign) …"Alistair Brown"………. (print name) …"Room 3B 77"………. (address) …"Victoria Quay"……………. …"Edinburgh EH6 6QQ"..….

Dated: "9 September" 2008

SCOTTISH FUTURES TRUST

PART 3: FINANCIAL MEMORANDUM

1. BUDGETING PROCEDURES

Scottish Government Expenditure on SFT
Setting the annual fees
Transfers of budgetary provision
End-year flexibility
Authority to spend

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Service Payments
Borrowing
Maximising income from other sources
Receipts from the EC
Fees and charges
Receipts from the sale of goods and services
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Proceeds from the disposal of assets
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Unforecast changes in in-year income

3. SFT'S EXPENDITURE: GENERAL PRINCIPLES

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Novel, contentious or repercussive proposals
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5. EXPENDITURE ON STAFF

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6. NON-STAFF EXPENDITURE

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7. MANAGEMENT AND DISPOSAL OF ASSETS

Register of assets
Disposal of assets
Recovery of Scottish Government financed assets

8. BANKING

APPENDIX B

Specific limits on delegated authority

1. BUDGETING PROCEDURES

Scottish Government Expenditure on SFT

1.1 The SG is a customer of SFT. Fees for SFT services form part of the SG‟s resource DEL. Net lending by the SG to SFT and any borrowing in the market by SFT – including on balance sheet PPP – would score against the SG‟s capital DEL.

Setting the annual fees

1.2 Each year the SFT will publish its annual Business Plan setting out its priorities for the year based on its Corporate Plan (paragraph 4.1 of the management statement) and policies/priorities in relation to infrastructure investment.
1.3 Following publication of its Business Plan, SFT will propose to the Directorate a range of services (aligned with the Business Plan) that it will deliver to the SG over the following year, in the form of a draft Services Agreement. The draft Services Agreement will also contain a budget estimate of payments and receipts together with a profile of expected expenditure, fees to Scottish Government and other income over the year.

Authority to spend

1.4 Once SFT‟s Services Agreement has been approved by the Directorate, and subject to any restrictions imposed by Scottish Ministers and/or the MSFM, SFT will have authority to incur expenditure / consume resources without further reference to the Directorate, on the following conditions:

i. SFT shall comply with the specific delegations set out in Appendix 1. These delegations shall not be altered without the prior agreement of the Directorate;

ii. SFT shall comply with the conditions set out in this financial memorandum regarding novel, contentious or repercussive proposals;

iii. inclusion of any planned and approved expenditure in SFT‟s budget shall not remove the need to seek formal Directorate approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;

iv. SFT shall provide the Directorate with such information about its operations, performance, individual projects and services delivered as set out in the Services Agreement; and

v. SFT shall, with the approval of the Directorate, establish a scheme of delegated authority. These delegations will not be altered without the prior agreement of the Directorate.

2. SFT'S INCOME

Service Payments

2.1 Service payments will normally be made to SFT in quarterly instalments in advance, on the basis of a valid VAT invoice from SFT showing details of services to be delivered and costs which will be incurred. The supporting documentation shall provide the Directorate with, as a minimum, information which will enable the satisfactory monitoring by the Directorate of:

i. SFT‟s cash management; and

ii. actual and forecast outturn of expenditure against budget.

2.2 Cash balances accumulated during the course of the year from Scottish Government payments shall be kept at the minimum level consistent with the efficient operation of SFT.

Borrowing

2.3 Borrowing cannot be used to increase SFT‟s spending power for running costs. All borrowing by SFT - excluding agreed overdrafts - shall be with the prior agreement of the Directorate.

Maximising Income from Other Sources

2.4 SFT shall seek to maximise income from other sources provided that this is consistent with SFT‟s main functions and its corporate plan as agreed by the Scottish Ministers.

Receipts from the EU

2.5 SFT should ensure that the sponsoring Directorate is informed of all potential EU funding.

Fees and charges

2.6 SFT may charge for its services only on the basis that it does not compete with private sector providers and respects competition law. Any proposals to charge bodies other than the Scottish Government for services should be agreed in advance with the Directorate through the annual business plan on a generic basis or on a case-by-case basis as required.

SCOTTISH FUTURES TRUST

Receipts from sale of goods or services

2.7 Receipts from the sale of goods and services, rent of land, and dividends may be used to provide additional spending power subject to their being included in the approved budget.

Interest earned

2.8 Interest earned by SFT on cash balances may be used to provide additional spending power subject to it being included in the approved budget .

Proceeds from disposal of assets

2.9 Disposals of land and buildings are dealt with in Section 7 below.

Gifts, bequests and donations

2.10 SFT is free to retain any gifts, bequests or similar donations. These shall be treated as receipts that, where appropriate, can be used to increase spending power.

2.11 Before proceeding in this way, SFT shall consider if there are any associated costs in doing so or any conflicts of interests arising. SFT shall keep a written record of any such gifts, bequests and donations and of their estimated value and whether they are disposed of or retained.

3. SFT's EXPENDITURE: GENERAL PRINCIPLES

Delegated Authority

3.1 SFT shall not, without prior approval of the Directorate, enter into any undertaking to incur any expenditure, which falls outside the specific limits on SFT"s delegated authority as set out in the attached Appendix.

Appraisal and Evaluation

3.2 All expenditure proposals shall, so far as appropriate, be subject to appropriate appraisal prior to commitment and evaluation after the event.

Procurement

3.3 Procurement should be treated as a key component of achieving SFT"s objectives, as well as a means of finding the most cost-effective method for securing the quality of assets and/or services. SFT shall also ensure that it complies with any relevant EU or other international procurement rules.

Competition

3.4 Goods and services should be acquired by competition unless there are convincing reasons to the contrary. Subject to any relevant legal obligations, for example under the EU rules, the form of competition should be appropriate to the value and complexity of the goods or services to be acquired. Proposals to let single-tender or restricted contracts above the relevant delegated limit in the attached Appendix must be submitted to the sponsor Directorate for approval.

Value for Money

3.5 Procurement by SFT of works, equipment, goods and services shall be based on value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken.

Timeliness in Paying Bills

3.6 SFT shall pay all matured and properly authorised invoices in accordance with the guidance in the SPFM, including. as far as practicable, observing the target for the payment of invoices within 10 working days of their receipt.

Novel, Contentious or Repercussive Proposals

3.7 SFT shall obtain the approval of the Directorate before:

i. incurring any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have significant future cost implications, including on staff benefits;

ii. making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Directorate;

iii. making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies) or which might significantly affect the future level of resources required.

Risk Management

3.8 SFT shall ensure that the risks which it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and adopt an appropriate risk management strategy.

3.9 SFT shall adopt and implement appropriate policies and practices to safeguard itself against fraud and theft.

3.10 SFT shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract or to which it intends to give grant or grant in aid.

3.11 SFT will review identified risks with the Directorate on a yearly basis.

4. EXPENDITURE ON BOARD MEMBERS

4.1 Remuneration, allowances and expenses paid to Board Members must comply with specific guidance on such matters issued by the Scottish Ministers.

5. EXPENDITURE ON STAFF

Staff Costs

5.1 SFT is responsible for determining the number of staff required and the most appropriate organisational structure to deliver its remit economically, efficiently and effectively within the resources available to it. However, any significant changes in staff numbers or organisational structure must be notified in advance to the Directorate.

Pay and Conditions of Service

5.2 SFT will notify the Directorate of its staff remuneration, including the detail of its performance incentive scheme, on an annual basis. SFT shall comply with the EU directive on contract workers “Fixed Term Employees Regulations (Prevention of Less Favourable Treatment)”.

Pensions; Redundancy / Compensation

5.3 Pension arrangements for staff are subject to the approval of the Directorate. SFT staff shall normally be eligible for a pension provided by SFT.

5.4 Staff may opt out of the pension scheme provided by SFT. Any employer‟s contribution to a personal pension or other pension arrangement outside the scope of that approved generically by the Directorate shall be subject to individual specific approval of the Directorate.

5.5 Any proposal by SFT to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, or enter into arrangements that could lead to such payments in the future (See section 3.7 above), requires the advance approval of the Directorate. Proposals on severance payments must comply with guidance in the SPFM.

6. NON-STAFF EXPENDITURE

Capital expenditure

6.1 All expenditure on the acquisition or creation of fixed assets will be capitalised on an accruals basis in accordance with the accounting standards adopted by SFT. Expenditure to be capitalised will include the (a) acquisition, reclamation or laying out of land; (b) acquisition, construction, preparation or replacement of buildings and other structures or their associated fixtures and fittings; and (c) acquisition, installation or replacement of movable or fixed plant, machinery, and vehicles.

6.2 Proposals for large-scale individual capital projects or acquisitions will normally be considered within SFT"s corporate planning process and within the context of its long-term estate strategy. Individual capital projects or acquisitions are subject to specific delegated limits (see paragraph 1.7(i)).

Lending, guarantees, indemnities, contingent liabilities, letters of comfort

6.3 SFT shall not, without the Directorate"s prior consent, lend money, charge any asset or security, give any guarantee - excluding a guarantee of a standard type given in the normal course of business - or indemnity or letter of comfort, or incur any other contingent liability[2], whether or not in a legally binding form.

Grant schemes

6.4 Unless covered by a delegated authority, all proposals to make a grant to a third party, whether one-off or under a scheme, shall be subject to prior approval by the Directorate, together with the terms and conditions under which such grant or loan is made. See also below under the heading Recovery of Scottish Government - financed assets.

Gifts made, write-offs, losses and special payments

6.5 Proposals for making gifts or other special payments (including write-offs) outside the delegated limits agreed with the Directorate (see 1.7(i)) must have the prior approval of the Directorate.

Leasing

6.6 Prior approval from the Directorate must be secured for all property and finance leases which are in substance borrowing. Before entering into any lease

[2] Contingent Liability means: a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

(including an operating lease) SFT must demonstrate that the lease offers better value for money than purchase.

Public/Private Partnerships

6.7 SFT shall seek opportunities to enter into Public/Private Partnerships where this would be more affordable and offer better value for money than conventional procurement. Where cash flow projections may result in delegated authority being breached SFT will consult the Directorate. Any partnership controlled by SFT will be accounted for in accordance with the applicable accounting conventions.

Subsidiary companies and joint ventures

6.8 SFT shall not establish subsidiary companies or joint ventures without the express approval of the Directorate. In judging such proposals the Directorate will have regard to the Scottish Ministers‟ wider strategic aims and objectives.

6.9 Accounting arrangements for any subsidiary company or joint venture controlled or owned by SFT should be agreed in advance with the Directorate. Unless specifically agreed with the Directorate public sector classified subsidiary companies or joint ventures shall be subject to the controls and requirements set out in the MSFM.

Financial investments

6.10 SFT shall not make any investments without the prior approval of the Directorate, nor will it aim to build up cash balances or net assets in excess of what is required for operational purposes. Equity shares in ventures, which further the objectives of SFT, shall equally be subject to Directorate approval unless covered by a specific delegation.

Unconventional financing

6.11 Unless otherwise agreed with the Directorate, SFT will not enter into any unconventional financing arrangement.

Commercial insurance

6.12 SFT may only take out commercial insurance, without the prior approval of the Directorate, where required to do so by law e.g. third party insurance required by the Road Traffic Acts. In the event of losses arising under the Scottish Government‟s policy of self-insurance the Directorate shall consider, on a case by case basis, whether or not it should make any additional resources available to SFT and/or agree adjustments to the targets in the corporate plan.

7. MANAGEMENT AND DISPOSAL OF ASSETS

Register of assets

7.1 SFT shall maintain an accurate and up-to-date register of its assets.

Disposal of assets

7.2 SFT shall dispose of assets which are surplus to its requirements and in accordance with its long-term estate strategy. Assets shall be sold for the best price, taking into account any costs of sale and in accordance with guidance in the SPFM. Proceeds from the disposal of assets may be retained by SFT subject to them being included in the approved budget.

Recovery of Scottish Government financed assets

7.3 Where SFT has financed expenditure on capital assets by a third party, SFT shall make appropriate arrangements to ensure that any such assets above an agreed value are not disposed of by the third party without SFT‟s prior consent. SFT shall therefore ensure that such conditions are sufficient to secure the repayment of its due share of the proceeds – or an appropriate proportion of them if the contribution was for less than the whole cost of acquisition or improvement.

7.4 SFT shall also ensure that if the assets created by contributions made by SFT cease to be used by the recipient of the contribution for the intended purpose an appropriate proportion of the value of the asset shall be repaid to SFT.

8. BANKING

8.1 SFT‟s Chief Executive is responsible for ensuring that SFT has appropriate banking arrangements. In particular, he/she shall ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively. These arrangements shall be suitably structured and represent value-for-money, and be reviewed at least every two years, with a comprehensive review, at least every three to five years.

APPENDIX B

SPECIFIC LIMITS ON DELEGATED AUTHORITY

	Amount	Notes
Single-tender contracts	£10k	
Investment projects	Unlimited for agreed budgeted projects £0 for non-budgeted investments	See para 6.2 of the MSFM.
Acquisition of assets	Unlimited for agreed budgeted acquisitions	It is important that the Scottish Government Finance Directorate is informed through the accounts of any acquisition of assets.
	£100k for non-budgeted acquisitions	
Grant scheme	£100k	
Claims waived or abandoned	£20k	
Write-off of losses	£20k	
Special Payments	£Nil	
Lending	Unlimited for agreed budgeted projects	
Leases	Unlimited for agreed budgeted projects	
Investments	Unlimited for agreed budgeted projects	

Scotland's Spending Plans and Draft Budget 2011-12

The Scottish Government

SCOTLAND'S SPENDING PLANS AND DRAFT BUDGET 2011-12

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FOREWORD

by the Cabinet Secretary for Finance and Sustainable Growth

In this document, I present Scotland's Spending Plans and the Draft Scottish Budget 2011-12 for consultation with the Parliament and the people of Scotland.

This is a Budget set against the most dramatic reduction in public spending imposed on Scotland by any UK Government. The Comprehensive Spending Review confirmed that the Scottish Budget will be cut by £1.3 billion next year compared to this. Within that, Scotland's revenue budget has been cut by more than £500 million and our capital budget, which is so vital to our efforts to support economic recovery, has been cut by around £800 million (or about 24 per cent in cash terms).

We have made clear that we reject the Chancellor of the Exchequer's approach to addressing the state of the public finances. We have argued strongly that he is cutting spending too far, too fast, at a time when economic recovery – in Scotland and in the rest of the UK – remains fragile. This fundamental divergence in approach illustrates the case for the Scottish Parliament and Government securing the financial and economic powers of Independence, so that we can develop a growth strategy for the Scottish economy and public services as an alternative to Westminster-imposed cuts.

However, under our current constitutional arrangements, we must work within the spending limits we have been given.

This is a Budget that requires hard choices. It is a Budget anchored in delivering the Scottish Government's Purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth, particularly in the low carbon economy. It is a Budget that protects spending on public services.

At the heart of our decision-making has been our desire to reinforce our social contract with the people of Scotland. In difficult economic times, the Scottish Government has acted to create new economic opportunities, protect household income, support frontline services and improve our environment. We reaffirm that social contract by providing the resources to continue the council tax freeze and for the full removal of prescription charges. These initiatives will help households facing pay restraint, a necessary measure to protect jobs and assist the economy.

This Budget sets out the key commitments this administration will deliver for the people of Scotland.

We are meeting our pledge to protect NHS spending by allocating an additional £280 million to the health budget in Scotland, honouring our commitment to pass on Barnett consequentials from the UK settlement. This will fund the running of NHSScotland in 2011-12 with more money going to the frontline than ever before. This will help build on the progress we have made over the last four years in improving people's health and healthcare services - driving forward continuous improvement in the quality of healthcare services in the interests of our economy and the health and wellbeing of communities across Scotland.

We have agreed a settlement for local government with COSLA's Leadership that reflects our joint determination to improve outcomes for the people of Scotland and local government's key role in the economic recovery of our communities. Specifically, our agreement will enable local authorities to maintain delivery of shared commitments that impact on households throughout the country:

- maintaining the freeze in the council tax in 2011-12;
- keeping 1,000 additional police officers on our nation's streets so that we can keep Scotland's crime rate at its lowest level for 32 years;
- meeting the needs of our most vulnerable and elderly through the NHS and councils working together to improve adult social care;
- continuing to roll forward the *Curriculum for Excellence* to drive up standards of learning and teaching in Scotland's schools, so that our children have the best start in life and have the skills and knowledge for a rapidly changing world; and
- protecting teaching posts to ensure these are available for recently qualified teachers and to help reduce teacher unemployment.

Since 2007, we have put in place a set of measures designed to support Scottish business at a time when demand has been low and access to finance reduced. In this Budget, we reaffirm our commitment to this approach through the delivery of a package of business reliefs worth £2.4 billion over 5 years, including the continuation of the Small Business Bonus Scheme.

We will continue to provide substantial support to our Higher and Further Education sector, recognising its central role in delivering economic growth. We will invest in skills, including the introduction of 34,500 new training opportunities in 2011-12, while upholding our commitment not to introduce tuition fees.

In the face of a massive reduction in our capital budget by the UK Government, we have taken decisive action to boost capital spending next year and in subsequent years. We will transfer £100 million from this year to 2011-12 to supplement our capital budget. We set out today a far reaching £2.5 billion additional programme of infrastructure development that will be delivered through the Non-Profit Distributing model to boost investment in our public works. The Scottish Futures Trust will take forward this programme of investment to deliver maximum value for money in our capital programme. These measures enable us to confirm that our capital programme will include constructing the new Forth Crossing, the New South Glasgow Hospitals Project and our ambitious school building programme.

We have set out our spending plans to support the transition to a low carbon society. We publish today, alongside this Draft Budget and for Parliament's consideration, our *Draft Report on Proposals and Policies* (RPP) for addressing climate change. In October, we set out our *Energy Efficiency Action Plan for Scotland* and earlier this week we published the Scottish Government's *Low Carbon Economic Strategy*. In this Budget, we set out spending plans that renew the *Climate Challenge Fund*, increase funding for our *Zero Waste* programme and set out further spending to support Scotland's renewables agenda, within the tight financial perspective that we face.

This Government has pursued a vigorous programme of efficiency and public sector reform since 2007. We intend to intensify this programme. The profile of reduced public spending in the next four years makes it all the more essential that we reform the way in which we deliver public services in Scotland. We have established the Commission on the Future Delivery of Public Services, chaired by Campbell Christie CBE, which will be charged with making recommendations about the future provision of our public services. It will advise on how excellent, sustainable public services can be delivered in the future. The Commission's recommendations will be vital in informing the longer term choices which will face the Scottish Government, Parliament and delivery partners in the years ahead. The Scottish Government has made clear that, should this administration be returned to office, we will draw on the Commission's recommendations in taking forward a Spending Review to conclude in September 2011, setting out spending plans for the period 2012-13 to 2014-15.

In addressing the budget challenge for 2011-12, we are responding powerfully with all the mechanisms at our disposal by:

- driving out further efficiencies, with a clear target of 3 per cent improvement in 2011-12;
- securing further savings from procurement;
- selling surplus assets and making assets work harder for us;
- deploying innovative approaches to funding infrastructure investment;
- freezing pay, cutting the pay bill of the highest earners, implementing a Living Wage of £7.15 per hour and providing a minimum annual increase of £250 for employees earning less than £21,000;
- continuing to simplify the public bodies landscape;
- requiring further savings from scrutiny functions; and
- maximising income within existing powers.

We have looked closely at our own administration costs, and have cut our own costs more sharply than we are expecting others to cut theirs. We will reduce the Government's Administration budget by 10 per cent and we will reduce the costs of the Senior Civil Service in Scotland by 10 per cent in 2011-12 and by 25 per cent over the next four years.

Despite all these measures we still have to face cuts, as the Independent Budget Review advised when it reported in July. Where we have made reductions in revenue budgets, we do so reluctantly but in a way that we believe best responds to the cuts the UK Government has made in the resources available to us. We have considered priorities across all of our programmes, the contribution that different activities make to sustainable economic growth and our National Outcomes, and the need to support vulnerable people and groups.

This Government has never shirked the difficult decisions that are required in order to live within reduced means. We faced up to these difficult decisions in responding to the real terms reductions visited upon our 2010-11 budget and, as a competent and responsible government, we have set out our plans for doing so again in 2011-12.

I commend the proposals set out in this Budget to Parliament. The proposals involve difficult choices across the spectrum of government activity, but they represent a fair balance between priorities and support for all in Scotland who contribute to our economic growth and use and rely on our public services. That is the essence of our 'social contract'. By working together, across the political spectrum in Scotland, I believe we can agree and take forward an approach to public spending that presents alternatives to the course set by the UK Government and which best meets the needs of the people of Scotland.

John Swinney MSP
Cabinet Secretary for Finance and Sustainable Growth
November 2010

SECTION 1
STRATEGIC CHAPTERS

CHAPTER 1
Addressing the Budget Challenge

KEY MESSAGES

Our Purpose – to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth – provides the foundation for this Spending Review and Draft Budget 2011-12.

Our commitment to focus government on outcomes that deliver our Purpose remains crucial in the face of the worst financial settlement for Scotland in a generation, which threatens our economic resilience and recovery, in addition to Scotland's social fabric.

This settlement will see spending reductions of over 11 per cent in real terms between 2010-11 and 2014-15, with a 36 per cent cut in our capital budget over the same period.

Without additional financial and economic powers in Scotland, we are left to deal with a budget settlement which is a product of UK interests and choices. This is wrong for Scotland. The UK Government is threatening our economy by cutting public expenditure, particularly investment, too far and too fast.

Scotland must have enhanced financial powers to ensure we are never again placed in this situation.

Earlier this year, we highlighted the scale of the challenge we face, and we have shown leadership in driving forward public service reform and efficiency savings to absorb the worst impacts of these cuts.

We have also been open with the people of Scotland about the challenges we face. In February of this year, we established the Independent Budget Review and, since it reported in July, people across the country have joined us in a conversation to help inform our key priorities and choices.

But given the scale of the financial challenge, and despite all we are doing to lessen the impact of spending reductions, cuts in services across Scotland are unavoidable, and we have had to prioritise our spending. These decisions have been governed by our strategic framework to ensure economic recovery, protect frontline services and ensure our competitive advantage in tackling climate change.

To deliver our Purpose, we have therefore taken decisions which:

- give priority to economic recovery, by restraining pay to protect employment, supporting business through the Small Business Bonus Scheme and investment in Scotland's infrastructure;
- protect our health budget, and provide welcome relief for households by continuing with the freeze in council tax, at a time of increased UK taxation and other pressures on family budgets; and
- take forward action on climate change and maximise the opportunities of the low carbon economy by investing in Scotland's unrivalled renewable energy resources.

INTRODUCTION

Our fundamental strategic priorities central to this budget are:

- to support economic recovery and deliver our Purpose of increasing sustainable economic growth;
- to protect the public services on which people depend and which are most effective in tackling deep seated problems and delivering real benefits and better outcomes for the people of Scotland; and
- to establish a competitive advantage through the opportunities offered by taking action on climate change.

This first chapter re-affirms that our Purpose remains at the heart of what we do and sets out the scale of the spending cuts Scotland faces, the scope for limiting their impact, and the approach the Scottish Government has taken in reviewing the options and discussing priorities and choices with the people of Scotland.

Chapter 2 sets out the economic conditions for Scotland's budget for 2011-12, describes measures to strengthen economic recovery and describes how we are creating the conditions for long-term sustainable economic growth.

Chapter 3 summarises the approach we propose for 2011-12 to maintaining and improving Scotland's physical capital and announces a new pipeline of revenue financed investment through the non-profit distributing model, within a clear framework of affordability.

Chapter 4 sets out the case for greater fiscal responsibility for Scotland, to give the Scottish Parliament and the Scottish Government the full range of fiscal and economic powers to drive long-term reform, improve economic performance and support investment in our vital public services.

The balanced budget for 2011-12, set out in the portfolio chapters, will make every pound count. In the face of deep cuts, it is a budget that works for Scotland by maintaining the resilience of our people, our households, our businesses and our environment.

In accompanying statements we summarise:

- how we have considered equality issues and how our plans will make a difference to the lives of people disadvantaged by discrimination and inequality; and
- the carbon assessment of the budget.

There are no easy answers: the Scottish Government and the Scottish Parliament face hard choices in tough times.

So in tackling the challenges we now face, we have used all the mechanisms available to us. We are:

- driving out further efficiencies, with a clear target of 3 per cent improvement in 2011-12;
- securing further savings from procurement;

- selling surplus assets and making assets work harder for us;
- deploying innovative approaches to funding infrastructure investment;
- freezing pay, cutting the pay bill of the highest earners, implementing a living wage of £7.15 per hour and providing a minimum annual increase of £250 for employees earning less than £21,000;
- continuing to simplify the public bodies landscape;
- requiring further savings from scrutiny functions; and
- maximising income within existing powers.

However, given the scale of Westminster's cuts, it is simply not possible to find all the savings required through these mechanisms. We must therefore make cuts to projects and services which, while highly desirable, are no longer affordable.

But by taking difficult choices, we are able to protect spending on services and activities that are integral to the very fabric of Scottish society.

At the heart of our decision-making has been our desire to reinforce our social contract with the people of Scotland. In difficult economic times, the Scottish Government has acted to create new economic opportunities, protect household income and support frontline services.

OUR PURPOSE AND SCOTLAND'S BUDGET

The Government Economic Strategy, which we published in 2007, set a bold vision for the future of Scotland, focusing government and public services on increasing sustainable economic growth. We remain committed to the Purpose set out in our Economic Strategy:

> To focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

Our Purpose is even more relevant in tough times. It guides the choices we have to make in setting Scotland's budget for 2011-12 and in setting the direction for future years.

The scale of the challenge is unprecedented. Over the next four years, Scotland's budget will suffer the greatest cuts for more than a generation. Reductions of over 11 per cent in real terms between 2010-11 and 2014-15 and cuts of 36 per cent in our capital budget have been imposed by Westminster.

We have shown leadership in preparing Scotland for the tough choices that must follow.

OUR ACHIEVEMENTS SO FAR – BETTER LOCAL SERVICES AND BETTER OUTCOMES

Since taking office, our radical, outcomes-driven approach – co-ordinated through the National Performance Framework – has driven real improvements. Services are now better aligned behind our Purpose and Outcomes, leading to effective co-operation across the public, private and third sectors and significant savings. Public satisfaction with public services has increased, and through the Public Service Reform Act we have streamlined the delivery and scrutiny landscape, establishing the foundations for a period of further rationalisation.

Scotland's communities have seen real advances over the last 3½ years:

- **Health** – NHS waiting times are at their lowest ever and there have been marked reductions in mortality rates from cancer, heart disease and stroke.
- **Local government** – our funding of the council tax freeze has protected hard pressed households across Scotland, and we have increased in each year the share of the Scottish Budget allocated to Councils, to support local services the length and breadth of Scotland.
- **Education** – *Curriculum for Excellence* is raising standards in learning and teaching, equipping young people with the skills and knowledge they need, and 303 school building projects have been completed since May 2007, lifting over 120,000 pupils out of poor quality schools.
- **Social care** – we are improving the lives of older people by preserving existing eligibility for free personal care.
- **Community Safety** – recorded crime is at a new 32 year low.
- **Police** – the number of police officers on the streets of Scotland is at an all-time high.
- **Neighbourhood satisfaction** – 94 per cent of people rate their area as a good place to live.
- **Youth diversion** – over 300,000 young people participated in CashBack for Communities activities.
- **More effective and visible justice** – implemented major reforms to the summary criminal courts to ensure that people committing less serious crimes are punished quickly and effectively, and that distress and inconvenience to victims and witnesses are minimised.
- **Housing** – over 8,000 properties were made available through the Affordable Housing Investment Programme in 2009-10, equal to a 30 per cent increase over the financial year.
- **Municipal waste** – the amount of waste collected by, or on behalf, of local authorities and sent to landfill has reduced.

The Scottish Government is absolutely committed to building on these advances and to retaining the focus on outcomes in all that we do.

Underpinning these specific achievements, we have made strong progress across the board on efficiencies and reform. Key achievements include:

- delivering cash savings of £839 million in 2008-09 and £1,470 million in 2009-10 through the current Efficient Government programme;
- procurement savings of £160 million in 2008-09 and £312 million in 2009-10 delivered through the groundbreaking Public Procurement Reform Programme;
- promotion of local accountability and greater flexibility in the use of funding by reducing significantly the number of ring-fenced funds for local government;
- the Simplification Programme, which is on track to deliver a 25 per cent reduction in the number of devolved public bodies in Scotland, delivering estimated net savings of around £125 million by 2013 and estimated net recurring savings of around £39 million per year thereafter;
- delivering £111 million of net savings to public infrastructure investment through the Scottish Futures Trust in 2009-10; and
- a simplified set of scrutiny bodies, reducing the direct costs of scrutiny and introducing more co-ordinated and proportionate approaches to scrutiny.

We have also supported the vital contribution made by the third sector in delivering public services. With third sector partners, the Convention of Scottish Local Authorities (COSLA) and the Society of Local Authority Chief Executives (SOLACE), we have developed the third sector contribution to Single Outcome Agreements. Almost every Community Planning Partnership now has active engagement with the sector through a range of linkages which also provide strong support to the growth and performance of the sector itself, leading to improved services.

THE SCALE OF THE CHALLENGE

Under the current financial arrangements, the Departmental Expenditure Limit (DEL) for Scotland sets the upper limit for what the Scottish Government can spend each year. Scotland's DEL for each of the next four years has been set by the UK Government in its Comprehensive Spending Review (CSR).

The scale of the challenge imposed by Westminster is unprecedented. Over the period to 2014-15, the cut in our total spending power in real terms is over 11 per cent, and within this the cut in capital spending power is 36 per cent.

In contrast, between 2000-01 and 2009-10, the Scottish Government Budget grew by over 5 per cent per year on average in real terms. While this in part reflected the transfer of additional responsibilities from Westminster to Holyrood, it also was a result of a period of sustained real increases in the resources available to fund public services in Scotland – which ended in 2010-11 with the first real terms reduction in the Scottish budget since Devolution.

Given their scale, the cuts will not only affect Scotland for the next few years but will have lasting implications for at least the next decade.

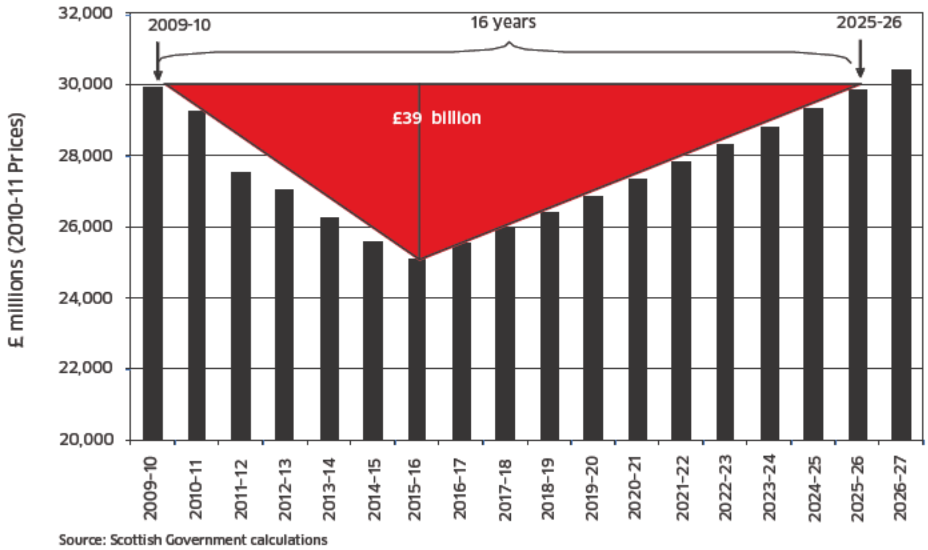
We have been actively preparing for these cuts for the last year. Under the plans of the previous UK Government, it was clear that our Budget would be cut significantly. The new UK Government has chosen to increase the depth of cuts.

We are clear that the UK Government is cutting spending too far and too fast. While a credible budget strategy is vital in returning the public finances to a sustainable footing, it is essential that the recovery is not put at risk. But this is exactly what the UK Government has done. In October, in an unprecedented display of unity, we joined with the Welsh and Northern Irish administrations in issuing a joint declaration to the Chancellor outlining our collective concerns.

In April, the Scottish Government's Chief Economic Adviser published a report to inform the Independent Budget Review, which forecast the potential medium to long-term pressures on the Scottish Government Budget arising from the possible spending cuts that the previous UK Government had planned. This analysis was updated after the current UK Government's Emergency Budget in June. A revised version appears below with, for the first time, updated figures from the CSR.

Assuming a return to spending growth consistent with the wider UK economy by the end of the period of spending cuts, the analysis shows that it could take until 2025-26 for the Scottish Budget to return to 2009-10 levels in real terms – an adjustment period of 16 years. This implies a cumulative real terms loss of approximately £39 billion from the base year of 2009-10, as illustrated in Figure 1.

Figure 1 Estimated Scottish DEL – 2009–10 to 2026–27



Source: Scottish Government calculations

For the period of the Spending Review, the table below shows that the one-year cash terms cut in total DEL set out in the CSR settlement between 2010-11 and 2011-12 is 4.5 per cent. After taking account of estimated GDP deflators, the cut in real spending power is 6.3 per cent.

Table 1.01

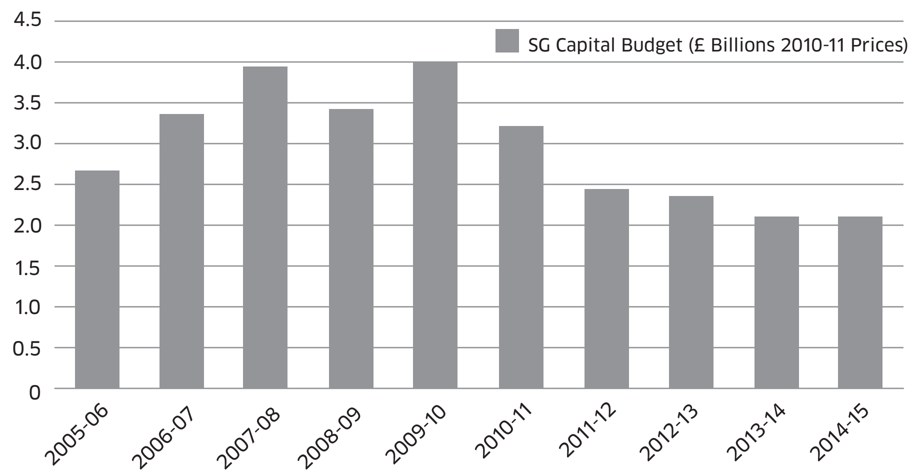
	2010-11	2011-12	Cash terms cut 2010-11 to 2011-12	2012-13	2013-14	2014-15	Real terms cut 2010-11 to 2014-15
	£m	£m	%	£m	£m	£m	%
Resource DEL	25,931	25,401	-2.0	25,787	26,011	26,166	-8.1
Capital DEL	3,293	2,506	-23.9	2,475	2,237	2,318	-35.9
Total DEL	**29,224**	**27,907**	**-4.5**	**28,262**	**28,248**	**28,484**	**-11.3**
Estimated GDP deflators %		1.9		2.3	2.6	2.7	

Compared with spending in 2010-11, our budget for 2011-12 is being cut by £1.3 billion. Of that, £530 million has been cut from the money for vital public services (Resource DEL). Another £790 million has been cut from capital – the money spent building and maintaining our transport networks, hospitals, schools and other essential public assets.

These figures show that the Chancellor is achieving as much as possible of his spending cuts through slowing and stopping capital investment in infrastructure. We believe this could cause serious damage to Scotland's recovery and long-term economic prospects. So we have taken action to cushion the capital cuts as far as we can.

Figure 2 below demonstrates the cut in the capital budget available to the Scottish Government between the current financial year and 2014-15, compared to the position in recent years. This unprecedented scale of reduction will inevitably slow down Scotland's infrastructure programme.

Figure 2 Scottish Government Capital DEL budgets



Note: Capital DEL budgets for 2005-06 to 2009-10 are outturn figures. 2010-11 total is from the 2010-11 draft Budget. For 2011-12 to 2014-15, Capital DEL allocations are from the UK CSR.

These spending cuts mean that the Scottish Government and the Scottish Parliament face difficult decisions about services, spending and policies for the people of Scotland. In turn, Scotland's councils, NHS Boards and other public services, and the partners and communities they work with and for, face equally difficult decisions about priorities and efficiencies.

CONSIDERING THE CHALLENGE

The Scottish Government set up the Independent Budget Review (IBR) in February 2010. Its members – Crawford Beveridge CBE, Sir Neil McIntosh CBE and Robert Wilson – were asked to bring their knowledge and experience of public budgeting and service delivery to the task of advising on the challenges facing Scotland in 2011-12 and beyond. The Panel had access to financial projections published by the Scottish Government's Chief Economic Adviser. Meetings and evidence gathering took place between March and June 2010. Further details are available at **www.independentbudgetreview.org**.

The Panel's report was published in July. It was widely welcomed, and has helped to set the scene for discussions about public spending priorities over the summer and autumn.

The conclusions of the IBR report focus on five broad areas:

Efficiency – delivering efficiency savings through further streamlining and simplification; the progressive development of shared services; the role of outsourcing; procurement practices; managing absence; and the radical redesign of services.

Remuneration and workforce – implementing pay and recruitment freezes and, depending on the intensity of pay restraint, reducing public sector employment by approximately 5.7 per cent to 10 per cent by 2014-15; changing current public sector pension arrangements; and establishing a strategic workforce plan for the whole of the public sector.

Universal services – considering eligibility and the selective introduction of means testing and user charging for all free or subsidised universal services, including as examples concessionary fares, free personal and nursing care, prescription charges, eye examinations and student funding arrangements.

Capital – exploring all available routes to resource and manage the capital programme; prioritising capital spending that delivers the greatest boost to economic growth; and reviewing the status of Scottish Water.

The shape of public services – considering the strategic, longer term framework for responding to future challenges; emphasising the need for Parliamentary leadership in shaping the future of public service delivery; moving to a more outcomes based approach to public service management; improving the quality of performance information.

Since the IBR Panel reported, the Scottish Government has engaged in dialogue with the people of Scotland about the spending challenges and choices that Scotland faces, the priorities for our communities, and the services that matter most.

The dialogue started with the launch of the Scottish Government's online consultation which offered everyone in Scotland the chance to join the public spending debate. Our web pages on the budget challenges ahead have received over 46,000 hits to date.

Budget consultation meetings took place between August and October in many parts of Scotland. These gave a wide range of people the opportunity to present their views to Ministers. Community Planning Partnerships and the main business organisations were also invited to contribute, and the public was engaged actively during open meetings as part of the series of Summer Cabinet events across Scotland. Nearly 1,000 people took part in these meetings. Issues raised and points made across Scotland have been taken into account by the Scottish Government in drafting this Budget for the Scottish Parliament's scrutiny.

In addition, we have drawn on the considerations of the Parliament's Equal Opportunities Committee and the work of the Equality and Budget Advisory Group to help us shape a Budget which takes account of equality considerations. This is outlined more fully in the accompanying Equality Budget Statement.

The work of preparing a balanced Draft Budget has been done in the light of comments from the Scottish Parliament and its Committees, from the Independent Budget Review Panel, from the Equality and Budget Advisory Group, from key stakeholders who deliver public services, from organisations such as the Scottish Trades Union Congress (STUC), Confederation of British Industry (CBI Scotland) and the Scottish Council for Voluntary Organisations (SCVO) and through our dialogue with the people of Scotland.

Throughout this process, we have set out clearly our strategic priorities and our responsibilities as a government charged with leading Scotland through hard choices in tough times.

We remain committed to our fundamental strategic priorities:

- to support economic recovery and deliver the Government's Purpose of increasing sustainable economic growth;
- to protect the public services on which people depend and which are most effective in tackling deep seated problems and delivering real benefits and better outcomes for the people of Scotland; and
- to establish a competitive advantage through the opportunities offered by taking action on climate change.

ADDRESSING THE CHALLENGE

The Scottish Government has examined options for reducing the impact of the cuts – by deferring them where possible, by ensuring that every pound available to us works as hard as possible, and by using our limited existing financial powers to maximise the resources available to us.

Soon after the UK General Election of May 2010, the UK Government announced cuts in public spending across the UK in this financial year (2010-11) which totalled £6.2 billion. Scotland's share of these cuts was calculated at approximately £330 million.

The Scottish Government took the view that such a large immediate cut would stifle demand in the Scottish economy at a time when recovery from recession was fragile and uncertain. There was a significant risk of stopping recovery in its tracks, damaging businesses and jobs across Scotland and disrupting public services when people needed them most. The economic context is described in more detail in chapter 2.

In tackling the challenges we now face, we intend to use the full range of mechanisms which are available to us.

Driving out further efficiencies

We are building on efficiency work that has already seen Scotland deliver £839 million in efficiency savings in 2008-09 and £1,470 million in 2009-10. This exceeded our targets by £300 million and £400 million respectively and out-performed Whitehall in each of the last two years. But we must go further. In the past, efficiencies have enabled us to improve services from the same budgets. In future, efficiencies will help to maintain services in the face of budget cuts.

Together with our partners, we will lead a culture of efficiency and effectiveness, identifying opportunities to improve public services, identifying and tackling blockages and challenging inaction. In particular, we are seeking efficiency savings across public services of 3 per cent for 2011-12, with each delivery body expected to report publicly on their plans to improve the efficiency of public services, actions undertaken and results achieved. As a contribution to making these savings, we will make further progress on the use of shared services.

Further savings from procurement

We will continue to lead the Public Procurement Reform Programme, and to deliver efficiency savings from collaborative procurement. Improved Scottish Government-led procurement will deliver savings of £61 million in 2011-12, and some £200 million over the next three years. More detail can be found in *Efficiencies from Procurement*, which is published today.

Selling surplus assets and making them work harder

In the face of a UK CSR outcome on capital that is worse than predicted, we are maximising receipts from the sale of surplus land and buildings. To further boost capital spending, the Scottish Futures Trust (SFT) is developing proposals to increase revenue from land and property assets.

Innovative approaches to funding infrastructure investment

The public sector has a vital role in capital investment to maintain and improve Scotland's infrastructure and so support our economic performance. The swingeing cuts in capital budgets described above present a major challenge. As noted, chapter 3 sets out the steps taken in this Budget to undertake rigorous prioritisation and management of our capital spending. We also intend to carry forward £100 million from 2010-11 to support capital investment in 2011-12. Within our capital budget, a number of major national infrastructure projects will be taken forward.

In the absence of borrowing powers, the Scottish Government will also work with SFT and local authorities to generate additional funding to support higher levels of capital investment. Through a new pipeline of revenue financed investment and through the use of innovative measures such as Tax Increment Financing, we will be able to support higher levels of capital investment in Scotland than would be possible through the capital budget alone. SFT is making a substantial contribution to achieve additional value from capital investment across the public sector through its work to drive down costs and improve collaboration.

Freezing pay and constraining the highest earners

The IBR report pointed out that, when budgets are declining, any pay increases have to be funded by employing fewer people. Our aim is to maintain public services in Scotland and the jobs of the people who provide them. This requires very firm control over pay. Consequently, in 2011-12 we will, for staff groups under our control:

- freeze basic pay;
- impose unrelenting downward pressure on pay costs for senior staff;
- reduce Senior Civil Service costs by 10 per cent in 2011-12, and by 25 per cent by 2014-15;
- suspend bonuses and non-consolidated pay across all staff groups whose pay we control;
- require employers to negotiate pay settlements that retain as many jobs as possible through increasing flexibilities and reducing pay costs such as overtime and allowances; and
- protect family incomes for the lowest paid by introducing a Living Wage of £7.15 an hour and providing a minimum increase of £250 a year for those paid less than £21,000.

Our pay policy is being published separately today.

Continuing to simplify our public bodies

We will continue the successful programme of simplification, looking for further opportunities to simplify and streamline our public bodies. We will take every opportunity to reduce costs and bureaucracy and improve service delivery.

In October, we announced the establishment of the Scottish Education Quality and Improvement Agency, initially bringing together Learning and Teaching Scotland (LTS) and Her Majesty's Inspectorate of Education (HMIE). This will improve efficiency and drive forward innovation and dynamism in education by ensuring that the best possible national level systems are in place to support and challenge teachers, schools, colleges and local authorities as we move forward with *Curriculum for Excellence*.

At our request, the General Register Office for Scotland (GROS), the National Archives of Scotland (NAS) and the Registers of Scotland (RoS) undertook a review to explore ways of working together more closely, and the potential for amalgamation. We have agreed that GROS and NAS will be amalgamated. These bodies will also work together to maximise savings from shared services. This will further reduce the number of public bodies, improve service to customers and build upon existing joint work and branding of the ScotlandsPeople service.

Further savings from scrutiny functions

Achieving more proportionate, focused and effective scrutiny of public services is part of our overall commitment to improvement. We have delivered significant advances already. We will maintain a focus on scrutiny improvement which will enable us to deliver savings of at least 20 per cent in the overall direct costs of scrutiny over the next four years. These savings will be focused to reflect variations in service risks, the vulnerability of service users, and the different levels of external assurance required across services and service providers.

Maximising income within existing powers

The limited financial powers available under the existing devolution arrangements mean we cannot do nearly as much as we would like to cushion the impact of spending cuts. There is little scope to re-profile spending or increase our spending power. Our opportunities to vary taxes are limited to the Scottish Variable Rate, which no Scottish administration has chosen to use since Devolution, and some discretion over non-domestic rates. We confirm that we will not use the Scottish Variable Rate power as this would increase taxation for individuals at a time when they face significant tax rises from the UK Government. On the question of non-domestic rates, the scope to act is, in practice, small if we are to avoid damaging the competitiveness of Scottish businesses compared to those in England. However, we propose to use these powers to help increase resources in 2011-12 by increasing business rates paid by the largest retail properties, including supermarkets and out-of-town retail parks. This will serve also to support our town centres. Our proposals are subject to the consent of Parliament.

SPENDING CUTS

These measures demonstrate what we are doing, and will continue to do, to deliver a balanced budget that:

- makes every pound count, by extracting maximum impact from efficiency and redesign;
- prioritises spending to protect economic recovery and front-line services; and
- maintains capital investment as far as possible given the cuts we face.

Given the scale of Westminster's cuts, it is simply not possible to find all the savings required through these mechanisms. Further reductions in spending – impacting on services and projects – are unavoidable if the budget is to balance. We must therefore make these reductions to programmes and services which, while highly desirable, are no longer affordable. In making these cuts to existing spending levels, we have been guided by the need to protect key services and economic recovery. The spending reductions are explained in the portfolio chapters. Key points are:

- We have reduced the budgets which we provide to Learning and Teaching Scotland and the Scottish Qualifications Agency for national support and challenge, while ensuring that their resources are targeted at the implementation of *Curriculum for Excellence*.
- The Scottish Funding Council's budget will fall, but we have agreed with the further and higher education sectors that they will work collaboratively and efficiently to manage this reduction without reducing overall learning opportunities, and both sectors have agreed that core college and university student places will be maintained.

- Skills Development Scotland will receive less money this year, but this reflects the fact that we expect them to become more efficient and redesign the services they offer.
- There will be a reduction in the budgets for the Scottish Environmental Protection Agency and Scottish Natural Heritage. These bodies will further improve efficiency to help reduce the impact of these cuts.
- We have reduced the budget for some components of the Scottish Rural Development Programme. There will be fewer and more focused rounds, and we will review the size of grants awarded to ensure that the benefits of these schemes are more evenly spread.
- Maintenance of the prison and courts estates will be reduced to the minimum sustainable levels, and we will not be proceeding with the redevelopment of the criminal court infrastructure.
- On transport, with a few notable exceptions such as the new Forth Crossing, on capital spend we will prioritise existing projects over new. Expenditure on maintenance of the motorway and trunk roads network has been reduced.
- Enterprise and tourism budgets have been reduced, partly by building on our earlier reforms and seeking further reductions in staffing levels, increased efficiencies within the bodies and the removal of lower priority activities.
- The costs of the Senior Civil Service will fall by at least 10 per cent by the end of 2011-12, and by 25 per cent by 2014-15 (taking 2010-11 as the base year). There will be firm control of pay, in line with Scottish Government public sector pay policy.

OUR PRIORITIES

Making these difficult choices enables us to protect spending on those areas that we believe are most important.

In preparing this Budget, we are maintaining the underlying resilience of the economy through supporting our people, households and businesses to mitigate the worst impacts of the recession. This also provides a springboard for economic recovery, which meets our Purpose in increasing sustainable economic growth.

For example, we have acted to mitigate, as far as we can, the immediate impact on Scottish families and jobs as a result of the recession. And we have sought to address the disproportionate burden falling on particular groups and the poorest members of society as a result of the Chancellor's unnecessarily harsh stance on cutting public spending. These fundamental choices have guided our approach to efficiency, value for money, priorities and the savings we are required to make to live within the reduced spending totals set by the UK Government.

The recession continues to have a major effect on employment prospects and thus on average household incomes, as do tax changes such as the rise in Value Added Tax (VAT) and in National Insurance rates. These matters are reserved to the UK Government.

In preparing this Budget, we have chosen to prioritise the services and activities described here. Subject to the acceptance by individual councils of the terms of the agreement reached between the Scottish Government and COSLA's Leadership, we will:

- make available a further £70 million in 2011-12 to those councils which freeze their council tax rates at 2007-08 levels for a fourth consecutive year. This will help hard working families by keeping money with people when they need it most;
- maintain the total number of police officers at 1,000 more than were in post before this government came into office;
- maintain the pupil–teacher ratio in the crucial early years of primary school;
- provide places for all probationer teachers through the induction scheme in August 2011, and reduce teacher unemployment; and
- in recognition of the wider pressures on the health and social care system, provide £70 million from within NHS Board allocations for a new Change Fund in 2011-12 to support the redesign of services and help shift the balance towards primary and community care.

We will also:

- protect real terms spending on running health services in Scotland;
- abolish – as we promised – remaining prescription charges, finally removing this tax on ill-health;
- continue to focus on and invest in reducing Healthcare Associated Infection, as part of our comprehensive approach to patient safety;
- invest a further £42 million in tackling the health and wider social problems associated with alcohol misuse across Scotland;
- introduce a new Early Years and Early Intervention Fund with initial start-up funding of £5 million;
- continue our commitment to supporting investment in the schools estate across the length and breadth of Scotland;
- continue to invest in skills, including the introduction of 34,500 new training opportunities in 2011-12, while upholding our commitment not to introduce tuition fees;
- support economic growth with an extra £600 million investment in new affordable housing supply, through use of £55 million of new Government funding;
- support Urban Regeneration Companies (URCs), with priority investment in Clyde Gateway URC to support delivery of a successful Commonwealth Games;
- implement the National Renewables Infrastructure Plan, establishing the £70 million Renewables Infrastructure Fund, which will receive £17 million in 2011-12;

- contribute significant sums to the development of the V&A at Dundee Project, which is key in the regeneration of the Dundee waterfront;
- spend over £11 million on broadband interventions to support our Digital Ambition for Scotland, putting in place the broadband infrastructure needed to support innovation;
- invest a further £11.9 million in support of Scotland's outstandingly successful food and drink sector, building on existing progress towards our target of increasing turnover in the industry to £12.5 billion by 2017;
- maintain the International Development Fund at £9 million – significantly more than double the 2007-08 level – to support the most vulnerable people in developing countries;
- invest £31.9 million in continuing to tackle drug problems, including £28.9 million invested in front-line drug treatment services, maintaining expenditure at 2010-11 levels;
- maintain existing eligibility criteria for free personal care and concessionary travel, saving money for elderly people and continuing to offer them quality of life benefits that some seek to remove; and
- help to maintain job numbers, family incomes and public services throughout Scotland as far as possible through exerting firm restraint on public sector pay.

We have also taken action to support small businesses by:

- maintaining the valuable Small Business Bonus Scheme, helping smaller companies through the difficulties many face in the present climate that will help tens of thousands of small businesses around Scotland during tough times; and
- establishing the Scottish Investment Bank to support new, innovative businesses through the provision of early stage risk capital and to provide established, viable growth and exporting businesses with access to debt finance through the creation of the new Scottish Loan Fund.

By prioritising these areas, we are seeking to limit the social and economic cost of the recession at a time when unemployment remains a real threat to many, when personal and household incomes are being squeezed, and when the business environment is uncertain. These actions also help to maintain spending power in the Scottish economy, maximising the positive impact of the public sector on the economy as a whole.

We have also chosen to maintain the front-line services on which Scotland's people depend, particularly the most vulnerable in our society. We have protected current expenditure on the NHS in real terms and have worked closely with COSLA and our local authority partners to maintain police services, school education, and adult social care services. This provides added stability throughout the economy by providing key services for all communities. And of course this supports employment and income levels throughout the economy too.

Our spending plans for 2011-12 for each Scottish Government portfolio are set out in chapters 6 to 14.

BETTER PUBLIC SERVICES

This Government is proud of all that it has done, together with delivery partners, to support and reform services so far. But we need to increase the pace of our reforms. The challenges to our public services were already formidable: deep-seated social inequalities; increased public expectations; an ageing population; and the low carbon imperative. We now know that, on top of these structural issues we face the most serious budget reductions for at least a generation. Simply doing what has always been done, even doing it better, will not get us to where we need to be.

Our public services must remain focused on our greatest economic asset – our people. The development of Scotland's people and society – through support for education, learning and skills and through services to improve health and wellbeing – is a critical element in the creation of a productive economy that is responsive and adaptable to rapid global change. Enhancing the skills and wellbeing of Scotland's people is a central theme in this Budget, supported by the central proposal to increase spending on running health services in Scotland and the decision to maintain the proportion of total spending that is available to local authorities.

There is no doubt that the first year in the UK CSR period is the toughest, and the Scottish Government has prepared a budget which tackles the challenges that this presents. We know this is more than a one-year challenge, as public expenditure is constrained for a number of years. We know that without fundamental change in how we deliver public services that challenge will not be successfully addressed. A crucial requirement of this approach is to ensure that we maintain the social cohesion of our country. It is vital that, in these difficult times, we continue to invest in social partnership and maximise the economic impact of our public spending. This is why we are establishing the Commission on the Future Delivery of Public Services, to be led by Campbell Christie CBE.

The Commission will make recommendations about the future provision of our public services, advising on how excellent, sustainable public services can be delivered in the future to continue our drive for improving outcomes, to examine the structures, functions and roles that help improve the quality of public service delivery and what this means for users, stakeholders and public sector workers. The Commission's recommendations will be vital in informing the medium to longer term choices that will face us in the years ahead.

The Commission's remit and membership will be announced shortly and will be invited to report with recommendations by the end of June 2011. The Scottish Government has made clear that, should this administration be returned to office, we will draw on the Commission's recommendations in taking forward a Spending Review to conclude in September 2011, setting out spending plans for the period 2012-13 to 2014-15.

WORKING TOGETHER FOR SCOTLAND

It is the job of the Scottish Government to propose a balanced budget for the coming year. This chapter has outlined the context in which we have done so. But the Scottish Parliament must take the final decision on how to distribute the funding available to support public services in Scotland.

This Administration will engage fully in the process of Budget scrutiny by the Scottish Parliament and we confirm our willingness to work with others to build a consensus and to achieve Parliamentary approval. We propose the balanced budget set out in this document in that spirit.

The following chapter sets out in more detail our projections for Scotland's future economic circumstances, and the actions we are seeking to take to maximise growth and reduce the risks to early-stage recovery.

CHAPTER 2
Our Economic Ambition

KEY MESSAGES

- The key principles of our Economic Strategy have governed the allocation of resources in this Budget. This chapter sets out the steps taken to deliver the Budget's first strategic priority: *supporting economic recovery and increasing sustainable economic growth.*
- The Scottish economy has now emerged from a recession that was shorter and shallower than that of the UK as a whole.
- Within this context, our budget seeks to enhance the resilience of the Scottish economy and to protect communities across Scotland from the worst impacts of the UK Government's cuts.
- Central to this is our commitment to maintain health spending in real terms and to protect local government funding from the worst impacts of the UK Government cuts by maintaining its share of the Scottish Budget.
- To support the recovery, we are prioritising our efforts to increase employment, strengthen education and skills, and promote new business growth.
- The Budget also reaffirms our commitment to long-term sustainable growth by continuing our investment in Scotland's human and physical capital (infrastructure).
- We also seek to build on Scotland's strengths and comparative advantages in the world economy, including maximising the opportunities presented by the transition to a low carbon economy.
- The economic and financial challenges that we now face highlight the urgent need for Scotland to secure full economic and fiscal powers so that we have greater opportunities to grow our economy, boost our revenues and invest in our public services.

INTRODUCTION

The Government Economic Strategy launched shortly after we entered office, established a bold vision for the future of Scotland, where the focus of Government and public services was placed on increasing sustainable economic growth. Our commitment to this Purpose remains as strong as ever.

Over the last three years we have:

- protected household incomes through freezing council tax;
- abolished tolls on the Forth and Tay Bridges;
- provided 40,000 training opportunities - including 20,000 Modern Apprenticeships and 5,000 new flexible training opportunities this year alone;
- established *Curriculum for Excellence* to equip young people with the skills and knowledge that they need;
- addressed the drag on the economy caused by poor health with radical action on alcohol and drug misuse, investment in smoking cessation measures and improvements in other health outcomes for the people of Scotland, such as Coronary Heart Disease, stroke and cancer;

- brought forward £120 million of planned affordable housing spending into 2008-09 and 2009-10 to accelerate the supply of affordable housing and to help support the house building industry;
- delivered vital infrastructure investments across the length and breadth of Scotland (such as completion of the M74 extension and the Airdrie - Bathgate rail link);
- modernised the planing process to promote economic development with our partners in local government;
- set the lowest ever national poundage for business rates;
- delivered the Small Business Bonus Scheme, removing the rates burden for 63,000 properties in Scotland and reducing the burden on a further 11,000;
- supported the activities of our Enterprise Agencies to help start new businesses and provide new opportunities for existing businesses to grow;
- overachieved on our efficiency targets which have been recycled to support our public services and investment in the economy; and
- led the way in promoting Scotland's transition to a low carbon future and ensuring that Scotland is well-placed to benefit from our renewable energy windfall.

Alongside this, in response to the deepest economic downturn of a generation we launched our Economic Recovery Plan in January 2009 – bringing together our strategy ahead of the UK Government's. The Economic Recovery Plan mobilised the resources of all of Scotland's public sector to deliver a vital economic stimulus, including capital acceleration, which protected employment and skills.

However, the fragile, early stages of recovery has now been put at risk by the UK Government's spending cuts.

Within this context, our Budget seeks to maintain the resilience of the Scottish economy and to protect communities across Scotland from the worst impacts of the UK Government's cuts.

To support the recovery, and working with our partners in local aurhorities, we are prioritising our efforts to increase employment, strengthen education and skills, and facilitate new business growth. We will protect communities through our support for the health budget and other vital public services, and provide welcome relief for households by maintaining, with local authority partners, the freeze in council tax.

The Budget also reaffirms our commitment to building the optimal conditions for long-term sustainable growth by continuing our investment in Scotland's human and physical capital (infrastructure) - despite the severity of the cuts imposed by Westminster to our capital budget.

We also seek to build on Scotland's strengths and comparative advantages in the world economy, including maximising the opportunities presented by the transition to a low carbon economy.

ECONOMIC CONDITIONS FOR THE BUDGET

After a shorter and shallower downturn than the UK as a whole, the Scottish economy emerged from recession in the last quarter of 2009. The latest assessments show that the Scottish economy grew by 1.3 per cent in the second quarter of 2010 - stronger than in the UK, and the EU and OECD averages.

Growth was widespread across the economy with the Construction, Production and Service sectors all improving on the previous quarter.

The quarterly growth of 10.4 per cent in construction in Q2 2010 is evidence that we were correct to take decisive action in our Economic Recovery Plan, by bringing forward key capital projects and delivering an infrastructure programme worth £3.3 billion in 2010-11.

Going forward, while businesses report cautious improvements in optimism, conditions remain challenging. Recent surveys indicate a slight easing in private sector demand in the second half of 2010. Despite repeated attempts by the UK Government to boost bank lending, access to finance remains a significant challenge for many firms and is inhibiting growth.

In international markets, the global nature of the recession has meant that the recovery in many of Scotland's key trading partners, particularly in the EU, has been subdued. While recent figures have shown a pick-up in Scottish exports, weak demand abroad limits the opportunities for our firms to expand in traditional markets. However, the growing importance of emerging economies should provide a fruitful source of demand in the future.

Despite welcome increases in employment in recent months, Scotland continues to face pressures in its labour market - a not uncommon feature in the early stages of a recovery. Scotland's unemployment rate, over the three-month period June-August 2010 was 8.6 per cent[1]. While below the EU average, and that of many other countries including the United States, the reality of unemployment highlights the fragile nature of the recovery.

Household finances also face ongoing pressures. Since the recession, wages have not kept pace with general inflation. House prices remain below the pre-recession peak and consumer prices continue to rise. These factors are compounded by the recent UK Government tax and spending decisions. The Institute for Fiscal Studies (IFS) estimates that households on average incomes can expect to be £650 per year worse-off by 2014-15, as a result of the tax and benefit measures planned by the UK Government[2].

While we recognise that a credible budget strategy is vital in returning the public finances to a sustainable position, faced with these current economic conditions we strongly reject the UK Government's approach to consolidation. We believe that promoting economic growth and employment is the best way to restore the health of the UK public finances. Instead, cutting spending too far and too fast puts the recovery at risk and threatens to undermine the efforts to address the legacy of debt left by the previous UK Government.

However, under the current constitutional arrangements we must work within the spending limits we have been given. In what follows we set out the actions we will take, and our key priorities to *support economic recovery and increase sustainable economic growth*.

1 International Labour Organisation definition of unemployment
2 http://www.ifs.org.uk/publications/5313

Outlook for the Scottish Economy
Key forecasts for the Scottish economy indicate that, in line with the majority of advanced economies, growth is likely to remain below trend in 2011, with output unlikely to return to its pre-recession peak until well into 2012. There is still a significant degree of uncertainty over the strength of the recovery in the global economy, with the International Monetary Fund (IMF) highlighting in their *World Economic Outlook* (October 2010) that the downside risks to the recovery remain significant. The IMF have revised down their projections for growth in the US in both 2010 and 2011 and warn that risks to this forecast remain elevated and to the downside. The IMF also forecast that growth across many of our competitors in the European Union is likely to remain subdued in 2011. In the UK, recent survey evidence has pointed to a weakening in the strength of recovery during the second half of 2010; whilst increased uncertainty regarding future prospects, particularly in the light of the Coalition Government's spending plans, has resulted in many independent forecasters revising down their growth forecasts for the UK for 2011 and beyond. Perhaps the biggest uncertainty concerns definitive evidence of future sources of growth, particularly if external demand remains weak as a result of a slow global recovery. Reflecting continued uncertainty regarding the strength of recovery in the global economy, and despite the strong performance in the second quarter of 2010, the recovery in Scotland remains fragile – particularly to any significant loss in aggregate demand.

SUPPORTING ECONOMIC RECOVERY

This Budget continues the key elements of the Economic Recovery Plan, an important part of the delivery of the Government Economic Strategy – *supporting jobs and our communities; investing in innovation and industries of the future; and strengthening education and skills.* Actions in each of these areas are contained throughout this document. Together, they represent a combined investment in Scotland's long term future, while helping our businesses and households survive the worst effects of the UK Government's spending cuts.

Supporting jobs, our households and our communities

In this Budget, we have sought to maintain the underlying resilience of the economy; supporting Scotland's people, households and businesses. This approach aims to mitigate the worst impacts of the recession and to provide a springboard for economic recovery.

For example, by taking the difficult decision to limit pay awards in the public sector, we are using the savings to maintain employment levels as best as possible. In the face of budget cuts and pressure on the overall wage bill, our pay restraint policy will support thousands of jobs right across Scotland.

This action will not only protect the delivery of key services but will assist demand in the wider economy; ease labour market pressures; and mitigate equalities impacts. For example, women account for approximately two thirds of public sector employment. Reductions in public sector employment may therefore disproportionately impact on female workers, which can have wider socio-economic impacts.

The tax rises announced by the UK Chancellor will impose costs on every household in Scotland. The VAT increase alone is forecast to cost an average household £380 per annum, with the greatest impact on low income households. Overall, analysis by the IFS has concluded that the tax increases and welfare cuts being introduced by the UK Government over the next four years are regressive, with the poorest 20 per cent of Scottish households suffering more than the richest 20 per cent.

Decisions in this Budget are therefore directed towards seeking to limit the social and economic costs of the legacy of the recession at a time when households incomes are being squeezed.

- We have chosen to provide welcome relief for households. We will work with local authorities to continue the freeze in council tax and we will abolish – as we promised - remaining prescription charges, finally removing this tax on ill-health.

- We will also support jobs directly, through continuing with our investment programme in schools, hospitals and transport – in spite of the 25 per cent cuts to our capital budget imposed by Westminster. For example, we intend to fund an extra £600 million investment in new affordable housing supply, through use of £55 milion of new Government funding.

- Our investment in industries of the future, particularly those which support the low carbon economy, provides opportunities in key regions of Scotland. These investments provide an immediate stimulus and, more importantly, act as a catalyst for their renewal and regeneration through the use of our natural resources. Our low carbon ambitions are set out later in this chapter.

The full range of decisions to supporting jobs and our communities are summarised in chapter 1 and set out in more detail in the portfolio chapters.

Strengthening education and skills

The Budget ensures that the ongoing labour market risks can be mitigated through support for learning and skills. Resources are directed towards opportunities to volunteer or retrain – and improving skills and vocational training, particularly for young people.

- The establishment of Skills Development Scotland has ensured a focal point for our skills and training support. This Budget aims to introduce 34,500 training opportunities in 2011-12, including the continuation of the vital Modern Apprenticeships programme.

- We will not raise university tuition fees or college charges and we will guarantee that no existing student will see their living costs support decrease in academic year 2011-12.

- In contrast with the decision to remove it in other parts of the UK, the Scottish Government will continue the Educational Maintenance Allowance (EMA) scheme – honouring our commitment to support the least well-off students in Scotland.

Investing in innovation and industries of the future

In light of public expenditure cuts on the scale now planned by the UK Government, an even greater prominence must be placed on new private sector growth. This Budget preserves central elements of the Economic Recovery Plan to support business growth. These include:

- the continuation of the Small Business Bonus Scheme, which was fully implemented in 2009-10 and extended in 2010-11. The scheme will continue to reduce tax burdens on Scotland's small businesses to help them through the difficult economic conditions. The latest assessments show that 74,000 business properties now benefit under the scheme to the tune of £117 million in 2010-11;

- the development of the Scottish Loan Fund through the Scottish Investment Bank will help to address a gap in the market for loan finance for established growth and exporting companies. Improved access to finance will be a key condition for a strong recovery. Efforts to widen availability of affordable lending – through for instance the East of Scotland Investment Fund – are also supported by this Budget;

- support to attract new inward investment will be extended as Scotland looks to take advantage of the new opportunities that will follow the rebalancing of the global economy. In a crucial period, the Budget maintains support to attract additional inward investment through the Regional Selective Assistance, R&D Plus and Training Plus schemes; and

- Scottish Development International (SDI) continues to play a key role in attracting investment into the Scottish economy. Recent successes in attracting key international financial companies to locate or expand activities in Scotland illustrate the underlying strengths of the Scottish economy. We must also focus however on the new opportunities for Scottish businesses to enlarge their export markets and support more Scottish businesses to sell outwith Scotland. This Budget makes provision for a suite of schemes to boost export growth, including the SMART Exporter Initiative, jointly led by SDI and Scottish Chambers International.

CREATING THE CONDITIONS FOR LONG TERM SUSTAINABLE ECONOMIC GROWTH

The Scottish Government's approach to long term sustainable economic growth is based on *enhancing Scotland's human capital; maintaining and improving Scotland's physical capital; and developing a comparative advantage in the world economy.*

Enhancing Scotland's Human Capital

Scotland's greatest economic asset is its people. The development of Scotland's human capital through support for education, learning and skills and through services to improve health and wellbeing – is a central theme of this Budget. This is supported by the proposal to sustain spending on health in Scotland in real terms and the decision to maintain the proportion of total spending that is provided to local authorities. These decisions reflect the importance of local services to economic development, particularly through educational support.

Investing for better health

Chapter 8 highlights the spending decisions to improve the wellbeing of individuals and communities. With a real terms rise in health service resource funding in 2011-12 – worth £280 million in cash terms – this Budget builds on the substantial gains already made during this Parliamentary period. It will ensure that our investment in health and health improvement continues to support our approach to increasing sustainable economic growth.

- We will prioritise frontline services, enhancing support for prevention and early intervention and maintaining vital investment in major public health programmes.
- This Budget reaffirms the commitment of the Scottish Government and its key partners to working together to tackle the root causes of health and social inequalities, which damage lives and impair Scotland's economic potential.
- Scotland's healthcare sector is continually improving the quality of services it provides to the people of Scotland. It supports sustainable economic growth by helping those out of work because of poor health return to employment and, by improving the physical and mental health and wellbeing of those in work, reducing sickness absence, promoting motivation and increasing productivity. Increasing healthy life expectancy and improving health ensures that, within an increasing population, there are more people able to become part of the labour market.
- As Scotland's single biggest employer, with more than 168,000 employees across the country, the health sector makes an important contribution to local economies and the economic output of Scotland as a whole. Our investment in healthcare services, and the commitment we make to increasing productivity through improving quality and increasing efficiency will have an important positive impact on economic growth for Scotland.
- The healthcare sector also contributes to economic growth through its significant investment in world-leading healthcare related research and development in medical and life sciences technology.

Education, learning skills and innovation

Chapter 9 sets out our commitment to education, explaining how we are maximising the positive impact on Scotland's economic potential. This Budget maintains the proportion of total spending that is provided to local authorities, an essential step towards ongoing improvement in Scotland's early years and school education systems.

We will continue to invest in supporting our students in school, further and higher education and training. In England, tuition fees are being raised at universities and charges are proposed for college students. We are not proposing these measures. We are guaranteeing that no existing student will see their living costs support decrease in academic year 2011-12.

It is critical to keep young people aged 16-19 engaged in learning. In other parts of the UK, the Educational Maintenance Allowance (EMA) scheme – the flagship programme for supporting young people from low income families – is being removed. The Scottish Government will continue the EMA scheme. This funding honours our commitment to support the least well off students in Scotland and open up opportunities to poorer families.

Early years

Our commitment to giving every child the best start in life through implementation of the Early Years Framework provides a long term investment to increasing sustainable growth with funding routed through key partners, particularly in Health and Local Government.

- The Budget continues the Scottish Government's commitment to the implementation of the *Early Years Framework* – with COSLA and our other key partners.
- We are providing over £45 million to support the most vulnerable children and young people in our society through focusing investment in the early years and early intervention.
- We will introduce a new Early Years and Early Intervention Fund from 2011-12, with initial funding of £5 million. In addition to this fund, we have sought to protect funding that we provide to the third sector to improve outcomes for children and young people, including children with disabilities.

School education

School education is critical in enabling young people to flourish in the future labour market. Since May 2007 we have worked with key delivery partners to provide additional resources and energise Scotland's schools through the implementation of *Curriculum for Excellence*. This Budget ensures the education system is resourced to equip young people with the knowledge, skills and ambition they require to participate in the modern economy.

- The Budget supports the implementation of *Curriculum for Excellence*, to raise standards in learning and teaching, including investment of over £9 million in the development of a new generation of National Qualifications; and
- continues our major investment in Scotland's school estate through the *Scotland's Schools for the Future* programme – investing £20 million in 2011-12.

Further and Higher Education

Since 2007, investment in Lifelong Learning has been a priority. However, the scale of the budget reductions required mean that we have had to take the difficult decision to reduce the overall resources for the further and higher education sectors in Scotland. In doing so, we have been clear that our objective, in the current economic climate, is to continue to protect student numbers and to protect our investment in research.

We have asked the further and higher education sectors to extract maximum value from the unprecedented levels of investment they have received over the past four years by managing these reductions through greater efficiency and collaborative working. They have responded to this challenge.

- We have agreed with the sectors that we will work in 2011-12 to preserve core college and university student places;
- In addition, and mirroring the position in England, the Scottish Funding Council's (SFC) research budget will also be protected in cash terms.

Commercialising Scottish science and research

Building on the protection of the SFC research budget, this Budget maximises the contribution of Scotland's world-class science and research base to economic growth in Scotland.

- NHS Research Scotland (NRS) has been established. This initiative, developed to streamline the process of obtaining Research and Development approval for multi-centre research studies in Scotland, is part of a wider investment in clinical studies infrastructure, which will deliver major efficiencies to industry. It is regarded as crucial to attracting pharma industry to invest in research in Scotland;
- focused investment will continue in the Main Research Providers and Marine Scotland Science, funded by the Rural and Environment portfolio to deliver benefits to rural businesses and the wider economy. This includes new centres of expertise on climate change, water and animal disease preparedness; and
- the Scottish Government will continue to build on Scotland's science and research base through support for the growth of Scotland's life sciences sector through targeted schemes to support near-market research and development projects (feasibility and prototype development) by small and medium enterprises;

Maintaining and Improving Scotland's Physical Capital

Capital investment is crucial to sustainable economic growth and it is a central part of the Government Economic Strategy. As part of our Economic Recovery Plan, we began in advance of the UK government in August 2008 to re-profile our capital expenditure in order to support investment and key skills as private investment faltered. We argued for further capital investment, as part of the then UK Government stimulus package, instead of the VAT cuts that were introduced. We continue to believe the UK Government is wrong to slash capital investment in the economy. Ensuring continued investment is critical to economic growth and the Government's Purpose. Despite the severe cuts to the capital budget, this remains a key priority of the Scottish Government.

Since 2007, the public sector has led the way, investing more than £10 billion of capital spending over the 2007 Spending Review period. This investment is part of an an integrated strategy for infrastructure investment across the *National Planning Framework 2;* the *National Renewables Infrastructure Plan;* the *Strategic Transport Projects Review;* and the *Infrastructure Investment Plan.*

Chapter 3 sets out the pressures on the Scottish capital budget following the Comprehensive Spending Review. The UK Government's requirement to reduce the Scottish Government's capital budget by 26 per cent in real terms in 2011-12 and significantly reduce capital budgets in subsequent years now threatens 12,000 jobs.

Under these constraints, the Scottish Government has undertaken rigorous prioritisation and management of capital spending. Our strategy makes full use of traditional capital procurement exported by judicious and sustainable revenue financed capital investment – and we are encouraging private sector investment in our core economic infrastructure to complement the actions of the public sector.

The Budget prioritises major national infrastructure investments, which will make important contributions to productivity, improving connectivity in Scotland, supporting the development of new sources of clean energy and supporting construction employment:

- construction of the new Forth Crossing, an essential investment in Scotland's transport infrastructure. Work on the project, with an estimated cost of between £1.7 and £2.3 billion, will begin in 2011-12 to ensure the crossing is operational by 2017. The project will secure 3,000 new jobs and additional turnover of £1.3 billion;

- the South Glasgow Hospitals project – an £842 million investment to upgrade and expand capacity for adult and children's hospital care in Glasgow and the West of Scotland; and

- Scotland's *Schools for the Future* building programme. In partnership with local authorities, this programme will invest £1.25 billion to improve Scotland's school estate.

This Budget also takes steps to leverage additional private sector investment to maintain levels of aggregate investment in the Scottish economy. In the absence of borrowing powers, the Scottish Government will work with the Scottish Futures Trust and local authorities to generate additional funding to support higher levels of capital investment than would be possible through the capital budget alone. In addition to the planned capital investments in 2011-12 and future years, the Scottish Government will use all available levers to:

- take forward a new pipeline of revenue financed investment, worth up to £2.5 billion, to be delivered through the Non Profit Distribution (NPD) model;

We will also continue to explore options to promote and encourage private sector investment to enhance our own investment in Scotland's infrastructure. Key actions are to:

- Implement the *National Renewables Infrastructure Plan*, including the £70 million Renewables Infrastructure Fund, which is designed to leverage significant private sector investment over the next four years; and

- stimulate further investment through innovative measures such as tax increment financing, the National Housing Trust and investment through the JESSICA Fund.

These steps complement the Scottish Government's wider strategy to promote economic development, particularly through the planning process. Since 2007, an ambitious set of improvements to planning has been implemented, including the ePlanning service and new planning guidance. Together, these reforms have led to tangible new economic development and an expansion of Scotland's capital asset base.

Developing a Comparative Advantage in the World Economy

At the heart of the Government Economic Strategy is the recognition that Scotland must be adept at developing sources of comparative advantage, capitalising on its natural and intellectual assets. Scotland's primary opportunity lies in the new economic opportunities that will arise from the transition to a low carbon society. Comparative advantage is also at the heart of our strategy to create a supportive business environment, through the enterprise agencies, Scottish Water, Business Gateway and key public sector agencies, VisitScotland and Scottish Development International.

Low carbon: Scotland's primary opportunity

The development of a low carbon economy is the greatest opportunity for Scotland to develop and maintain a key comparative advantage in the global economy in the long-term. In 2008, the Scottish Parliament agreed ambitious targets for the reduction of emissions in Scotland – the most stretching in the world – in recognition of the central role that the actions of Government must play in catalysing societal change.

Scotland is now uniquely placed to become a world leader in low carbon activities. Scotland has 25 per cent of Europe's wind and tidal resource and a wealth of energy engineering expertise. Together, these key assets offer the potential to establish new industries for future generations. The opportunity to develop Scotland's comparative advantage in the low carbon economy is clear:

- Scotland's low carbon market was worth around £8.5 billion in 2007-08 (within a GDP of around £100 billion), and is forecast to rise to around £12 billion by 2015-16.
- The Scottish Government's ambition is to see Scotland become the green energy capital of Europe. Offshore wind alone could bring an estimated £30 billion of inward investment, and up to 20,000 jobs. We have consented 36 major renewable projects since 2007 and have now raised the 2020 target for renewable energy, setting the ambition that it will contribute 80 per cent of Scotland's electricity consumption by 2020;
- Jobs in the low-carbon sector in Scotland are estimated to grow by 4 per cent a year to 2020, rising from 70,000 to 130,000, over 5 per cent of the Scottish workforce; and
- Scotland is already an exporter of low carbon technologies, with £845 million exported in 2009-10.

The actions taken in this Budget and our action on climate change will fundamentally shape the market towards the development of a low carbon economy. They require a major shift in business behaviours and the accepted norms in Scottish society. They are the best expression of the Scottish Government's long-term ambitions for Scotland:

- alongside this Budget, the Draft Report on Proposals and Policies is published, setting out specific measures to reduce greenhouse gas emissions to meet Scotland's ambitious statutory targets;
- our Low Carbon Economic Strategy launched on 15 November, sets the policy direction for the development of low carbon economic opportunities;
- we will support the International Technology and Renewable Energy Zone (ITREZ), a hub of engineering excellence around Glasgow, facilitated by Strathclyde University in collaboration with Scottish and Southern Electric;
- we will implement the *National Renewables Infrastructure Plan*, strengthening port and manufacturing facilities, to leverage additional low carbon investment and improve supply chain provision for manufacturing offshore wind turbines and related components; and
- our consultation document on the Scottish Water Bill will outline our vision of how Scotland's natural water resources can play a greater role in the development and contribution of the economy through supporting our transition to a low carbon economy.

Creating a supportive business environment

Scottish Enterprise and Highlands and Islands Enterprise provide support for business growth and the development of our key sectors across Scotland, working in collaboration with Scotland's local authorities and key partner agencies.

A broad set of reforms since 2007 has provided a competitive environment for long-term business growth. These have included the introduction of the Small Business Bonus Scheme in 2007, lowering the tax burden on Scottish businesses; reforms to enterprise support including the abolition of costly Local Enterprise Companies; an enhanced role for Scotland's local authorities in local economic development; reforms to planning designed to give greater certainty to developers and clarity of decision making; and the introduction of the Business Gateway to provide practical help, advice and support for new and growing businesses.

This Budget makes provision for further measures to create a supportive business environment, including:

- the Budget allows VisitScotland to market Scotland as a tourism destination overseas and in UK domestic markets. VisitScotland will also contribute to preparations for the next Homecoming celebrations in 2014 and support preparations for the Ryder Cup at Gleneagles in the same year;

- we are committed to investing £700 million to support Scottish Water investment over the period 2010-15. Scottish Water will expand its activities to support our wider economic objectives, including support for renewable energy projects;

- our broadband interventions will support our *Digital Ambition for Scotland* and put in place the broadband infrastructure needed to support innovation in the digital economy and ensure Scotland's business base can remain competitive in the global digital environment. They will also play a critical role in protecting fragile, rural communities; and

- the Scottish Government will work with Scotland Food & Drink and other partners to deliver step-change projects across the industry, for example in innovation, market development, productivity and sustainability. Scottish Enterprise will also support the food and drink industry to deliver its ambitious strategy for growth, helping individual businesses grow to the scale needed to compete effectively in UK and international markets, and to exploit opportunities based on Scotland's international reputation for premium quality foods.

Enterprise agencies

The Budget commits £284 million to Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International:

- priority will be given to those programmes that will help Scotland's businesses make a successful transition to a low carbon economy, exploiting Scotland's comparative advantages and ensuring the continued development of a world class renewable sector;

- focus will be maintained on the key sectors that are critical to long-term economic development;

- HIE will continue its key role of supporting sustainable economic growth and strengthening local communities in some of Scotland's most fragile areas, including working with others to assist those affected by the UK Government's proposed defence cuts; and
- Scottish Enterprise will continue to support the Scottish Investment Bank, which will aid new, innovative businesses through the provision of early stage risk capital and will provide established, viable growth and exporting businesses with access to debt finance through the creation of the new Scottish Loan Fund.

Exports and inward investment

One feature of the global downturn has been the growing importance of emerging economies as key drivers of economic growth in the future. These new markets provide a rich source of future demand for Scottish companies.

Scottish Enterprise and HIE, working in partnership through SDI, will contribute to the key aims of encouraging Scottish businesses to exploit export opportunities and securing inward investment. This Budget prioritises key schemes to support the identification and exploitation of new international opportunities, including:

- Regional Selective Assistance (RSA), a regional based grant scheme, providing financial assistance to industry; and
- The SMART Exporter Initiative, a joint venture between the Chambers of Commerce and SDI, will help more businesses access international markets.

REFORM TO IMPROVE ECONOMIC SUPPORT

The implementation of new approaches to the fin1ancing of capital investment and new fiscal powers for the Scottish Government will have a significant bearing on the achievement of increasing long-term sustainable growth. Chapters 3 and 4 set out our approach to these issues in more detail.

CHAPTER 3
Capital and Infrastructure

KEY MESSAGES

Capital investment is vital to strengthening recovery and supporting sustainable economic growth. It sits at the heart of our economic strategy. The Scottish Government views the severe cuts in capital spending imposed by the UK Government as deeply damaging. We will do all we can to mitigate their effects.

The scale of cuts will inevitably slow the pace of delivery of our infrastructure programme but we are:

- making positive, strategic capital investments, including the new Forth Crossing, the re-provision of South Glasgow Hospitals and improving Scotland's schools estate; and
- supporting maintenance of assets in our key public services, including by maintaining local authorities' share of the capital budget.

We are using all available levers to expand the capital programme, including:

- taking forward a new pipeline of revenue financed investment worth up to £2.5 billion, to be delivered through the Non-Profit Distributing (NPD) model; and
- innovative measures such as Tax Increment Financing, the National Housing Trust and investment through the JESSICA Fund.[1]

We will ensure value for money from our infrastructure spend by rigorous prioritisation and management of capital spending and by maximising the positive impact of the Scottish Futures Trust (SFT) across the public sector.

INTRODUCTION

This chapter sets out the Scottish Government's plans for capital spending and links them to its wider strategy for infrastructure investment in Scotland. The Scottish Government views infrastructure investment as critical to its Purpose of increasing sustainable economic growth and to supporting a strong recovery. The Scottish Government is therefore deeply concerned by the speed and scale of cuts in planned capital spending at UK level, and the consequent impact on employment, public services and economic growth in Scotland. The plans set out in this chapter demonstrate our firm commitment to prioritise capital spending during a challenging period for public finances, and ensure maximum value for money from Scotland's public infrastructure investment.

International studies[2] show that infrastructure investment is an essential contributor to productivity and economic growth. The accumulation of capital increases the potential output of an economy. In the short term, this can provide a boost to a country's economic growth and employment and will increase the overall size of the economy.

1 Joint European Support for Sustainable Investment in City Areas.
2 See *Economic Policy Reforms: Going for Growth 2010*, available at: **www.oecd.org**, O'Mahoney, M., and de Boer, W., 2002, *Britain's relative productivity performance: Has anything changed?*, National Institute Economic Review, January, Kamps, C (2005), *"Is there a lack of public capital in the European Union?"*

More importantly, capital investment, both public and private, is an essential driver of productivity, competitiveness, and long-term economic growth. Public sector investment that contributes to the development of a country's physical, technological and electronic infrastructure can increase the productive capacity of the economy as a whole and drive private sector growth and investment.

It is for this reason that, in the 2007 Spending Review, the Scottish Government allocated record levels of capital funding to improving Scotland's transport networks, raising capacity in the health service and investing in higher and further education.

The Scottish Government is pursuing an integrated strategy for infrastructure investment, to support its Purpose of increasing sustainable economic growth. The key pillars of their strategy are:

- the *National Planning Framework 2* – which identifies key issues and drivers of economic change, sets out a vision to 2030, and identifies priorities and opportunities in spatial perspectives for each part of Scotland;

- the *National Renewables Infrastructure Plan* – a spatial framework for developing key sites of renewables activity, which proposes funding plans for developing these sites and is supported by a £70 million National Renewables Infrastructure Fund;

- the *Strategic Transport Projects Review* – which defines the key strategic investments in Scotland's national transport network from 2012 onwards; and

- the *Infrastructure Investment Plan* – which identifies Scotland's requirements for infrastructure investment in key public services from 2008 to 2018.

The common aim of these plans is to enhance connectivity, support increasing sustainable economic growth and enable Scotland to make the transition to a successful and sustainable low carbon economy.

During the economic crisis of 2008-09, this Government also took swift action to deliver an economic stimulus, by accelerating £347 million of capital spending from future budgets, to protect growth and jobs during a sharp global downturn. This approach was consistent with recommendations from the International Monetary Fund[3] that increasing capital expenditure was an effective way to deliver an economic stimulus and build the foundation for a strong recovery.

The Independent Budget Review (IBR) recommended that: *"Given the importance of [capital spending] in supporting economic recovery and increasing sustainable economic growth, the Panel would urge the Scottish Government to take every possible step to prioritise and fund capital expenditure even in the context of shrinking public sector budgets."* As this chapter outlines, the Scottish Government is using every lever at its disposal to prioritise infrastructure investment to support recovery and sustainable economic growth.

3 See *Fiscal Policy for the Crisis*, Staff Position Note, International Monetary Fund, December 2008, available at: **www.imf.org/external/pubs/ft/spn/2008/spn0801.pdf**

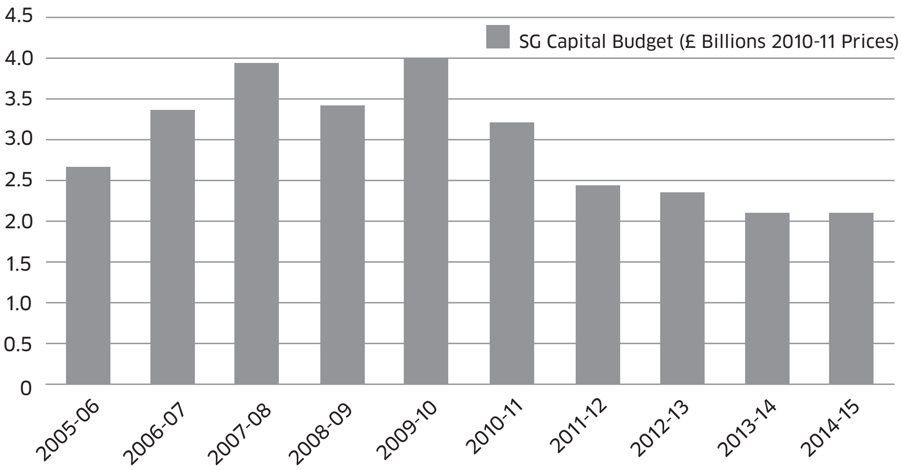
THE OUTLOOK FOR CAPITAL BUDGETS

Under the current funding arrangements for Scotland, the pace at which the Scottish Government can implement its infrastructure plans largely depends on the allocation of capital budgets from HM Treasury at each Spending Review. As discussed in Chapter 4, with greater fiscal responsibility, including the power to borrow to fund capital expenditure, the Scottish Government would have far greater freedom to determine the scale of capital spending.

Unprecedented speed and scale of reduction in capital budgets

As a result of the decisions taken by the UK Government in the 2010 Spending Review, the capital budgets available to the Scottish Government will fall by 36 per cent in real terms by 2014-15 compared to the current financial year (2010-11). The allocation of Capital DEL budgets in recent Spending Review periods is shown in Figure 3 below. This scale of reduction is unprecedented and will inevitably slow the pace of implementation of the Government's infrastructure programme.

Figure 3 Scottish Government Capital DEL budgets



Note: Capital DEL budgets for 2005-06 to 2009-10 are outturn figures. 2010-11 total is from the 2010-11 draft Budget. For 2011-12 to 2014-15, Capital DEL allocations are from the UK CSR.

The Scottish Government is deeply concerned by the speed and scale of reductions in Capital DEL budgets and their impact on public services and on the fragile economic recovery that is under way. In particular, the Government is concerned that, without effective action:

- the speed and scale of reductions in capital spending will require some projects to be delayed or cancelled, even where they are in progress and supported by a strong business case; and
- the deep reductions in capital spending will hurt the construction sector and damage the wider prospects for a strong recovery.

To lessen these impacts the Scottish Government has taken action to support capital budgets, helping to ensure the continuity of provision in key public services and maintain the pace of its infrastructure programme. Specifically, the Scottish Government has released savings arising from falling construction prices and has used these savings to fund priority investments. We have also agreed a facility with HM Treasury whereby spending in 2010-11 can be transferred to support spending in 2011-12, with an equivalent reduction in our 2010-11 DEL. This will enable us to add £100 million from the current financial year to support capital spending in 2011-12.

Capital spending plans set out in the 2011-12 Draft Budget

Faced with significantly reduced capital budgets in 2011-12 and subsequent years, the Scottish Government has undertaken rigorous prioritisation of the projects and programmes it supports. We have sought to maintain the continuity of our investment plans as far as possible, while prioritising investment to support essential public services and economic growth. The capital investments proposed in the 2011-12 Draft Budget will support:

- major investments in national infrastructure priorities;
- maintenance and capacity in key public services; and
- a firm funding commitment to local government.

The 2011-12 Draft Budget proposes major investments to support national infrastructure priorities, specifically:

- construction of the new Forth Crossing, an essential investment in Scotland's transport infrastructure. Work on this project, which has an estimated cost of £1.7 to £2.3 billion, will begin in 2011-12 to ensure that the new crossing is operational by 2017;
- the South Glasgow Hospitals – an £842 million investment to upgrade and expand the capacity for adult and children's hospital care in Glasgow and the West of Scotland; and
- Scotland's Schools for the Future building programme. In partnership with local authorities, this programme will invest £1.25 billion to improve Scotland's schools estate.

The Draft Budget 2011-12 proposes to earmark significant capital funding to support maintenance and capacity in Scotland's key public services, including health, social housing, regeneration, transport, enterprise, higher and further education, justice and rural affairs and the environment. Detailed capital investment plans are set out in each portfolio chapter.

Lastly, the Draft Budget 2011-12 offers a firm funding commitment to local government to support councils' capital investment plans. Local authorities deliver vital public services including education, policing, fire services, roads, flood defence and waste management. The Draft Budget 2011-12 allocates a significant share of the Scottish Government's capital budget to fund capital investment by local authorities, in addition to the capital investment which is financed by councils themselves. This share is in addition to the £800 million of investment that the Scottish Government is delivering through the Schools for the Future programme.

USING EVERY POLICY LEVER TO EXPAND THE CAPITAL PROGRAMME

As a result of our concern about the effect of the rapid and deep reductions in capital spending flowing from decisions in the UK Spending Review and the implications that these will have for the pace of implementation of the capital programme and the strength of the Scottish economy, the Scottish Government will explore all possible means to support higher levels of infrastructure investment than would be possible through the capital budget alone. This effort will be particularly important to support recovery and sustainable economic growth, as capital budgets will fall sharply in 2011-12 and are likely to remain low for several years.

In general, funding infrastructure investment through public capital ensures the lowest cost of finance for a typical project.[4] Under the current public finance framework, the Scottish Government does not have the flexibility to borrow to fund additional capital expenditure. However, there is an overwhelming economic and financial case for providing this flexibility to borrow as soon as possible.

In the absence of borrowing powers, there are a number of levers which can be used to help to expand Scotland's public infrastructure programme. While ensuring these levers are used sustainably and responsibly, the Scottish Government – working closely with the Scottish Futures Trust and local authorities – will work to maximise their positive impact. Therefore, in addition to its planned capital investments in 2011-12 and future years, the Scottish Government will:

- take forward a new, affordable pipeline of revenue financed investment worth up to £2.5 billion, to be delivered through the Non-Profit Distributing (NPD) model; and
- make full use of innovative measures such as Tax Incremental Financing, the National Housing Trust and investment through the JESSICA Fund.

Revenue financed investment

Following Devolution in 1999, the then Scottish Executive supplemented the capital programme through the use of private finance – particularly through the Private Finance Initiative (PFI). Around £5.5 billion of capital investment has been delivered through PFI, particularly in the education and health sectors. However, over time a number of concerns[5] have arisen about the practical impact of the PFI model, including:

- the cost of financing;
- the scale of repayments – or unitary charge payments – from public authorities' revenue budgets over the life of contract, which is typically 25 to 30 years; and
- the potential for the private sector to make large 'windfall' profits from PFI deals, including as a result of refinancing existing contracts.

4 This is because governments generally borrow at lower rates of interest than commercial project lenders, and private lenders also factor in a risk premium and a profit margin when they set terms for financing a particular public infrastructure project.

5 In March 2010 the Economic Affairs Committee of the UK House of Lords concluded its inquiry into 'private finance projects and off-balance sheet debt'. The report raised these concerns and others. It is available at: **www.publications.parliament.uk/pa/ld200910/ldselect/ldeconaf/63/6302.htm**

Unitary charge repayments are already a significant cost to the revenue budgets of the Scottish Government and local authorities. Based on existing contractual commitments entered into since 1997, the cost to the Scottish Government Resource DEL budget of unitary charge repayments will peak at around 2.3 per cent in 2015-16. In other words, merely to fund contracts already signed, the Scottish Government must find an additional £50 million this year compared to 2010-11 plans. This is a significant additional commitment on a Resource DEL budget which will fall by 2.0 per cent in cash terms between 2010-11 and 2011-12.

In recognition of the mounting level of unitary charge repayments across the public sector and concerns about the value for money offered by PFI projects, the Scottish Government has made extensive use of traditional capital funding to deliver major projects. Since May 2007, based on value for money considerations, new revenue financed investments have been taken forward through the Non-Profit Distributing model.

The Non-Profit Distributing model

Based on value for money grounds, the Scottish Government has made clear that it supports the Non-Profit Distributing (NPD) model to deliver revenue financed investment. The NPD model seeks to transfer risk and exert private sector discipline both during the construction phase of a project and throughout its lifetime, but without the excessive profits to the private sector and financing costs to the public sector associated with past PFI projects. Key features of the NPD model are that:

- returns to the private sector are capped;
- NPD does not contain dividend-bearing equity; and
- surpluses from NPD projects can be directed in favour of the public sector.

Had the Scottish Government continued with PFI, the pressure on revenue budgets in 2011-12 and future years would have been greater still. This would have required deep cuts in revenue budgets for key public services and ultimately a reduction in the quality and quantity of public service provision. It would also have meant that, facing a deep and sustained reduction in capital budgets following the 2010 Comprehensive Spending Review, the Scottish Government would have little, if any, flexibility to support the capital programme and to maintain capacity in key public services.

As revenue budgets begin to recover in the medium term, there is an opportunity to use revenue finance effectively and judiciously. The Scottish Government therefore proposes that investment decisions on revenue financed investment should be made within a clear and sustainable overall financial framework, to ensure affordability over the medium to long term. The box below sets out the main assumptions underpinning this framework, and the scale of new capital expenditure that can be delivered through the NPD model.

New investment financed through the Non-Profit Distributing model

To enable a sustainable approach to revenue financed capital investment, the Scottish Government will place a cap on the maximum percentage of the Resource DEL (RDEL) budget to be allocated in any one year to meet unitary charges. This policy will ensure that new proposals for revenue financed investments are assessed rigorously in relation to future revenue affordability as well as value for money.

Based on contracts already signed, the cost of unitary charges will peak as a share of the RDEL budget at around 2.3 per cent in 2015-16 (or £613 million in nominal terms). The Scottish Government intends to hypothecate an additional 1 per cent of the RDEL budget, which will be top-sliced to fund new NPD projects. This policy will provide at least £250 million of revenue support, which will be used to fund up to £2.5 billion of capital expenditure delivered through the NPD model.

The new pipeline of NPD investment will help support key projects across core public services, including:

- Major transport projects with a capital value of £1 billion:
  - the Borders Railway project (£230-£290 million);
  - M8 Baillieston to Newhouse, M74 Raith Junction and M8, M73 and M74 network improvements (c.£320 million); and
  - the Aberdeen Western Peripheral Route and A90 Balmedie (£350-£450 million).
- Education projects with a capital value up to £750 million:
  - specific projects within Scotland's Schools for the Future programme, subject to the agreement of local authorities (£400-£500 million);
  - improvements to the further education college estate at Kilmarnock and Inverness (c.£100 million); and
  - modernisation of the Glasgow college estate, subject to the conclusion of a robust and affordable business case (c.£200 million).
- Health projects with a capital value up to £750 million:
  - the Royal Sick Children's Hospital and Department of Clinical Neurosciences in Edinburgh (c.£250 million);
  - revenue support to finance projects through the hub initiative (c.£200 million); and
  - individual hospital projects, health centres and mental health facilities across Scotland (up to £300 million).

The Scottish Futures Trust will deliver this pipeline of projects in partnership with the Scottish Government, local government, NHS Boards and other public bodies.

This new pipeline of NPD projects is being targeted to provide the maximum support for the wider capital programme and for Scotland's key public services. The Scottish Government will seek to deliver each project as early as possible in order to accelerate its benefits to citizens and to the wider economy.

In addition to this pipeline of NPD investment, the Scottish Government will continue to make the case for greater financial responsibility for Scotland, including – at the earliest opportunity – the power to borrow to fund capital expenditure. With borrowing powers in place, the Scottish Government would be able to accelerate the pace of its infrastructure programme and undertake new investments in order to help strengthen sustainable economic growth and support vital public services.

Innovative financing mechanisms to support capital investment

Within the existing budgetary framework, the Scottish Government, in conjunction with the Scottish Futures Trust, has looked at innovative financing solutions which will help lever in new, additional funds to help take forward key infrastructure investment projects.

The Scottish Government has been at the forefront of developing innovative schemes such as Tax Increment Financing, the National Housing Trust and the JESSICA Fund to generate new funding sources for key infrastructure investment projects.

Tax Increment Financing

Tax Increment Financing (TIF) is a means of funding public sector infrastructure judged to be necessary to unlock regeneration in an area, and which may otherwise be unaffordable to local authorities.

The overarching goal of TIF is to support and guide the increasingly limited public finances available for assisting regeneration by helping to lever in additional private sector capital. The TIF model allows for initial borrowing through the Public Works Loan Board to fund the infrastructure to be repaid through predicted future non-domestic rate revenues resulting from the local authority's investment.

Scottish Ministers have brought forward secondary legislation under existing provisions of the Local Government Finance Act (1992) to enable up to six TIF pilot schemes to take place.

In September 2010 the Cabinet Secretary for Finance and Sustainable Growth gave provisional approval for the UK's first TIF scheme at Leith Harbour in Edinburgh. The TIF scheme will take forward four enabling infrastructure projects which the City of Edinburgh Council believes will unlock 500 acres of waterfront land. These enabling projects are:

- a new road link between Seafield Road and Constitution Street to improve access to the development area;
- a public esplanade outside the Ocean Terminal shopping centre to bring new commercial outlets to the waterfront;
- a new pier for the Royal Yacht Britannia and visiting cruise liners; and
- new lock gates at Leith docks to facilitate cross-Forth ferry traffic.

The total cost of the four infrastructure projects is estimated to be £84 million. They have the potential to unlock an additional £660 million of private investment, creating up to 4,900 full-time equivalent jobs.

The Scottish Futures Trust is currently working with two other local authorities – North Lanarkshire Council and Glasgow City Council – which are developing TIF proposals for Ravenscraig and Buchanan Galleries respectively.

National Housing Trust

The first phase of the National Housing Trust (NHT) procurement was launched in September 2010. It aims to provide around 1,000 additional affordable homes for rent over the medium term in areas where there is a shortage in the supply of affordable housing.

Successful developers build the homes, which are then purchased by Special Purpose Vehicles (SPVs). The SPVs are in turn jointly funded by councils and private partners. Participating local councils' loans to fund these purchases will be backed by a guarantee from the Scottish Government that these loans will be repaid.

To participate in the scheme, developers or other private partners must commit to making homes available at mid-market levels of affordable rent for at least five and up to 10 years before the homes can be sold. Tenants must be given the option to purchase their home at market value before it can be sold on the open market.

The NHT will not only enable local authorities to secure new affordable housing through low risk borrowing but it will also provide support for economic recovery by re-starting construction on stalled housing sites. Around 1,100 jobs will be maintained if 1,000 new homes are delivered through NHT.

By moving from grant to guarantee funding, the NHT aims to deliver affordable homes in return for less public subsidy, helping to deliver additional investment.

Investment through the JESSICA Fund

On 6 July 2010, the Scottish Government announced the creation of a JESSICA fund in Scotland. JESSICA funding can be used to support a range of urban regeneration projects, including new business space, wireless technology zones, green energy for social housing, renewal of derelict sites and more efficient transport schemes.

The JESSICA Fund in Scotland has been capitalised by £26 million of Scottish Government funding, matched with £24 million of European Structural Funds. The total £50 million fund is being managed by the European Investment Bank (EIB), which will ensure that loans and equity investments made by the fund are made on commercial terms. These investments will be delivered to projects across Scotland through Urban Development Funds (UDFs).

A key advantage of the JESSICA Fund approach is that it enables the Scottish Government to use EU Structural Funds as a source of repayable investment (loans, equity) rather than grants, meaning that funds can be recycled and continue to deliver benefits over the life of the JESSICA structure. Both the EIB and UDF managers may also leverage their own resources into urban development projects supported by JESSICA, which would further increase the economic impact of this policy.

DELIVERING VALUE FOR MONEY THROUGH THE SCOTTISH FUTURES TRUST

The rapid and deep reductions in capital budgets place an ever greater emphasis on making the right spending choices and ensuring maximum value for money from each pound that is spent. The Scottish Futures Trust (SFT) was established in 2008 with the central aim of helping the Government to achieve better value for money from public infrastructure investment in Scotland.

Role of the Scottish Futures Trust

The Scottish Futures Trust (SFT) has a remit to enhance value for money for infrastructure investment in Scotland. The importance of this work has grown given the speed and scale of planned reductions in Capital DEL budgets.

The SFT is active in all sectors and is delivering innovative new ways of working that will result in improved value for money, including:

- the hub initiative for community infrastructure;
- the National Housing Trust, releasing much needed affordable housing; and
- Tax Increment Financing, which will leverage significant additional investment for regeneration.

Building upon the £111 million of net savings and benefits identified during 2009-10, the SFT has undertaken two streams of work over autumn 2010 to ensure that the capital programme is delivering value for money and maximising its impact.

The first has been the identification of potential purchasing power gains as a result of changed economic conditions since the original cost estimates for planned projects were produced. This work identifies potential savings from reduced construction prices across a range of portfolios including Health, Justice and Education and has helped to refine final cost estimates for the capital DEL budget.

The SFT will continue to work with budget holders to investigate ways to deliver further savings in capital budgets over future years.

The SFT has also carried out a review of existing operational PFI/PPP contracts to assess potential savings. This work has identified the potential to generate savings from changes to contract management, through a shared service approach. Work in this area to realise the identified savings will be taken forward over the next six months. The SFT will also continue with its work to ensure that NPD contracts deliver better value for money.

The role and contribution of the SFT were examined closely by the Independent Budget Review (IBR) Panel. The IBR Panel commented that: *"The Panel received views about ways to improve public sector procurement practice and enhance the impact of the capital programme. … The Scottish Futures Trust was designed to address these points in relation to public infrastructure investment. The Panel strongly supports the purpose of such a body."*

The IBR Panel made the following specific recommendations in relation to SFT:

- the Scottish Government should consider enhancing the role of SFT to allow it to lead improvements in capital procurement, with savings derived from better capital procurement recycled into additional capital investment;
- the Scottish Government should consider tasking SFT to assess and report upon the potential and practicality of all the available financing options to sustain capital spending at levels supportive of economic recovery and consistent with the Government's longer-term strategic objectives; and
- the Scottish Government should consider developing SFT into a centre of expertise in the ownership, management and disposal of public assets. This would operate as a source of independent advice for all public bodies and ensure value for the public purse.

The Scottish Government has welcomed these recommendations and will work with SFT to implement them. The box below sets out our response to the recommendations of the IBR Panel.

Scottish Futures Trust – Response to the Independent Budget Review

In future the need to deliver and improve value for money will not diminish. The role of the Scottish Futures Trust in this was recognised by the Independent Budget Review. The Scottish Futures Trust has considered the recommendations of the Independent Budget Review and is developing a work programme in a number of key areas. This includes:

- identifying a number of ways in which it can drive further value from effective asset management. By the end of 2010-11 the SFT will take forward a pilot project through the South East hub territory to assess ways to improve asset management and estate planning across public bodies at a community level. It will also develop proposals by the end of the year for the Scottish Government to deliver enhanced value from centrally-held land and property assets;
- taking forward a new, affordable pipeline of revenue financed investment worth up to £2.5 billion, to be delivered through the Non-Profit Distributing (NPD) model and implementing innovative financing solutions to deliver additional investment such as Tax Increment Financing and the National Housing Trust; and
- leading improvements in capital procurement through the SFT's centre of expertise role and in developing approaches to optimism bias and contingency management, budgeting and procurement suited to the current economic climate.

CONCLUSION

Public sector investment is critical to the Scottish Government's purpose of increasing sustainable economic growth and the unprecedented cuts in capital spend at the UK level could threaten the outlook for the Scottish economy. The Scottish Government has set out a clear strategy to mitigate these effects. In conjunction with the Scottish Futures Trust, we will ensure that we deliver value for money in our infrastructure investments and maximise their impact. We will also look to innovative financing methods to lever in additional funding for infrastructure investment. We will ensure that our investment is targeted on priorities, and we will develop a sustainable pipeline of revenue financed projects.

CHAPTER 4
Scottish Government Budget - Greater Fiscal Responsibility

Key Messages

- The Scottish Government is committed to using all the levers at its disposal to promote economic recovery, safeguard jobs and protect the vital public services upon which our people and communities depend.
- However, the £1.3 billion cash terms cut (£1.8 billion in real terms) in funding for public services for 2011-12 that this Draft Budget 2011-12 addresses, has been determined, not by policy choices taken in Scotland, but by those of the UK Government in Westminster.
- Under the current Devolution framework, we are constrained in our ability to protect Scotland from these cuts. We are also limited in the range of options we can put forward to plot an alternative path that would better address the key economic, social and financial challenges that Scotland faces.
- We are clear that the current budgetary situation highlights the need for urgent reform to ensure that Scotland is never again required to face years of sustained cuts to our public services. We believe in ambitious constitutional and financial reform: that is, reform which centres on the promotion of financial responsibility and sustainable economic growth.
- The Scottish Government believes Scotland's interests would be best served under Full Fiscal Responsibility in an independent Scotland.
- Short of this, we have made the case for Full Fiscal Responsibility within the UK – a system more akin to the sub-central arrangements in the US, Canada and some EU countries.
- Both frameworks would provide a simple and transparent framework that maximises accountability and can act as a powerful engine for growth and prosperity.
- The recommendations of the Calman Commission on Scottish Devolution would not achieve this. In fact, they are likely to make matters worse.
- Under Calman, the key growth levers would remain at Westminster. Scotland's Budget would be exposed to even greater risks with the real prospect of additional cuts to public spending.
- Had the Calman recommendations been in place since Devolution in 1999, the cumulative devolved budget over the 10 years 1999 to 2009 would have been £8 billion lower in real terms than under the current Devolution framework.
- Full Fiscal Responsibility would make Scotland responsible for its own finances and would grant the Scottish Parliament the key economic and fiscal levers that are available in other comparable nations.
- Crucially, it would mean the Scottish Government and Scottish Parliament would have the opportunity to balance the pace and scale of fiscal consolidation with the interests of our economy, the demands for public services and the priorities of the people of Scotland.
- In what follows, we set out in more detail the opportunities that greater fiscal responsibility would provide for Scotland not only now, but also in the future. At its heart is the promotion of sustainable economic growth and the use of the proceeds of greater prosperity to invest in Scotland's public services and infrastructure.

EXISTING FINANCIAL FRAMEWORK

As highlighted in chapter 1, a direct consequence of the UK Government's spending plans is that the resources available to the Scottish Government will be cut significantly for at least the next four years. By 2014-15, the total cut will be £3.3 billion, over 10 per cent, in real terms. Even when the fiscal consolidation planned by the UK Government is completed, it is expected to take until 2025-26 for the Scottish Budget to return to its 2009-10 level in real terms. During this time, the cumulative real terms loss in the Scottish Budget is estimated to be £39 billion.

Under the existing financial framework, our ability to influence the scale and timing of the forthcoming cuts is strictly limited.

In the main, Scotland's Budget is determined through the Barnett Formula. Under Barnett, changes to our Budget are determined by UK Government decisions on the amount of money it chooses to allocate to Whitehall departments based, primarily, on the conditions in England. If funding increases, Scotland receives a comparable (per capita) share of the additional resources, and if funding decreases, Scotland receives a comparable cut. This means the level of public spending in Scotland is unrelated to the tax revenue raised in the country, or to the strength of Scotland's public finances[1].

Under the current fiscal framework, the Scottish Government is effectively a spending department. The budget we receive is determined by the policy choices and financial decisions taken by the UK Government.

We have limited revenue raising opportunities and virtually no authority over the tax system in Scotland. In 2008-09, over 90 per cent of Scottish revenues were controlled by the UK Government. Only three taxation elements are devolved – local taxation (i.e. the council tax), non-domestic rates and the Scottish Variable Rate which can vary the basic rate of income tax by up to 3p.

In addition, unlike almost all devolved governments in other countries, the Northern Ireland Executive and our own local authorities, the Scottish Government has no borrowing powers.

This framework imposes a number of significant constraints. Firstly, it ties Scotland to decisions taken by the UK Government for Whitehall departments. As a result, the pace and scale of cutbacks in Scotland is determined by the spending plans implemented for England. They are not set with reference to the particular economic circumstances north of the border, or the preferences and needs of Scottish households or businesses.

Secondly, we lack many of the key levers to promote growth and employment in Scotland. The opportunities to set competitive policies, particularly in relation to taxation, are strictly limited. More generally, we lack the powers to use the full range of fiscal and economic policy levers to complement the specific strengths of the Scottish economy or address any weaknesses.

Just as importantly, we cannot use the proceeds of our successes to support public services or to protect the most vulnerable in our society. If we put in place policies which grow the economy and therefore increase UK tax revenues, we do not receive a corresponding change in our block grant.

1 Estimates of Scotland's fiscal position under the current constitutional framework are provided in the Scottish Government publication *Government Expenditure and Revenue Scotland*. The most recent edition of the report shows that, including an illustrative share of North Sea Revenues, Scotland ran a current budget surplus in each of the four years to 2008-09. The UK last ran a current budget surplus in 2001-02.

Thirdly, key areas of spending and public policy are reserved to Westminster. For example, Scotland has no authority over welfare (including key employment and poverty benefits), business regulation (including access to finance) or defence spending (where UK decisions currently pose threats to the Moray RAF bases). In these important areas, Scotland does not have the opportunity to choose for itself the course of action it wants to take, but is instead dependent upon decisions taken in Westminster.

OPTIONS FOR FINANCIAL REFORM

There is a clear consensus that the current Devolution framework requires urgent reform. In particular, there is agreement that the anomaly at the heart of the current settlement – the lack of real financial and economic responsibility – needs to be addressed.

Through the National Conversation, and in the White Paper *Your Scotland Your Voice*, the Scottish Government has argued that Scotland would be best served by Full Fiscal Responsibility under independence[2].

The UK Government, on the other hand, has said it is committed to implementing the recommendations of the Calman Commission.

Below we consider the opportunities that both Calman and Full Fiscal Responsibility would create for Scotland in responding to the current budget challenges.

CALMAN COMMISSION PROPOSALS

The Commission on Scottish Devolution, (the 'Calman Commission') was established in December 2007 to review the provisions of the Scotland Act 1998. The Commission's remit was strictly limited, with assessments of independence and full fiscal autonomy ruled out.

The Commission's final report contained a number of financial recommendations. The main recommendation was for a proportion, around 15 per cent, of the Scottish Budget to be determined by the share of income tax revenues raised in Scotland[3].

There are two serious weaknesses with the Calman proposals.

Firstly, the proposals provide no meaningful new economic powers for Scotland. They simply represent a modified funding formula rather than any attempt at more ambitious reform.

The Barnett Formula would remain the biggest determinant of the Scottish Budget – approximately 80 per cent of Scottish revenues would continue to flow to the UK Government. Responsibility for key taxes, such as corporation tax, green taxes, fuel duty, North Sea revenues and excise duties, would remain outwith Scotland's control.

On closer inspection, it becomes clear that the new powers are more apparent than real. For example, key elements of income tax, such as the setting of personal allowances, the taxing of investment

2 The Scottish Government's White Paper and accompanying discussion documents are available from the National Conversation website www.scotland.gov.uk/Topics/a-national-conversation

3 See Scottish Government (2009) – Scottish Government Response to the Commission on Scottish Devolution www.scotland.gov.uk/Publications/2009/11/09152544/0 for further discussion of the proposals

income, or the opportunity to vary tax rates for particular groups, such as pensioners, would remain reserved. By being unable to vary tax rates across bands, a future Scottish Government would only be permitted to apply broad-brush changes to the tax system. We would, for example, be unable to make the system more or less progressive. As a result, the income tax proposals would provide no meaningful increase in the autonomy of the Scottish Government.

Secondly, there is growing evidence that far from actually improving the current framework, the Calman proposals may represent a backward step and could make the spending and economic challenges we face even more difficult[4].

In particular, we have identified a catalogue of weaknesses inherent in the Calman proposals. These include budgetary volatility and the potential for damaging policy spill-over effects.

A key shortcoming in the Commission's proposals is that the Scottish Government would be unable to borrow to offset cyclical falls in tax receipts when the economy enters recession. Figure 4 provides a stark illustration of the potential impact this shortcoming could have. Had the Commission's proposals been implemented at the start of the last Spending Review in 2007-08, the Scottish Budget would have been £500 million lower in 2008-09 and £900 million lower in 2009-10 than under the current framework. Such cuts would have occurred at the height of the recession and at the worst possible time for the Scottish economy. A cut of £900 million in 2009-10 could have threatened 13,500 jobs.

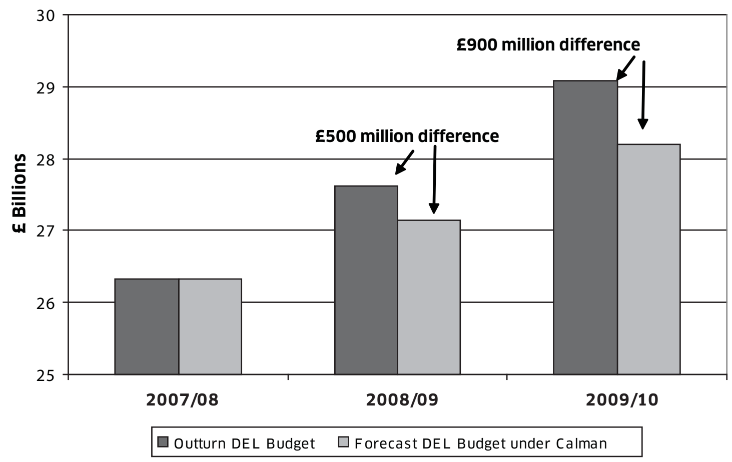
4 Scottish Government (June 2010) – Experts concerned over Calman fiscal reforms http://www.scotland.gov.uk/News/Releases/2010/06/07080606

Figure 4: Volatility in the Calman Commission's Income Tax Proposals

In line with both the UK and all other major economies, Scottish income tax receipts are estimated to have fallen in recent years. This simply reflects the fact that income tax revenues are volatile – they grow in good times and fall in bad times. To prevent this volatility from impacting on public services, governments typically borrow during downturns to offset cyclical falls in tax revenue and pay back this borrowing when the economy has recovered. But under Calman, Scotland would be unable to borrow to stabilise its Budget over the cycle.

In Scotland, the estimated fall in income tax revenues between 2007-08 and 2009-10 was approximately seven per cent. As a result, had Calman been established in 2007-08, the Scottish Budget would have been £500 million lower in 2008-09 and £900 million lower in 2009-10 relative to what we actually spent.

Outturn Scottish DEL and Forecast DEL under Calman



Sources: Scottish Government calculations using Government Expenditure and Revenue Scotland 2008-09, Scottish Government DEL outturn data, *Serving Scotland Better* (Commission on Scottish Devolution, June 2009). UK income tax data is sourced from National Statistics outturn figures for UK fiscal revenue, from ONS Public Sector Finance Statistics.

The nature of the recommendations means that while we would be exposed to significant risks, particularly during downturns, we would also not share in the benefits in periods of growth. If the Scottish Government successfully grew the economy and increased income tax receipts, more than half the additional revenue would flow to the UK Exchequer. At the same time, the Scottish Government would not receive any of the additional revenues in other taxes that faster growth would generate.

In the run up to the recession (2003-04 to 2007-08), Scottish tax revenues increased by an average £3.5 billion per annum. However, under Calman, the Scottish Government would have received just 20 per cent of these increases, the remaining 80 per cent would have instead gone to the UK Government. Indeed, had Calman been introduced in 1999 at the launch of the Scottish Parliament, the Scottish Budget would have been lower than under Barnett in every year from 2001-02 to 2010-11. Between 1999-00 and 2010-11, the total cumulative real terms shortfall would have been £8 billion.

A further shortcoming arises from the fact that both the Scottish and UK Governments would be taxing (and sharing) revenue from one source – income tax. As Calman envisaged Scotland as the clear junior partner in this relationship, the revenues 'assigned' to Scotland would be subject to change as a result of policy decisions at the UK level.

As an illustration, the UK Government's plans to increase income tax personal allowances to £10,000 – to be paid for in part by a rise in National Insurance contributions – could result in an automatic reduction in Scotland's Budget of between £800 million and £1 billion. Instances of such spill-over effects are not unique. Over the past three years, changes to the income tax system by the UK Government such as the 10-pence tax rate, revisions to personal allowances, exemptions and reliefs, would all have reduced the resources available to the Scottish Government.

In summary, far from providing a meaningful solution to the budget challenges that we now face, Calman has the potential to make matters worse. These weaknesses cannot be solved by ad-hoc technical fixes without seriously jeopardising the transparency and accountability of the Devolution settlement. Such a system is unlikely to be sustainable over the long term.

Moreover, Calman fails to provide any new meaningful economic levers. As a result, future Scottish Governments would continue to be constrained in their ability to protect Scotland from significant budget cuts or to put forward alternative options to better address the key economic, social and financial challenges that Scotland faces.

FULL FISCAL RESPONSIBILITY

At the heart of Full Fiscal Responsibility is the recognition that in order to maximise accountability and to incentivise economic growth, policy makers should balance both the revenue and expenditure implications of their policy choices and be given full access to the levers of economic growth.

A variety of practical proposals for Full Fiscal Responsibility have been put forward[5]. Independence encompasses Full Fiscal Responsibility and would provide the maximum degree of policy discretion and accountability over fiscal and economic policy.

Full Fiscal Responsibility within the UK would see the Scottish Parliament become responsible for setting and collecting almost all taxes levied in Scotland. The Scottish Government would then pay for its share of the services which span the whole of the UK – for example, defence and foreign affairs. Essentially, it is the current system in reverse, with taxes raised in Scotland staying in Scotland and a payment *to* the UK for a proportionate share of UK-wide expenditure.

The Scottish Government would be granted full borrowing powers, overseen by an independent Scottish Fiscal Commission. An 'Economic Agreement' could then establish parameters to ensure Scottish and UK economic and fiscal policies were consistent with a stable macroeconomic and fiscal framework.

5 For example, Scottish Government (2009) – *Fiscal Autonomy in Scotland: the case for change and options for reform* and Professor Andrew Hughes Hallett and Professor Drew Scott (2010) – *Scotland: A New Fiscal Settlement*

In both independence and Full Fiscal Responsibility in the UK, Scotland would take full responsibility for addressing the current state of the public finances.

Such a framework has a number of significant advantages.

Firstly, it would maximise accountability and transparency – vital in providing the right incentives and conditions for economic growth. Full Fiscal Responsibility would fundamentally alter the way in which the Scottish Government and Scottish Parliament operate.

Secondly, it would promote responsibility. The current framework provides little incentive to spend less than the block grant and few opportunities to spend more or to save. This would change immediately under Full Fiscal Responsibility. Policy makers would be forced to balance the benefits of particular decisions with their associated costs. Crucially, successful policies would lead to additional resources, while unsuccessful policies would lower resources. No-one could be held responsible except those who enacted such changes.

Thirdly, it would ensure that the priorities of the people of Scotland and the needs of the Scottish economy were considered at all times. For example, it would be up to policy makers north of the border to decide how to restore the public finances to health in a way which was in the best interests of the Scottish economy and the people of Scotland.

Fourthly, and most importantly, it would grant the Scottish Government and Scottish Parliament control over the key economic and fiscal levers to promote growth in Scotland. Under Full Fiscal Responsibility, Scotland's sustainable economic growth could be boosted by allowing us to shape the fiscal and economic environment to make the most of Scotland's comparative advantages, to address specific skills shortages and to build upon and correct infrastructure strengths and weaknesses.

OPPORTUNITIES WITH FULL FISCAL RESPONSIBILITY

To illustrate some potential opportunities that could arise under Full Fiscal Responsibility we outline some of the key policy levers that Scotland could use to support growth. This list is not exhaustive, with a host of new opportunities awaiting Scotland.

Having the ability to make decisions to increase our competitiveness and respond to short-term economic challenges is essential if Scotland is to fulfil its potential. The economic success of the Basque Country relative to the rest of Spain, where GDP per capita is approximately 30 per cent higher[6], provides a stark illustration of the benefits that can be achieved with Full Fiscal Responsibility.

Greater Budget Flexibility

With Full Fiscal Responsibility, we would have much greater flexibility to determine the size and composition of our budget.

We would have greater opportunities to support the Scottish economy during times of difficulty and to do so in a manner that reflected Scotland's particular needs. It would also give us the opportunity to re-profile the current spending cuts in the short term and to phase them in over a

6 Instituto Nacional de Estadística (2010) - Spanish Regional Accounts

longer time period – a strategy that would be more consistent with the economic conditions north of the border and the preferences of the majority of people in Scotland.

Greater fiscal responsibility would also provide the opportunity to establish a Scottish sovereign wealth fund. This could be used to invest a proportion of the revenues from Scotland's oil and gas reserves over the long term. It could help support macroeconomic stabilisation and address unexpected short term spending pressures, safeguarding Scotland's fiscal position.

Improving Scotland's long-run competitiveness through the tax system

With greater fiscal responsibility, the ability to use the tax system to boost competitiveness would represent a major policy lever. The Scottish Government has already substantially reduced the business tax burden through the levers we do control – for example by setting the lowest national business rate poundage ever and introducing the Small Business Bonus Scheme.

With Full Fiscal Responsibility we could do much more. For example, by using corporation tax to help local businesses grow and attract new businesses to locate in Scotland[7].

The role of taxation in promoting competitive advantage is well established[8]. For example, recent work in the American Economic Journal shows that, in the OECD, a 10 per cent reduction in corporation tax has typically increased investment rates by over two percentage points; nearly doubled the number of entrepreneurs per 100 population; and raised company registrations by 20 per cent[9]. The Centre for Economics and Business Research (CEBR) estimates that if the corporation tax rate in the UK were lowered toward the rate currently in the Republic of Ireland, after 14 years, GDP would be approximately nine per cent higher, driven by an increase in the level of private sector investment of up to 60 per cent[10].

Additional opportunities could include the use of tax levers to support small and medium sized enterprises (e.g. through the income tax and capital gains tax system), or the variation of allowances for particular growth enhancing activities, such as investment in research and development, capital development or skills. Opportunities would also exist to simplify the tax system and make it more transparent, reducing the compliance and administration costs incurred by both business and government.

Promote growth in particular sectors

Full Fiscal Responsibility would also create the opportunity for the Scottish Government to establish targeted policies for key sectors. This could encourage inward investment and boost the opportunities for Scottish companies to be successful on the international stage. For example, Canada offers tax relief of 30-40 per cent on certain items (e.g. wages) for video game developers, France has introduced a 20 per cent relief and Singapore, many US states and Eastern European countries have similar schemes.

7 See for example - the Holtham Commission in Wales.
8 See for example Lee Y., and Gordon R.H., 2005, *Tax structure and Economic Growth*, Journal of Public Economics, Vol. 89, pp. 1027-1043.
9 Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho, and Andrei Shleifer. 2010. *The Effect of Corporate Taxes on Investment and Entrepreneurship*. *American Economic Journal: Macroeconomics*, 2(3): 31–64.
10 Centre for Economics and Business Research (2007), *The dynamic impact of the 2007 Budget and a comparison with the impact of gradually introducing an Irish level of corporation tax*.

One area where this could be particularly important is the renewables sector. Scotland's offshore renewables practical resource (offshore wind, wave and tidal) has been estimated at up to 206 GW, 40 per cent of the UK total[11]. Scotland's vast energy resources have the potential to support tens of thousands of jobs.

Using the powers that we currently have, we have already established a strong incentive scheme for the development of renewables. But our success depends upon the right economic and taxation conditions for development. With Full Fiscal Responsibility we could complement our current actions by using the ability to direct tax reliefs and credits to those engaged in producing renewable energy. This could include using energy tax policies such as more generous capital allowances for infrastructure investment and schemes to better link current and future tax payments (when production becomes more profitable).

Full Fiscal Responsibility would also ensure that Scotland receive a fair share of rents generated from the Crown Estate and would be able to invest our proceeds from the Fossil Fuel Levy in a manner which was in Scotland's best interests. More generally, we would have greater policy choices to assist in the transition to a low carbon economy, drive down emissions and deliver our world-leading climate change target.

Streamline the benefits system

Full Fiscal Responsibility would also enable Scotland to design and deliver policies to address its social needs. Alongside establishing a system to encourage participation and address employment inequalities, the Scottish Government would be able to determine eligibility for, and set the levels of, benefits.

This would help us put forward changes to welfare that would protect the most vulnerable in society and that were consistent with the social objectives of the people of Scotland. For example, the benefits system could be adjusted to avoid poverty traps, where little or no financial benefit is gained from employment because means-tested benefits are withdrawn. Changes could also be made to ensure those attending training courses or doing voluntary work to improve their employment prospects would not be penalised by losing benefits.

We believe that a simplified and streamlined benefit system is required to reduce administration costs and improve people's confidence and understanding of their entitlement. This would address the low levels of take-up of many benefits among vulnerable groups. At the moment, the Scottish Government is engaging with the UK Government on its wide-ranging reforms to the welfare system to ensure that the interaction with Scottish policies and impacts on Scotland's people are considered appropriately. However, we believe that greater autonomy would provide the best opportunity to develop and deliver a system that is right for Scotland.

Investment in Infrastructure

Capital investment is crucial to the economy and provides lasting economic benefits as well as an immediate demand stimulus to construction and related sectors in the economy. Under the current arrangements, Scotland is expected to fund once in a generation projects, such as the new Forth Crossing, from within normal annual allocations – even though it makes far more economic and

11 The Offshore Valuation Group: The offshore valuation: a valuation of the UK's offshore renewable energy resource. www.offshorevaluation.org/

financial sense to spread the cost over the life of such projects, given that they will undoubtedly benefit future generations.

Full Fiscal Responsibility would give the Scottish Government greater flexibility over the timing and management of key infrastructure projects, allowing decisions to be taken in a manner which was sensible, efficient and wholly appropriate to Scotland's circumstances.

IMPACT OF FASTER ECONOMIC GROWTH ON THE OUTLOOK FOR PUBLIC SPENDING

The opportunities that Full Fiscal Responsibility would provide are not academic. The implications for Scotland are real.

Firstly, while Scotland would not escape from efforts to rebalance the public finances, it would be up to policy makers north of the border to decide how best this could be achieved; and to do so in a manner which was consistent with the specific needs of, and conditions facing, the Scottish economy. For example, Full Fiscal Responsibility would give us the opportunity to re-profile the current spending cuts, phase them in over a longer time period and not be locked in to continual cuts.

Secondly, if we are able to grow the economy faster, the proceeds of this wealth could be used, not only to address the debt legacy more quickly, but to fund greater investment in our public services. Over time we could establish a virtuous cycle of economic growth, higher tax revenues and sustained investment in our public services. This would not only provide a real alternative to a decade of low spending but would help ensure that we do not face this situation again.

Forecasting the direct benefits from Full Fiscal Responsibility is difficult. However recent research suggests the effects could be significant. Analysis by Professors Andrew Hughes Hallett and Drew Scott suggests that *"a 1% to point increase in fiscal devolution [the proportion of revenue and expenditure devolved] might be expected to raise GDP by 1.3 percent after five years above what would otherwise have been the case"*. The authors estimate that this increase is equivalent to *"£1.86 billion, or £350 in income per head"*[12].

The medium term outlook for public spending presented in chapter 1, forecasts that, under the existing Devolution framework, it could take until 2025-26 for spending to return to 2009-10 levels in real terms, implying a cumulative real terms loss of approximately £39 billion. This modelling is based on the assumption of a continuation of the current fiscal arrangements, and UK public spending growing in line with the wider economy. Scotland is then assumed to receive the resulting Barnett share equivalent to approximately 1.8 per cent per annum.

In contrast, if Full Fiscal Responsibility allowed for Scottish economic performance to improve more rapidly, that could in turn significantly reduce the time taken to return public spending to current levels and the severity of the lost investment could be significantly reduced. By growing more quickly, the total cumulative loss to Scotland's budget could fall, allowing greater spending on public services.

12 Professor Andrew Hughes Hallett and Professor Drew Scott (2010) – *Scotland: A New Fiscal Settlement.* Page 44

As an illustration, if Scottish public spending grew approximately 1 per cent a year faster from 2016-17 onwards than is assumed under the current financial framework, it would provide an additional £18 billion of resources in real terms for public services in Scotland over the subsequent 10 years.

Furthermore, faster growth may limit the extent of consolidation required with greater tax receipts and lower welfare spending reducing borrowing levels more quickly. The UK Emergency Budget forecast that public spending may not start to grow again in real terms until 2016-17 – two years beyond the current Spending Review period. Clearly if faster growth mitigated the need for some of this consolidation, this would allow the Scottish Budget to return to current levels sooner.

CONCLUSION

Faced with these unprecedented budget challenges, Scotland has an opportunity to take a different path, one where the Scottish Parliament and Scottish Government take responsibility for the key financial decisions that affect Scotland.

Full Fiscal Responsibility would provide greater opportunities to help our economy grow faster. This would enable us to use the proceeds to invest in our schools, hospitals and public services.

SECTION 2

PORTFOLIO PLANS AND DRAFT BUDGET 2011-12

CHAPTER 5
Introduction

This section of the document provides greater detail of the spending plans for 2011-12, which will be subject to Parliamentary consideration and form the basis of the Budget Bill for 2011-12 to be laid before Parliament in January 2011.

2011-12 SPENDING PLANS

The Scottish Government's Total Managed Expenditure (TME) amounts to £33.6 billion in 2011-12, including the Departmental Expenditure Limit of £27.9 billion announced as part of the UK Government Spending Review 2010.

Table 5.01 Total proposed budget for 2011-12

2011-12 Draft Budget	DEL resource £m	DEL capital £m	DEL total £m	AME & other £m	Total £m
The First Minister	234.6	20.5	255.1	-	255.1
Finance and Sustainable Growth	1,364.5	854.7	2,219.2	3,230.4	5,449.6
Health and Wellbeing – Health	11,014.4	744.0	11,758.4	100.0	11,858.4
Education and Lifelong Learning	2,319.0	162.1	2,481.1	102.5	2,583.6
Justice	1,196.6	70.9	1,267.5	-	1,267.5
Rural Affairs and the Environment	489.8	49.6	539.4	-	539.4
Administration	228.5	7.5	236.0	-	236.0
Crown Office and Procurator Fiscal	105.5	2.7	108.2	-	108.2
Local Government	8,354.7	691.8	9,046.5	2,179.5	11,226.0
Scottish Government	**25,307.6**	**2,603.8**	**27,911.4**	**5,612.4**	**33,523.8**
Scottish Parliament and Audit	93.1	2.8	95.9	-	95.9
Total Scotland	**25,400.7**	**2,606.6**	**28,007.3**	**5,612.4**	**33,619.7**

Table 5.02 Reconciliation with HM Treasury Settlement

2010 Spending Review	DEL resource £m	DEL capital £m	DEL total £m
HM Treasury Settlement	25,400.7	2,506.6	27,907.3
Add capital carry forward from 2010-11		100.0	100.0
	25,400.7	**2,606.6**	**28,007.3**

COMPARATIVE SPENDING

Comparative figures for spending in 2010-11 are included in the detailed spending plans set out in each portfolio chapter. In order to aid comparison with previously published spending plans the following table provides details of a number of changes which have resulted in a reduction in the 2010-11 DEL total of £29,712 million, published in September 2009, by approximately £500 million to £29,225 million. The major change is accounted for by the removal of cost of capital charges as part of the UK Government's Clear Line of Sight initiative which was set out in full as part of the 2010-11 Summer Budget Revision in May 2010.

Table 5.03

2010-11 Budget Changes	Total £m
2010-11 Draft Budget Document	29,712
Less cost of capital charges (CLoS)	-504
Less over allocation in 2010-11	-100
Plus PBR consequentials	23
Plus Budget Consequentials	76
Plus IFRS/CLoS technical changes	18
2010-11 Draft Budget Restated	29,225

The 'Comparison 2005-06 to 2011-12' set out in Annex table 4 reflects the removal of cost of capital charges from outturn, provisional outturn and budget figures.

As in the previous Spending Review publication full details of the remaining local government specific grants will be confirmed shortly as part of the local government finance settlement announcement for 2011-12.

SCOTTISH VARIABLE RATE

In accordance with the agreement between the Scottish Government and the Parliament's Finance Committee on the budget process, the Scottish Government confirms that it will not use the existing tax varying powers in 2011-12.

Real terms figures have been calculated using the latest estimated GDP deflator published by HM Treasury of 1.9 per cent in respect of 2011-12.

CHAPTER 6
Office of the First Minister

PORTFOLIO RESPONSIBILITIES

The Office of the First Minister portfolio is responsible for setting strategic direction across Scottish Government. It includes policy on Culture, Europe and External Affairs, and the relationship between the Scottish and UK and other Governments, where the primary aim is to promote Scotland's interests and identity at home and abroad. The portfolio budget supports work to place Scotland on the world stage and to contribute towards delivering Scotland's economic ambition.

The portfolio works to enhance the quality of life for Scotland's communities through maximising access to high quality cultural events and opportunities and the promotion of Gaelic; and through its Executive Agencies promotes, protects and provides access to Scotland's historic environment (Historic Scotland); and our documentary heritage (National Archives of Scotland).

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

The Scottish Government has refocused its relationships with many parts of the world to bring a sharp economic focus to our work and strengthen Scotland's position in the world. Our International Framework is supported by a series of targeted plans with China, India, Pakistan and the USA and a refreshed international development policy focusing on our engagement with developing countries. Our presence in the key markets of China and North America promote Scotland as a modern nation with competitive advantage in rapidly growing sectors like low carbon technologies, life sciences and food and drink. Exports to the USA alone are worth more than £3 billion a year to the Scottish economy.

The creative industries in Scotland support over 60,000 jobs and contribute over £5 billion to the economy; the historic environment supports 60,000 jobs and contributes more than £2.3 billion; and Scotland's museums and galleries welcome an estimated 25.3 million visitors per annum and are worth an estimated £800 million to the economy. Our support for the National Collections and Performing Companies and for Historic Scotland and the National Archives of Scotland makes a vital contribution to this and to increasing numbers of visitors for Scotland's tourism industry.

The Office of the First Minister is using its portfolio budget to help position Scotland as a creative, innovative country with new ideas and applications particularly in new growth sectors of the economy.

Historic Scotland has a lead role in providing technical and scientific advice on improving the energy efficiency of Scotland's 460,000 traditional buildings; and is delivering its own significant carbon reduction commitment for the many properties in its estate. The other Cultural and Gaelic bodies are also taking steps to reduce their carbon emissions.

Gaelic funding for organisations such as MG ALBA, Storlann, Bòrd na Gàidhlig and Sabhal Mòr Ostaig is helping to revitalise and support the economy and cultural life of areas of low population.

OUR NATIONAL OUTCOMES

The policies, activities and expenditure of the Office of the First Minister portfolio contribute to a number of our national outcomes, especially:

- we take pride in a strong, fair and inclusive national identity;
- our young people are successful learners, confident individuals, effective contributors and responsible citizens;
- our children have the best start in life and are ready to succeed; and
- we value and enjoy our built and natural environment and protect it and enhance it for future generations.

The portfolio helps create and sustain ***a strong and inclusive national identity*** through its annual support for cultural and heritage organisations to tell Scotland's story and to promote and strengthen our identity to a wide range of audiences from home and abroad. It supports the creative economy by encouraging creative industries to become leading edge in their field, by celebrating diversity including support for Gaelic and Scots language communities and by managing Scotland's reputation as a distinctive global identity by promoting Scotland as a modern and dynamic nation. Our sense of who we are – as individuals and as a nation – must be underpinned by our culture and our heritage, our creativity and our risk-taking. Taking part in cultural activities improves wellbeing and helps to create resilience to see us through difficult times; indeed visitor numbers and attendances are currently increasing.

This wide-ranging portfolio also contributes to ***helping our young people become successful learners, confident individuals, effective contributors and responsible citizens; and giving children the best start in life***. It does this through, for example, its support for Gaelic learning, helping children learn about their heritage and historic environment; and the support and development of creativity in business, schools and communities.

The portfolio contributes to ***protecting and enhancing our natural and built environment*** particularly through the work of Historic Scotland, and promotes access to and provides advice and guidance on the protection of the historic environment.

OUR ACHIEVEMENTS

Since 2007 the Office of the First Minister portfolio has made significant strides in promoting Scotland at home and abroad and in making the most of Scotland's rich and diverse culture and history.

Historic Scotland has invested £13.5 million in conservation area regeneration schemes and, in partnership with the National Trust for Scotland and the Historic Houses Association has developed a Homecoming Pass. On the back of worldwide trade sales of over 10,000 passes, the product has been retained, re-named the Scottish Heritage Pass and launched in the marketplace as a permanent addition to Scotland's tourism ticketing portfolio. Historic Scotland has also invested £7.46 million in a project to conserve and present James V's Royal Palace at Stirling Castle (total project cost since 2001: £12 million). The project, which will open to the public at Easter 2011, will provide a major new attraction for Stirling that is predicted to raise castle visitor numbers around 14 per cent above 2008-09 levels.

Creative Scotland, established on 1 July 2010, has replaced the Scottish Arts Council and Scottish Screen as the single national body for supporting and promoting Scotland's culture, arts and creative industries.

Our £6 million Edinburgh Festivals Expo Fund has raised the profile and showcased Scottish talent. Through 40 projects, over 2000 artists/performers have played to audiences of over 1 million at the Festivals and beyond.

The opening, at the National Archives of Scotland, of the world leading Scotland's People centre for family history in 2009 has provided a continuing attraction to ancestral tourists. The creation of a network of similar centres, in co-operation with local authorities and using digitised records from national collections, will encourage tourist visits across the country.

Gaelic funding has supported almost 7,000 pupils in Gaelic education. This funding has also helped MG ALBA produce new TV and radio programmes, which attract over 220,000 viewers and have created over 250 jobs. From Bòrd na Gàidhlig funding, Gaelic Language Plans are supported, Gaelic bodies funded and events such as the Royal National Mod, with 1,900 children participants, 1,000 adult participants and 9,000 visitors are supported. Gaelic funding to Sabhal Mòr Ostaig has enabled it to be established as a centre of excellence, and funding for Gaelic adult learning has trained 100 tutors and over 1,000 adult learners.

We have supported and enhanced Scotland's cultural reputation and experiences by providing £20 million towards the redevelopment of the Royal Museum and the Scottish National Portrait Gallery; by safeguarding the public display of the Bridgewater Collection until 2030 through the acquisition of Titian's *Diana and Actaeon*; and by contributing to the acquisition of the £125 million-valued d'Offay Collection of modern art – enabling the National Galleries of Scotland to show great international post-war and contemporary art right across Scotland.

Following the launch of the refreshed international development policy in 2008, we increased the International Aid budget to £9 million in 2010-11. This has supported a range of targeted initiatives across Sub-Saharan Africa, especially in Malawi but also in Rwanda, Tanzania, Zambia and Sudan and a new programme for South Asia building on our historical relationships. Emergency assistance has also been made available to support countries devastated by humanitarian disasters, such as the recent Pakistan floods and Haiti earthquake – vital work that has saved lives.

The Fresh Talent initiative, support for the Relocation Advisory Service and Work Experience Placements for International Students Programme have encouraged people to choose Scotland as a place to work, live, learn and remain.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the Office of the First Minister portfolio, the year-on-year cut in cash terms on resource budgets is £16.9 million and on capital is £7.8 million.

In order to reduce the portfolio spend we have taken difficult decisions but our approach is based on a preference towards direct delivery of cultural experiences; creative industries; international positioning of Scotland as a creative nation; and our moral obligations for Scotland to play its part in international development. We are investing in some new capital projects in Glasgow, Stirling and Dundee and are investing to save by introducing new technologies and sharing services.

We want to see free access to the National Collections continuing and will work with them to achieve this but acknowledge they will need to seek efficiencies and cost reductions. Capital purchase grants have been reduced. The Other Arts budget has been severely cut back limiting Government's ability to respond to in-year requests for support meaning that almost all cultural spend will need to be as planned by funded organisations.

We will expect Bòrd na Gàidhlig to review the different organisations it funds in order to avoid duplication and achieve more collaborative working. Given the importance we place on Gaelic we have limited the reduction in budget to MG Alba and Sabhal Mòr Ostaig.

OUR PRIORITIES

By taking these difficult decisions and maximising the level of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of key priorities.

The Office of the First Minister (OFM) will spend £255 million in 2011-12 on portfolio priorities, including maintaining cultural and heritage assets and widening access to these, and the promotion of Scotland on the world stage.

- The Culture budget will continue to support Scotland's economic potential, particularly in the growth of the creative industries and in opportunities for cultural tourism across Scotland. We will drive policy and spend to maximise promotion of Scotland and opportunities for cultural talent from Scotland to flourish internationally. We will therefore maintain the Edinburgh Festivals Expo fund and the International Touring fund for the National Performing Companies.

- We will maximise, within available resources for planned and deliverable spend, the economic and cultural benefits of Scotland's national cultural assets through, for example, continued funding of £77 million for the Cultural Collections and over £24 million for the National Performing Companies. Whilst we have had to make reductions to the budgets for the Collections and Companies, we will encourage them to work collectively to ensure all parts of Scotland experience their excellent cultural output. We will continue to work with the National Collections to deliver the capital pressures they face in the short-term. On the National Performing Companies, we recognise their need to plan ahead in programming and have reflected that in the comparative reductions short-term. We want them to focus and maintain quality of performance in difficult times. Although there will be challenges to the range and number of exhibitions and performances by the Collections and Companies respectively, we are fully committed to maintaining the quality of these.

- Historic Scotland are re-focusing their work to maximise the impact on protecting and promoting our built environment, with re-organisation that will deliver reduced costs.

- The Fresh Talent budget reductions reflect the changing economic situation and the likely impact of the new UK Government immigration cap on skilled and highly-skilled workers.

- The core funding for Creative Scotland has been protected. Its streamlined organisational structure, integrated business systems and new funding models will allow Creative Scotland to maximise all forms of support for artists and creative practitioners across Scotland, which also provides a focus for tourism across the whole country boosting local economies. They will be expected to deliver strategic and operational support for the creative industries which are one of the seven key sectors in our economic focus. We have maintained its core budget of £35.5 million for this purpose, in the knowledge that significant efficiencies have already been made through moving to a single arts and culture body. We have also maintained ring-fenced funding for Arts and Business (£0.3 million) to help maximise private sector investment in the arts.

- The portfolio capital budget of £20.5 million will contribute significant sums to the development of the V&A at Dundee Project which is key in the regeneration of the Dundee waterfront; the redevelopment of the Glasgow Theatre Royal and Glasgow Royal Concert Hall in time for the Commonwealth Games in 2014; and the maintenance of our historic estate.

- Historic Scotland, with £47 million in Scottish Government funding, will deliver key projects such as the Stirling Palace Project, the Bannockburn Battlefield and Visitor Centre Project and the Scottish Ten, and will continue to protect and enhance the historic environment. It will also focus on increasing its contribution to Scottish tourism through the generation of increased visitor numbers and commercial income; support and develop Scotland's traditional building skills; drive forward the development and application of new digital technologies; and contribute to climate change targets. Historic Scotland will deliver budget reductions by growing income from existing sources, exploiting new areas of income generation and restructuring the Agency to better support its priorities by taking forward an Agency wide programme for change.

- We will maintain momentum on creating a secure future for Gaelic in Scotland by providing over £19 million to support MG ALBA and extending Gaelic education provision. Furthermore, our capital grant (£1.1 million) will continue to support local authorities in their provision of Gaelic education. This support will help strengthen the economy and enrich the cultural life of Scotland, especially in areas of low population. We will encourage Bòrd na Gàidhlig to maintain progress with the Gaelic plans, to deliver the Action Plan and to manage pressures by examining any duplication of function of the various Gaelic organisations that receive support to ensure in the future that they will operate as an efficient and effective network for the promotion of Gaelic.

- We will build on the success of Scotland's first Year of Homecoming in 2009, which generated £53.7 million in additional tourism revenue for Scotland and provided an estimated £154 million worth of positive global media coverage, by continuing to support the tourism and events industry; by contributing to the Homecoming legacy focus years that are running from 2010 to 2013, and by ensuring that the opportunities for Scotland in staging a second year of Homecoming in 2014 are maximised.

- We will use the Major Events and Themed Years budget of £1.7 million to support the Homecoming Legacy work and in 2011-12 includes funding for the Active Scotland and Creative Scotland Focus Themed Years. The budget will also support the Royal Edinburgh Military Tattoo grandstand project in 2011-12 as well as securing major events which showcase Scotland on a world stage. Our support for the Royal Edinburgh Military Tattoo grandstand project will help to ensure the project delivers its aims of securing the future of the Tattoo; speeding up assembly times and providing opportunities for the staging of additional signature events.

- The International Relations budget of £14.4 million will promote Scotland internationally and contribute aid where it is most needed. The cuts to the Fresh Talent Budget will result in less available resource to carry out activity to promote Scotland as a place, to work, live, learn and remain. UK Government policy and the economic situation have resulted in placing constraints on activity in this area. However, within the current constitutional constraints we will continue to push the UK Government to develop flexibilities in the Points Based System for Managed Migration so that Scotland can attract the people it needs.

- The International Development Fund, maintained at £9 million which is significantly more than double the 2007-08 level, will provide vital support to the most vulnerable in developing countries, ensuring that they too have an opportunity to build a sustainable economic future. Our funds are carefully targeted in a number of specific countries where Scotland has forged strong relationships, both historical and contemporary, ensuring that Scotland fulfils its moral responsibility to provide an effective contribution to the achievement of the Millennium Development Goals. Our unique relationship with Malawi remains a key priority.

- The International Image budget will continue to deliver a programme of work to promote Scotland internationally, to engage with international networks and with Scotland's diaspora. It will also raise the profile of Scotland's national day and other key events in the Scottish calendar, and promote Scotland's offering for visitors and residents through Scotland's Winter Festival.

- The range of central analytical budgets of £3 million will provide invaluable support to the evidence base on delivery; aiding understanding of key strategic, economic and social challenges across the Scottish Government. It includes the Office of the Chief Statistician budget of £1.6 million, supporting the monitoring and evaluation of the National Performance Framework, including support for our local delivery partners through the provision of Scottish Neighbourhood Statistics.

Spending plans for 2011-12 are set out below.

Table 6.01 Detailed Spending Plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
Europe and External Affairs	16.7	16.1
Culture and Gaelic	194.2	174.9
Corporate and Central Budgets	9.5	8.2
Historic Scotland	49.3	47.0
National Archives of Scotland	10.1	8.9
Total Office of the First Minister	**279.8**	**255.1**
of which:		
DEL Resource	251.5	234.6
DEL Capital	28.3	20.5
AME		

Table 6.02 Detailed Spending Plans (Level 2 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Europe and External Affairs	16.7	15.8
Culture and Gaelic	194.2	171.6
Corporate and Central Budgets	9.5	8.0
Historic Scotland	49.3	46.1
National Archives of Scotland	10.1	8.7
Total Office of the First Minister	**279.8**	**250.3**
of which:		
DEL Resource	251.5	230.2
DEL Capital	28.3	20.1
AME		

Europe and External Affairs

Table 6.03 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Major Events and Themed Years	1.8	1.7
International Relations	14.9	14.4
Total	**16.7**	**16.1**
of which:		
DEL Resource	16.7	16.1
DEL Capital		
AME		

What the budget does

The Europe and External Affairs budget supports the promotion of Scotland, and Scotland's interests and identity both at home and abroad. It contributes towards the promotion of Scotland as a responsible nation in the world, including Scotland's international development work, and to supporting the Government's purpose through the advancement of Scotland's place in Europe and the wider world. The budget assists in maximising Scotland's influence within the European Union, and builds on mutually beneficial links with other countries including the US and China. The budget supports the attraction of fresh talent to live, study and work in Scotland.

In 2011-12 we will:

- support the Homecoming Legacy work and funding for the Active Scotland and Creative Scotland Focus Themed Years;
- provide £0.25 million to support the Royal Edinburgh Military Tattoo grandstand project; and
- maintain the International Development Fund at £9 million, significantly more than double the 2007-08 level, with the unique relationship with Malawi remaining a key priority.

Culture and Gaelic

Table 6.04 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Creative Scotland and Other Arts	59.0	53.0
Cultural Collections	87.5	77.0
National Performing Companies	26.0	24.6
Gaelic	21.7	20.3
Total	**194.2**	**174.9**
of which:		
DEL Resource	169.6	158.3
DEL Capital	24.6	16.6
AME		

What the budget does

The Culture budget contributes towards enhancing the quality of life for Scotland's communities through maximising participation in high quality cultural events and opportunities, supporting a wide range of government commitments relating to culture and Gaelic. The budget also includes provision for architecture.

In 2011-12 we will:

- provide capital funding to begin the V&A at Dundee project and to contribute to the redevelopment of key cultural venues in Glasgow in advance of the Commonwealth Games in 2014;

- provide over £100 million for public access to and enjoyment of the Cultural Collections and to support the artistic and educational work of the National Performing Companies;
- maintain Creative Scotland's core budget of £35.5 million to enable it to maximise all forms of support for artists and creative practitioners and deliver strategic and operational support for the creative industries;
- maintain ring-fenced funding for Arts and Business (£0.3 million) to help maximise private sector investment in the arts;
- continue the successful Edinburgh Festivals Expo Fund, providing £2 million to support showcasing Scottish talent and continue the International Touring fund (£0.35 million) for the National Performing Companies to perform beyond Scotland's shores; and
- create a secure future for Gaelic in Scotland by providing over £19 million to support MG ALBA, to extend services such as Gaelic education provision and to support Bòrd na Gàidhlig with the implementation of Gaelic plans. Furthermore, our capital grant (£1.1 million) will continue to support local authorities in their provision of Gaelic education. In particular with MG ALBA we expect it will build on the gains in efficiency it has made and the achievements on many levels of the last two years.

Corporate and Central Budgets

Table 6.05 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Strategic Communications	4.8	4.3
Crown Office and Procurator Fiscal Service Inspectorate	0.3	0.3
Civic Participation	0.7	0.1
Office of the Chief Statistician	1.7	1.6
Office of the Chief Researcher	0.4	0.3
Strategic Research and Analysis	0.7	0.7
Office of the Chief Economic Adviser	0.7	0.7
Public Bodies	0.2	0.2
Total	**9.5**	**8.2**
of which:		
DEL Resource	9.5	8.2
DEL Capital		
AME		

What the budget does

Corporate and Central budgets include, among others, Strategic Communications, a range of central analytical budgets including the Office of the Chief Statistician (OCS), and Crown Office and Procurator Fiscal Service Inspectorate (COPFSI).

The Strategic Communications budget covers the topics that Scottish Ministers wish to communicate to various audiences. They range from calls to action, to communications aimed at changing behaviour and attitudes over the long-term.

The central analytical budgets aim to provide data and related analysis to support the evidence base on delivery, increasing understanding of key strategic, economic and social challenges across the Scottish Government. The OCS budget aims to develop a wide range of data and related analysis at the smallest geographical level possible to support decision making and monitoring in all programmes. There has been a continued driving down of costs on these budgets realised from efficiencies and improvements in ways of working. The COPFSI reports to the Lord Advocate and is answerable directly to her. It is fully independent of the Crown Office and Procurator Fiscal Service.

In 2011-12 we will:

- support the monitoring and evaluation of the National Performance Framework, including support for our local delivery partners through the provision of Scottish Neighbourhood Statistics.

Historic Scotland

Table 6.06 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Staff costs	27.8	28.6
Other running costs	6.4	6.4
Programme	31.6	30.9
Heritage capital (resource budget)	6.1	4.5
Capital charges	3.3	3.3
Capital	1.0	2.1
Less income	(26.9)	(28.8)
Total	**49.3**	**47.0**
of which:		
DEL Resource	48.3	44.9
DEL Capital	1.0	2.1
AME		

What the budget does

Historic Scotland protects and promotes Scotland's historic environment, through the conservation and maintenance of 345 nationally significant historic properties and monuments in the care of Scottish Ministers and, as the largest operator of paid visitor attractions in Scotland, through the employment of over 1,000 staff around Scotland who help to maintain our position as a world-class visitor destination. In its work with VisitScotland and VisitBritain, it is a key player in supporting tourism in Scotland.

It provides advice on the management of the most important parts of Scotland's historic environment, including listed buildings, scheduled monuments, wreck sites, gardens and designed landscapes. It promotes cultural identity and associated community regeneration through educational programmes and through the Historic Environment Grants Programme, which contributes funding for the repair of Scotland's most important historic buildings, the regeneration of historic areas and the enhancement of the quality of Scotland's historic city centres. It is taking forward legislation in the form of the Historic Environment (Amendment)(Scotland) Act and an associated education and awareness programme is being developed.

Historic Scotland also protects and supports traditional skills through its work with FE colleges and as Scotland's largest employer of stonemasons (100) and other skilled crafts people including apprenticeships. Through the provision of technical and scientific advice it is improving the energy efficiency of Scotland's 460,000 traditional buildings and making a significant contribution to the Government's carbon reduction targets. Working in partnership with Glasgow School of Art it is enhancing Scotland's reputation for innovation and excellence at home and internationally through the scanning of five international sites as well as the five World Heritage Sites in Scotland – the Scottish Ten project.

In 2011-12 we will:

- progress key projects such as the Stirling Palace Project (£12 million), the Bannockburn Project (£5 million) and the Scottish Ten (£1.5 million) over the lifetime of the projects;
- fund grants schemes in towns and city centres (£12 million) delivering substantial leverage of almost 7:1;
- contribute to Scotland's GDP through generation of income (£28 million); and
- conserve and maintain properties in care (£17 million).

National Archives of Scotland

Table 6.07 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Staff costs	5.0	4.7
Accommodation Costs	1.2	1.2
Other Running Costs	0.7	0.7
Capital Charges	1.0	1.0
Capital Expenditure	2.7	1.8
Less income	(0.5)	(0.5)
Total	**10.1**	**8.9**
of which:		
DEL Resource	7.4	7.1
DEL Capital	2.7	1.8
AME		

What the budget does

The National Archives of Scotland (NAS) plays an important role in cultural and economic life and its holdings are central to the nation's sense of identity. NAS provides legal customers with improved access to the public registers and records in order to support Scotland's property market, and develops the Scotland's People service for family history in order to encourage inbound tourism. By improving access to the nation's records, NAS connects Scots at home and abroad to their past and strengthens their sense of identity at a family, community and national level. In addition to advising Scottish Ministers on records and information policy, NAS advises Scottish public authorities on the creation and management of their records, promoting streamlined and more effective government.

In 2011-12 we will:

- continue digitisation programmes and increase online availability of records via the Internet; and

- work with public authorities to improve the management of records including digital formats, in order to support better governance and protect individual rights.

CHAPTER 7
Finance and Sustainable Growth

PORTFOLIO RESPONSIBILITIES

The Finance and Sustainable Growth portfolio is responsible for managing Scotland's budget efficiently and effectively and for delivering the right mix of policies to increase sustainable economic growth. Excluding local government (which is discussed in a separate chapter), the majority of the Portfolio's spend is focused on investment in transport and water infrastructure and support for businesses through enterprise, energy and tourism funding. The Portfolio also covers public service reform, including modernisation of the planning system and promoting the growth of the third sector.

SUPPORTING RECOVERY AND INCREASING SUSTAiNABLE ECONOMIC GROWTH

The portfolio makes a major contribution to the Government's economic strategy as set out in chapter 2, particularly on the two central objectives of *Maintaining and improving Scotland's physical capital and Developing sources of comparative advantage in the world economy.* It also has a key role to play in *Supporting and reforming public services*. The rest of the chapter looks at the work of the portfolio under these three headings.

Maintaining and improving Scotland's physical capital

An efficient transport system is essential for enhancing productivity and delivering faster, more sustainable growth in a low carbon economy. It can help open up new markets, increase access to employment and help build a critical mass of business that can drive up competitiveness and thereby deliver growth.

Ongoing investment in transport also connects regions and people to economic opportunity, whether through business, leisure travel, or tourism, thus contributing to national social cohesion and reducing the disparity between the regions of Scotland.

Our investment in Scotland's transport infrastructure therefore plays a key role in creating the best possible conditions for business success. It also directly supports business. In 2009-10, 95 per cent of Transport Scotland's £1.6 billion budget was invested back into the private sector, supporting 25 per cent of civil engineering contracts in Scotland and 11,000 jobs.

Developing sources of comparative advantage in the world economy

Our support for Scottish Enterprise (SE), Highlands and Island Enterprise (HIE) and Scottish Development International (SDI) is critical to Scotland's comparative advantage. Through its focus on Scotland's key sectors and its support for growing globally competitive companies, SE contributes to increasing sustainable economic growth. Its priorities are to support businesses expanding into new markets, to help companies invest in innovation and commercialise research, to improve access to finance and to support companies to develop their leadership and workforce. In addition to its key role of supporting sustainable economic growth in the Highlands and Islands, HIE plays an important role in strengthening local communities, particularly in some of Scotland's most fragile areas. SDI assists the growth of the Scottish economy by encouraging inward investment and helping Scottish-based companies develop international trade and a wider international role.

Our funding of VisitScotland plays a key role in creating jobs and wealth in tourism, particularly in rural and island areas. The sector has performed well in recent years, proving to be resilient despite the difficult economic climate, and demonstrating significant growth potential.

Our Innovation and Industries funding is critical for stimulating growth in key sectors set to drive the global economy – industries like low-carbon, life sciences and digital. It supports knowledge transfer between business and the science base and improves business innovation and investment in Research and Development. Our support for broadband will put in place the infrastructure needed for innovation in the digital economy and ensure Scotland's business base can remain competitive in the global digital environment.

Supporting and reforming public services

We know that the efficiency and effectiveness of the public sector has an important role to play in the overall performance of the Scottish economy and strengthening recovery. We continue to drive change in our public services so that the country emerges ready to thrive in future.

The transition to a low carbon economy creates an opportunity to look afresh at all public services as they seek to contribute to emissions reduction and adapt to climate change. The necessity for change to meet the statutory duties of the Climate Change (Scotland) Act, will provide an impetus to the public sector and offer scope for it to play a leading role in action on climate change.

The modernisation of the planning system introduced a range of new procedures in relation to development planning, development management and appeals. Working closely with the development industry and public sector partners, we ensure efficient operation of these procedures as they make an essential contribution to sustainable economic growth.

OUR NATIONAL OUTCOMES

The policies, activities and expenditure of the Finance and Sustainable Growth portfolio contribute to the National Outcomes and in particular:

- We live in a Scotland that is the most attractive place for doing business in Europe;
- We realise our full economic potential with more and better employment opportunities for our people;
- We reduce the local and global environmental impact of our consumption and production; and
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

The portfolio is ensuring that ***Scotland is the most attractive place for doing business in Europe*** by providing a competitive, supportive business environment that has the right infrastructure in place, is friendly to enterprise, attractive to entrepreneurs, inward investors and skilled migrants and where key Scottish companies and sectors are seen as market leaders.

By increasing the number and quality of jobs available by developing our key growth sectors as set out in the Government Economic Strategy and enhancing their international competitiveness, ***we realise our full economic potential with more and better employment opportunities for our people***.

By ensuring that all products and services, right through the supply chain, embrace a low carbon approach to the economy, ***we reduce the local and global environmental impact of our consumption and production***.

We take the lead responsibility for ensuring that ***our public services are high quality, continually improving, efficient and responsive to local people's needs*** by supporting the delivery of better quality, user-focused services and smaller, simpler and more efficient government.

OUR ACHIEVEMENTS

Since 2007, we have taken a range of measures to support businesses through the recession whilst remaining firmly focused on creating the right conditions for long-term growth.

Maintaining and improving Scotland's physical capital

We have invested in improving transport services across Scotland, bringing benefits to the economy and supporting the construction sector and its supply chains; improving journey times, reliability, safety, accessibility and quality of public transport; and addressing climate change mitigation and adaptation challenges.

This has included unblocking constraints on the strategic road network by bringing forward the missing links of M74 and M80. We have invested in the new rail lines of Stirling–Alloa–Kincardine and Airdrie to Bathgate, connecting communities, expanding labour market catchments and providing an alternative to road based travel for passengers and freight. We have connected communities and improved accessibility through our support for life-line ferry and air services; by removing unfair tolls on the Tay and Forth bridges; and by fully supporting the concessionary fares scheme. We have also supported innovative approaches that address climate change, such as the promotion of active travel and cycling networks; investment in more fuel-efficient trains and buses and Low Carbon Vehicles and modal shift through support for the bus and freight sectors, including the Bus Service Operators' Grant and freight grants that have removed over 40 million lorry miles from Scotland's roads.

Developing sources of comparative advantage in the world economy

One of Scotland's most significant economic opportunities is energy production from offshore wind. The Offshore Wind Route Map (Sept. 2010) identified the potential to contribute £7.1 billion to Gross Value Added (GVA) in Scotland, and create almost 30,000 jobs over the next decade. At the same time, investment in this renewable energy production will make a significant contribution to meeting our climate change ambitions. Our funding is designed to unlock this potential by: supporting emerging technologies, attracting new investment and enhancing community ownership. Our key deliverables include 200 capital projects in community renewables and biomass, support to wave and tidal technologies and infrastructure, the delivery of CO_2 and cost savings through energy saving advice and engagement with EU sustainable energy projects, which have brought over £100 million worth of EU funding to Scotland.

We have delivered the Climate Change (Scotland) Act 2009, which sets the most challenging statutory climate change targets in the world and provides a strong impetus to deliver maximum economic benefit from Scotland's comparative advantage in renewable energy as we prepare for the global low carbon economy. By exploiting commercial opportunities now, Scottish business and industry can maximise their competitive advantage as the global economy moves to a low carbon basis.

With our support, Homecoming 2009 provided a great stimulus to the tourism industry. It saw over 400 events take place and generated £53.7 million additional tourism revenue for Scotland, a return on investment of nearly 10:1 and 22 per cent above the target set for the year.

Over the last three years, Scottish Development International has secured nearly 6,500 planned new high value jobs for Scotland from a total of almost 16,000 planned jobs created and safeguarded.

Supporting and reforming public services

We have streamlined organisations and systems to improve the efficiency and effectiveness of the public sector. Our Simplification Programme is on track to deliver a 25 per cent reduction in the number of national, devolved public bodies in Scotland between 2007 and 2011, together with estimated net savings of around £125 million by 2013 and estimated net recurring savings of £39 million per annum thereafter.

Our Efficient Government Programme exceeded the 2 per cent efficiency targets for cash-releasing savings in 2008-09 and 2009-10 and has identified potential savings to meet its target for 2010-11. Our improved procurement reforms have brought savings across the public sector and have widened access to contracts for small businesses. The modernisation of the planning system has also brought improvements in processes – we are now dealing with more than 80 per cent of written planning appeals within 12 weeks, compared with just 7 per cent prior to 2008; and we have reduced the time taken to examine councils' development plans by more than 50 per cent.

An important part of public service reform is the input provided by the third sector at the local level. We have supported the increasing engagement of the third sector in Community Planning Partnerships (CPPs) so that its skills, knowledge and expertise provides the maximum input to the delivery of the Single Outcome Agreement in each local authority area for the benefit of local communities, especially the most vulnerable.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the Finance and Sustainable Growth portfolio, the year on year cut in cash terms on resource budgets is £99.5 million and on capital is £155 million. Key pressures within the portfolio in 2011-12 include the impact of long-term contracts, such as the rail franchise and lifeline ferry services, which generally include provision for new or improved services and escalation in costs; demand-led services such as concessionary fares and air service discounts; and the need to provide adequate support to develop a low carbon economy in Scotland that will deliver comparative advantage. With a sharply declining budget, these pressures have been exceptionally hard to manage and have put very considerable pressure on the other elements of the Finance and Sustainable Growth budget. The scope for significant budget reductions from action on pay is limited by the relatively small percentage (9 per cent of the resource budget compared with a Scottish Government average of around 57 per cent) which is in the portfolio.

Taking into account these pressures, we have considered all areas of expenditure within the Finance and Sustainable Growth portfolio, the scope for efficiencies and the contribution that spending programmes make to sustainable economic growth and the delivery of portfolio priorities. In order to reduce the level of spending across the portfolio, we have taken the following difficult decisions:

On transport, with a few notable exceptions such as the new Forth Crossing, on capital spend we will prioritise existing projects over new. Expenditure on maintenance of the motorway and trunks roads network has been reduced.

Enterprise and tourism budgets have been reduced partly by building on our earlier reforms and seeking further reductions in staffing levels, increased efficiencies within the bodies and the removal of lower priority activities. The remaining savings are to be found by prioritising levers to develop the low carbon economy, ensuring that spending is well-aligned to create capacity for Scotland to invest in the vital areas that can unlock the potential of our natural resources, and on the other key sectors that we think are critical to long-term economic development.

OUR PRIORITIES

By taking these difficult decisions and maximising the level of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of key priorities within the Finance and Sustainable Growth portfolio, which will spend £5449.6 million in 2011-12.

Maintaining and improving Scotland's physical capital

Our key infrastructure priority, central to Scotland's long term economic success, is to progress the design, development and procurement for the Forth Replacement Crossing, the largest civil engineering project in a generation in Scotland, worth up to £2.3 billion and securing economic turnover of more than £1.3 billion and over 3,000 jobs. We will also provide funding of £4.7 million to support the running of the Scottish Futures Trust, which, as outlined in Chapter 3, is helping us to develop more innovative financing mechanisms and delivering a significant capital programme.

Otherwise, we will prioritise consolidation over new projects, making best use of our existing assets; sustainable options such as public transport in preference to car and road use for the movement of people and use of water/rail for freight; and equitable interventions that promote positive impacts on our environment and health.

To improve journey times and connections, we will provide funding for rail programmes such as the Edinburgh Glasgow Improvements Programme (EGIP) and Borders Rail line; progress trunk road schemes such as the M74 completion, A96 improvements at Fochabers and A9 improvements at Crubenmore; and contribute to Glasgow's SPT Fastlink in support of the Commonwealth Games.

To support the most vulnerable elderly people and to keep money in people's pockets when they need it most we will spend £255 million to fund fully the Concessionary Fares scheme and the Bus Services Operators' Grant to reduce emissions, by supporting modal shift from private to public transport. We will also develop a climate change adaptation strategy for transport; and continue to invest in collaborative initiatives to develop and deploy Low Carbon Vehicles and associated infrastructure in Scotland.

To improve quality, accessibility and affordability, we will invest £35 million in airport infrastructure at 10 airports in the Highlands and Islands and at Dundee and in lifeline air services to Barra, Campbeltown and Tiree. We will increase spending on ferry services to £109 million to ensure the retention of existing services and affordable fares and enable the construction of the next generation of vessels and essential pier and harbour works; and we will retain funding to enable the pilot of Road Equivalent Tariff (RET) fares to the Western Isles, Coll and Tiree to continue until March 2012.

We remain committed to investing £700 million to support Scottish Water investment over the period 2010-15. As Scottish Water is in a strong cash position, there will be no draw down of capital investment support in 2011-12 although the capital programme will continue. We have also announced that Scottish Water will expand its activities to support wider economic objectives, including support for renewable energy projects. We will be consulting on this and possible legislative provisions before the end of 2010.

Developing sources of comparative advantage in the world economy

We will spend £284 million on Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International. As well as focusing on the key sectors, a particular priority will be given to those programmes which will help Scotland's businesses make a successful transition to a low carbon economy. We will implement the National Renewables Infrastructure Plan, including the £70 million Renewables Infrastructure Fund to strengthen port and manufacturing facilities and the supply chain for manufacturing offshore wind turbines and related components, which will receive £17 million in 2011-12. We will create the International Technology and Renewable Energy Zone (ITREZ), a hub of engineering excellence in and around Glasgow, which will be facilitated by Strathclyde University in collaboration with Scottish and Southern Energy. Scottish Enterprise will continue to support the Scottish Investment Bank, which will aid new, innovative business through the provision of early stage risk capital and will provide established, viable growth and exporting businesses with access to debt finance through the creation of the new Scottish Loan Fund.

This will be complemented with £35 million directly on our Energy industry, covering a range of renewable and low carbon technologies and providing energy efficiency support to both domestic and non-domestic energy consumers. Key priorities will be further delivery of the Renewables Action Plan, including the £70 million National Renewables Infrastructure Fund mentioned above which is designed to leverage significant private sector investment over the next four years and help deliver an estimated 28,000 jobs and £7.1 billion in value to Scotland's economy over the coming decade. Further priorities include heat and skills, the delivery of the *Energy Efficiency Action Plan* and support for the implementation of the *Low Carbon Economic Strategy*, including engagement in EU wide infrastructure networks. We will also spend £17 million on support to stimulate growth in the key industries set to drive the global economy – like low-carbon, life sciences and digital.

We will provide £40.7 million core grant to VisitScotland, which will allow it to market Scotland as a tourism destination overseas and in the UK domestic markets; contribute to the preparations for the series of themed years in the build-up to the next Homecoming celebrations in 2014; and prepare for the staging of The Ryder Cup in Gleneagles in 2014, which will bring significant economic benefits to Scotland.

We will also invest £45 million in support for business through SMART: SCOTLAND, our foremost policy instrument to support near-market research and development projects by small and medium enterprises, and Regional Selective Assistance (RSA), which supports investment, increased productivity and sustained employment in selected areas of Scotland.

We will use £1.2 million as part of a partnership to better understand climate change, including emissions reduction targets as well as work to understand and prepare for the likely impacts of a changing climate. We will look to develop further the mainstreaming of climate change across all portfolio areas.

Supporting and reforming public services

As set out elsewhere in this budget, we need to increase the pace of our reforms so that we can deliver improved local outcomes for our citizens at a reduced overall cost – support and reform go hand in hand. Alongside our partners in local government and Community Planning Partnerships, we will continue to focus on outcomes, protect frontline services, particularly those that support the most vulnerable in our society, tackle the causes of problems as well as the symptoms and pursue greater efficiency and effectiveness. We will be seeking efficiency savings across public services of 3 per cent for 2011-12, with each delivery body expected to report publicly on their plans to improve the efficiency of public services, actions undertaken and results achieved. We will also continue to embed better regulation principles and good practice in the work of policy makers and regulators, addressing risks and supporting business competitiveness. We will work with public service partners to ensure that they understand their duties under the Climate Change Act.

Following on from successful planning reforms to facilitate economic recovery, we will spend £4 million to continue to support initiatives which deliver high quality places and which underpin a wide variety of Scottish Government objectives including sustainable economic growth, reduced carbon emissions, sustainable communities and the promotion of innovation and quality in development.

We will encourage an even greater degree of partnership working, to ensure that services are delivered seamlessly at the appropriate level, and by the organisation best placed to do the job, unconstrained by boundaries or barriers. In particular, we will invest £27 million to support the important role that the third sector has to play in public service delivery and redesign through a range of measures, including from spring 2011 taking a more strategic approach to our investment in the third sector to increase its resilience and support to increase organisational capacity and capability. We will also enhance our strategic engagement with the sector at a national level and support engagement with community planning through third sector interfaces in each Community Planning Partnership area.

We will spend £19 million to collect and analyse the information from Scotland's Census 2011, which helps the Scottish Government, local authorities, the health service and many other public, voluntary and commercial bodies plan and provide key services to people all over Scotland and which allows Scotland's diverse communities to identify themselves.

Spending plans for 2011-12 are set out below.

Table 7.01 Detailed Spending Plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
Air Services in Scotland	35.1	35.3
Committees, commissions and other expenditure	31.4	18.4
Concessionary Fares and Bus Services	255.1	255.3
Enterprise, Energy and Tourism	450.3	423.8
European Regional Development Fund – 2007-13 Programmes	–	–
European Social Fund – 2007-13 Programmes	–	–
Ferry Services in Scotland	101.9	109.0
General Register Office for Scotland	21.9	19.0
Motorways and Trunk Roads	544.1	557.6
Other Transport Policy, Projects and Agency Administration	76.3	67.1
Planning	5.3	4.1
Rail Services in Scotland	842.8	779.4
Registers of Scotland	–	–
Scottish Public Pensions Agency	3,242.2	3,241.6
Third Sector	35.5	27.0
Water and Climate Change	62.0	(88.0)
Total	**5,703.9**	**5,449.6**
of which:		
DEL Resource	1,464.0	1,364.5
DEL Capital	1,009.5	854.7
AME	3,230.4	3,230.4

Table 7.02 Detailed Spending Plans (Level 2 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Air Services in Scotland	35.1	34.6
Committees, commissions and other expenditure	31.4	18.1
Concessionary Fares and Bus Services	255.1	250.5
Enterprise, Energy and Tourism	450.3	415.9
European Regional Development Fund – 2007-13 Programmes	–	–
European Social Fund – 2007-13 Programmes	–	–
Ferry Services in Scotland	101.9	107.0
General Register Office for Scotland	21.9	18.6
Motorways and Trunk Roads	544.1	547.2
Other Transport Policy, Projects and Agency Administration	76.3	65.8
Planning	5.3	4.0
Rail Services in Scotland	842.8	764.9
Registers of Scotland	–	–
Scottish Public Pensions Agency	3,242.2	3,181.2
Third Sector	35.5	26.5
Water and Climate Change	62.0	(86.4)
Total	**5,703.9**	**5,347.9**
of which:		
DEL Resource	1,464.0	1,339.0
DEL Capital	1,009.5	838.7
AME	3,230.4	3,170.2

Air Services Scotland

Table 7.03 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Highlands and Islands Airports Limited	25.0	26.6
Support for Air Services	10.1	8.7
Total	**35.1**	**35.3**
of which:		
DEL Resource	28.1	25.3
DEL Capital	7.0	10.0
AME		

What the budget does

The budget supports Highlands and Islands Airports Limited (HIAL), which operates 11 airports at Barra, Benbecula, Campbeltown, Dundee, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick. The budget includes resources for capital investment required by the regulatory authorities. It sustains the operation and development of airport services throughout the Highlands and Islands, supporting the economic and social development of remote and island communities. The budget also supports the Air Discount Scheme (ADS) which provides discounted fares on eligible routes to people whose main residence is in Orkney, Shetland, the Western Isles, Islay and Jura, Caithness and North-West Sutherland. In addition, the budget supports lifeline Public Service Obligation (PSO) air services between Glasgow and Barra, Campbeltown and Tiree, which cannot be provided commercially.

In 2011-12 we will

- ensure that HIAL has the necessary resources to maintain its 11 airports at current levels of operational ability;
- continue to fund the lifeline PSO air services to Barra, Campbeltown and Tiree; and
- subject to completion of a review of the scheme and subsequent notification to the European Commission, continue to fund the ADS, while removing business-related travel claims from the scheme.

Committees, Commissions and Other Expenditure

Table 7.04 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Improving Public Services (previously Public Service Reform)	24.7	11.5
Commissions	0.7	0.0
Council of Economic Advisers	0.4	0.1
Local Government Elections	0.0	2.1
Scottish Futures Trust	5.6	4.7
Total	**31.4**	**18.4**
of which:		
DEL Resource	25.6	15.4
DEL Capital	5.8	3.0
AME		

What the budget does

The Improving Public Services budget provides support to programmes and projects designed to improve public sector efficiency and effectiveness. The aim is improved services to customers, through a focus on outcomes, improved infrastructure and smaller, simpler Government.

The Commissions budget covered the work of the Standards Commission. As from 1 April 2011, support for the Standards Commission will transfer to the Scottish Parliament Corporate Body.

The Council of Economic Advisers budget covers the cost of holding meetings, travel and subsistence for members attending meetings and the cost of research commissioned by the Council.

The Scottish Futures Trust (SFT) budget covers the costs of funding the work that SFT undertakes on behalf of Scottish Ministers to provide value for money in the delivery of public sector infrastructure investment. As well as including core SFT staffing and accommodation costs, this funding allows SFT to deploy resources where necessary in pursuit of Scottish Ministerial priorities.

The elections budget will meet the costs associated with the Government's policies on improving the co-ordination and administration of elections.

In 2011-12 we will:

- continue the development and operation of enhanced National ICT infrastructure, for example, through the OneScotland Portal Project and the eCare and Customer First Programmes. The Customer First Programme underpins some key public services, including the National Entitlement Card (which supports the Young Scot initiative, national concessionary travel and national proof of age schemes), and the National Gazetteer – a definitive database of all properties in Scotland.

- ensure delivery of local outcomes, which in turn help to achieve Scotland's National Outcomes, by supporting Community Planning and wider community engagement. Scottish Government provides a range of support (including pilot funding and support for practitioners) to Community Planning Partnerships and Community Councils to build capacity in outcomes-based working at the local level.

- hold meetings of the Council of Economic Advisers, which will advise the Scottish Government on how best to achieve its overarching Purpose of sustainable economic growth in Scotland. The Council will outline its recommendations in an Annual Report.

- SFT will continue its leadership of the hub initiative, which has started delivering £1 billion of community infrastructure over the next ten years.

- SFT will manage the Government's £1.25 billion Scotland's Schools for the Future Schools Building Programme, which provides for a greater collaborative approach among local authorities in the delivery of new schools. The first school under the programme will open in 2011.

- SFT will develop innovative financing methods and will continue progressing work on the National Housing Trust initiative, an innovative approach to deliver new affordable homes for rent. SFT has also led the development of Tax Increment Financing (TIF) as a means of unlocking infrastructure for major regeneration schemes and will continue working with local authorities to develop specific TIF pilot projects. This includes the Edinburgh Waterfront scheme, provisionally approved by Ministers, which should realise £660 million of private investment.
- SFT will also undertake other activities, such as fostering aggregation and collaboration among public bodies, providing a central source of commercial expertise that will help deliver value for money in infrastructure investment. SFT will take on a range of key tasks envisaged by the Independent Budget Review to maximise value for money in capital investment.
- the key priority for the elections budget will be the development of an electronic counting system to be in place for the 2012 local government elections.

Concessionary Fares and Bus Services

Table 7.05 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Smartcard Programme	2.1	9.5
Concessionary Fares	192.0	185.0
Support for Bus Services	61.0	60.8
Total	**255.1**	**255.3**
of which:		
DEL Resource	253.0	245.8
DEL Capital	2.1	9.5
AME		

What the budget does

The budget provides support for the development and delivery of concessionary travel schemes for older, disabled and young people. The funding provides for bus infrastructure systems to recognise Smartcards, which is essential to effective implementation of our Fraud Strategy. Access to national concessionary travel is through Smartcards issued as part of the Scottish Citizens' National Entitlement Card project.

Bus Service Operators Grant (BSOG) provides support to the bus industry across Scotland. Its aim is principally to benefit passengers by helping operators to keep their fares down and enabling operators to run services that might not otherwise be commercially viable thus contributing to the maintenance of the overall bus network. It helps sustain the economy, reduces the environmental impact of increased car travel and reduces the cost to local authorities of supporting non-commercial socially necessary services.

In 2011-12 we will;

- reduce payments under the concessionary travel scheme as a result of a negotiated settlement with the bus sector, without any change to associated eligibility criteria for users of the scheme;
- increase Smartcard funding to maintain the current standardised and interoperable Smart Concessionary Travel system, and upgrade the associated software (essential to fulfilling ministerial expectations for Smart ticketing across Scotland);
- continue to make efficiency savings in the operation of the scheme and the validation of bus operator claims; and
- maintain funding of BSOG.

Enterprise, Energy and Tourism

Table 7.06 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Enterprise Policy and Delivery	290.0	283.4
ESF Programme Operation	1.5	1.5
Innovation and Industries	20.6	17.4
Industry and Technology Grants	50.4	45.2
Energy	43.2	34.6
Tourism	43.9	41.0
Scottish Development International	0.7	0.7
Total	**450.3**	**423.8**
of which:		
DEL Resource	363.3	328.2
DEL Capital	87.0	95.6
AME		

What the budget does

The Enterprise, Energy and Tourism budget is focused on supporting those sectors that are key to the long-term growth of the Scottish economy including energy, tourism, life sciences, and digital.

The Enterprise Policy and Delivery budget largely funds Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE). SE and HIE focus on developing those sectors in which Scotland has a comparative advantage, as well as supporting businesses expanding into new markets, helping companies invest in innovation and commercialise research, improving access to finance and supporting companies to develop their leadership and workforce. Core to this is the switch to the low carbon economy which offers Scotland economic advantages from its wealth of natural resources. In addition to its key role of supporting sustainable economic growth in the Highlands and Islands, HIE also plays an important role in strengthening local communities, particularly in some of Scotland's most fragile areas. In 2007, we reformed the enterprise agencies to help meet our commitment to de-clutter the delivery landscape, reduce duplication and drive up efficiency and effectiveness. The Economy, Energy and Tourism Committee is currently reviewing the purpose of an enterprise agency and the success of the Government's reforms. We recognise that there is still scope for improvement and we will consider the outcome of the Committee's inquiry. The budget also includes funding for the Business in the Parliament conference, the National Economic Forum and the activities of the Regulatory Review Group, all aimed at building strong understanding between government and the business community.

European funds have been used to support economic recovery and future growth. By the end of March 2011, we will have committed nearly €820 million in support of over 600 projects across Scotland. The European Social Fund is supporting the expansion of apprenticeship places, ScotAction and other learning opportunities for young people, as well as expanded programmes to help people find and enter work. The European Regional Development Fund is helping to improve access to business finance, and is supporting innovation and urban regeneration. This budget covers the associated costs of programme administration, monitoring and evaluation.

The Innovation and Industries budget is critical for stimulating growth in the key industries set to drive the global economy - like low-carbon, life sciences and digital - and for accelerating economic recovery, increasing sustainable economic growth and making Scotland an attractive place for doing business. Our knowledge transfer programmes form a key part of the Scottish Government's Innovation Framework, and aim to enhance collaboration between business and the science base; improve business innovation and investment in Research and Development; and therefore result in greater economic growth. Our broadband interventions will support our Digital Ambition for Scotland and put in place the broadband infrastructure needed to support innovation in the digital economy and ensure Scotland's business base can remain competitive in the global digital environment. They will also play a critical role in protecting fragile, rural communities.

The Industry and Technology Grants budget includes the SMART: SCOTLAND programme and Regional Selective Assistance (RSA). The SMART: Scotland programme is our foremost policy instrument to support near-market research and development projects (feasibility and prototype development) by small and medium enterprises whereas RSA, the main national scheme of grant assistance to industry, supports investment, increased productivity and sustained employment in selected areas of Scotland and accounts for the bulk of this spend. RSA is particularly critical to securing the investment needed to deliver our renewable energy ambitions. The budget includes provision to meet commitments made in previous years which are paid in instalments as projects reach agreed milestones. Both grants are scheduled to transfer to Scottish Enterprise from April 2011.

Energy is key to delivering the low carbon economy, meeting our climate change targets and is a key industry sector in its own right. Complementing significant spending from SE and HIE, the Energy Budget supports activity covering the range of renewable and low carbon technologies and providing energy efficiency support to both domestic and non- domestic energy consumers. Key priorities are further delivery of the Renewables Action Plan, including investment in the £70 million National Renewables Infrastructure Fund. Further priorities include heat and skills, the delivery of the *Energy Efficiency Action Plan* and support to implement the *Low Carbon Economic Strategy*, including engagement in EU wide infrastructure networks. In most instances, these spending plans are delivered in tandem with other parts of the Scottish Government to maximise the impact of budgets, The Climate Challenge Fund, for example, is part of the Rural Affairs and Environment portfolio, however it can support feasibility studies for carbon reducing measures including small renewable energy projects.

The Tourism budget includes funding for VisitScotland to continue to undertake award-winning marketing campaigns to promote Scotland as a tourism destination, both within the UK and in key overseas markets. VisitScotland will also contribute to the Homecoming and Themed years initiative to ensure that the legacy of Homecoming 2009 is developed into another successful event in 2014 and to preparations for the staging of The Ryder Cup at Gleneagles in 2014. VisitScotland plans to achieve further efficiency savings on top of those already achieved in recent years and will focus on minimising overheads and maintaining core marketing as much as possible.

In 2011-12 we will:

- provide funding to Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International, giving a particular priority to those programmes which will help Scotland's businesses make a successful transition to a low carbon economy.

- implement the National Renewables Infrastructure Plan, including £17million investment in the Renewables Infrastructure Fund to strengthen port and manufacturing facilities and the supply chain for manufacturing offshore wind turbines and related components.

- provide core grant to VisitScotland, which will allow it to market Scotland as a tourism destination overseas and in the UK; contribute to the preparations for the series of themed years in the build-up to the next Homecoming celebrations in 2014; and prepare for the staging of The Ryder Cup in Gleneagles in 2014. The tourism budget will also provide £0.3 million towards the project to replace the Royal Edinburgh Military Tattoo stands.

- fund broadband interventions to support our Digital Ambition for Scotland and put in place the broadband infrastructure needed to support innovation in the digital economy and ensure Scotland's business base can remain competitive in the global digital environment.

European Regional Development Fund – 2007-13 Programmes

Table 7.07 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Grants to Local Authorities	13.3	13.3
Central Government Spend	40.0	40.0
Grants to Local Authorities – EC Income	(13.3)	(13.3)
Central Government – EC Income	(40.0)	(40.0)
Total	**0.0**	**0.0**
of which:		
DEL Resource	–	–
DEL Capital	–	–
AME		

European Social Fund – 2007-13 Programmes

Table 7.08 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Grants to Local Authorities	8.4	8.4
Central Government Spend	25.3	25.3
Grants to Local Authorities – EC Income	(8.4)	(8.4)
Central Government – EC Income	(25.3)	(25.3)
Total	**0.0**	**0.0**
of which:		
DEL Resource	–	–
DEL Capital	–	–
AME		

*These figures net to zero because of matching receipts from the European Union.

What the Budget Does

We have responsibility for implementing the 2007-13 European Structural Funds programmes in Scotland, principally through the European Regional Development Fund and the European Social Fund, as well as other cross-border and transitional programmes. Amounts are based on the estimated spend likely to be required. European Structural Funds contribute to the improvement in Scotland's economic competitiveness through support for business research and innovation, skills improvement and the promotion of lifelong learning across a wide range of sectors – in other words, underpinning a number of our Strategic Priorities in delivery of the Purpose. The 2007-13 programmes are administered by two intermediate administrative bodies under three-year contracts to the Scottish Government.

Ferry Services in Scotland

Table 7.09 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Support for Ferry Services	77.8	94.4
Vessels and Piers	14.8	8.1
Road Equivalent Tariff	9.3	6.5
Total	**101.9**	**109.0**
of which:		
DEL Resource	87.1	100.9
DEL Capital	14.8	8.1
AME		

What the budget does

The Support for Ferry Services budget line covers the subsidy paid for the:

- Clyde and Hebrides Ferry Services (CHFS) contract;
- Northern Isles Ferry Services contract;
- Northern Isles Lift-On Lift-Off Freight Services contract; and
- Gourock-Dunoon ferry service.

The Vessels and Piers budget line provides for loans to Caledonian Maritime Assets Ltd (CMAL) for the procurement of vessels used on the CHFS network and grants to ports (other than those owned by local authorities) for improvement works to piers and harbours that support lifeline ferry services.

The budget line for Road Equivalent Tariff (RET) funds the pilot of this approach to ferry fare setting on the services to the Western Isles, Coll and Tiree.

In 2011-12 we will:

- maintain existing ferry services at affordable fares on the Clyde and Hebrides and Northern Isles routes;
- bring the new £24.5 million vessel MV Finlaggan into service on the Islay route and complete the associated pier and harbour works at Port Ellen and Kennacraig;
- place orders for the construction of the next generation of CalMac vessels; and
- fund the continuation of the pilot of RET fares to the Western Isles, Coll and Tiree to March 2012.

General Register Office for Scotland

Table 7.10 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Administration Costs	25.0	24.3
Depreciation Charges	1.2	1.2
Capital	0.8	0.5
Less Income	(5.1)	(7.0)
Total	**21.9**	**19.0**
of which:		
DEL Resource	21.1	18.5
DEL Capital	0.8	0.5
AME		

What the budget does

The budget, together with generated income, funds the statutory functions of the Registrar General – to conduct 10-yearly censuses and prepare and publish demographic and other statistics; to administer civil registration of vital events (births, deaths, marriages, civil partnerships, divorces and adoptions) and the related statutes; to maintain the National Health Service Central Register; and to make available public records about individuals. With partners the Keeper of the Records and the Lord Lyon, the Registrar General runs the ScotlandsPeople website and Centre which provide information for family historians.

In 2011-12 we will:

- collect completed questionnaires from Scotland's 2011 Census, in parallel with censuses in the other parts of the UK, and prepare to publish the results;
- continue to expand the resources available through ScotlandsPeople, in particular adding the records from the 1911 Census; and
- explore the scope for providing more frequent small-area population statistics from sources other than the decennial census.

Motorways and Trunk Roads

Table 7.11 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Structural Repairs	14.6	30.0
Network Strengthening and Improvement	56.4	15.0
DBFO Payments	47.6	58.9
Routine and Winter Maintenance	61.6	61.5
Other Expenditure including Surplus Land Valuation Adjustment	5.6	4.8
Roads Improvements	49.7	24.2
Capital Land and Works	187.3	60.2
Forth Crossing	30.0	200.0
Roads Depreciation	80.6	80.6
Forth and Tay Road Bridge Authorities	10.7	22.4
Total	**544.1**	**557.6**
of which:		
DEL Resource	231.0	212.6
DEL Capital	313.1	345.0
AME		

What the budget does

In addition to major roads construction projects and other road improvements, the budget delivers routine, cyclical and winter maintenance to maintain the safety, environment and amenity of the trunk road network. It includes road safety improvement programmes, information for road travellers and an emergency response facility to deal with emergencies and incidents on the network.

The budget also covers the design, development and procurement for the Forth Replacement Crossing.

In 2011-12 we will:

- continue procurement of the Forth Replacement Crossing as programmed;
- complete construction of the M74, M80 and A96 Fochabers;
- subject to a positive outcome from the Public Local Inquiry, continue to invest in the completion of the Central Scotland motorway network and bring forward the procurement of the M8 Baillieston to Newhouse motorway upgrade, together with improvements to the M74 Raith Interchange and the M8 associated improvements;
- continue to progress the Aberdeen Western Peripheral Route (AWPR) and Balmedie projects with a view to bringing forward for construction as soon as the legal issues surrounding the AWPR are resolved;

- prepare schemes which have completed their statutory procedures to be taken forward at the earliest opportunity;
- commence a range of preparatory work on the Strategic Transport Projects Review interventions for the future;
- focus on essential improvements and on safety and congestion relief improvements that offer value for money;
- utilise lower cost repairs alongside safety critical work until funding allows renewal of life expired roads and strengthening of bridges to take place;
- maximise value in the routine and winter maintenance budgets by identifying savings in the work delivered by the Trunk Road Operating Companies;
- defer some of the work to further expand the Traffic Scotland infrastructure and delay investment in small road improvement schemes; and
- continue to maintain the safe operation of the Forth and Tay Road Bridges.

Other Transport Policy, Projects and Agency Administration

Table 7.12 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Transport Information	2.9	2.2
Agency Administration Costs	15.8	14.8
Strategic Transport Projects Review	5.3	4.6
Support for Freight Industry	10.3	2.9
British Waterways Scotland	11.4	10.0
Support for Sustainable and Active Travel	21.2	25.1
Travel Strategy and Innovation	6.6	5.1
Road Safety	2.8	2.4
Total	**76.3**	**67.1**
of which:		
DEL Resource	49.8	43.8
DEL Capital	26.5	23.3
AME		

What the budget does

The Transport Information budget funds the provision of impartial travel information services such as Traveline and Transport Direct.

The Agency Administration budget funds the running costs of Transport Scotland.

The STPR budget is designed to ensure the robustness of the appraisal and analysis tools that enable decisions to be made on individual projects, as well as supporting the wider business case development and appraisal.

The Support for the Freight Industry budget focuses on measures which encourage the freight industry to reduce emissions, by improving the efficiency of its operations and by transferring freight from road to rail and water, where practicable.

The grant to British Waterways Scotland supports the maintenance of Scotland's canals and their contribution to economic regeneration.

The budget for Sustainable and Active Travel invests in the infrastructure which will allow the use of electric and other low carbon vehicles across Scotland, delivers the actions in the Cycling Action Plan for Scotland and facilitates active travel choices. This budget also includes funding for the next phase of the Low Carbon Vehicle Procurement Support Scheme.

The budget for Transport Strategy and Innovation provides running cost support for Regional Transport Partnerships, the Mobility and Access Committee for Scotland (MACS) and Passengers' View Scotland (PVS).

The road safety budget covers Road Safety Scotland's delivery of road safety research, education and publicity, as laid out in their annual business plan; and support for partnership working under the Road Safety Framework to 2020. Scotland currently has the 3rd lowest rate of road fatalities in Europe and we will continue to strive to make the roads safer.

In 2011-12 we will:

- continue development of a route strategy and improvements for the A9 and A96;
- continue development of the schemes comprising the Forth Replacement Crossing Public Transport Strategy;
- operate the Mode Shift Revenue Support and Waterborne Freight Grant schemes and support existing commitments under the Freight Facilities Grant scheme (which will be closed to new applications), and promote best practice in the freight industry;
- continue to contribute to economic regeneration through British Waterways Scotland's involvement in the Helix project;
- continue to support the operation of Regional Transport Partnerships and mobility/accessibility interest groups such as MACS;
- contribute funding for Glasgow's SPT Fastlink, in support of the Commonwealth Games;
- commence funding for a Park and Ride for the Forth Replacement Crossing;
- increase funding for Low Carbon Vehicles, including development of a charging infrastructure for electric vehicles in the Central Belt; and
- continue to support road safety initiatives in support of the Road Safety Framework.

Planning

Table 7.13 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Planning	2.6	1.5
Building Standards	0.3	0.3
Architecture and Place	1.7	1.6
Planning and Environmental Appeals	0.7	0.7
Total	**5.3**	**4.1**
of which:		
DEL Resource	4.7	3.9
DEL Capital	0.6	0.2
AME		

What the budget does

Key elements of the Planning modernisation programme include: building on the success of the e-planning project, which has transformed access to the planning system and secured substantial savings for users; support for community engagement, principally through funding to Planning Aid for Scotland; and the Planning Development Programme which is designed to ensure the planning services have the skills and competences required to make the system work effectively.

The Building Standards Division prepares and updates building standards legislation and guidance documents. A key work area is to ensure that European obligations are met and currently work is ongoing for the second stage of the Energy Performance of Buildings Directive.

Architecture and Place is the sponsor for the NDPB, Architecture and Design Scotland, which carries out a variety of advisory roles to improve the quality of Scotland's built environment and to support sustainable place-making. The Division provides funding support for a number of programmes in line with the National Outcome that we value and enjoy our built and natural environment. In addition, the Sust. Programme run by Architecture and Design Scotland is aimed at mainstreaming sustainable design and supports the 'greener' objectives of government.

The Directorate for Planning and Environmental Appeals determines appeals made to Scottish Ministers under planning and environmental legislation against decisions made, or enforcement action taken, by planning authorities and the Scottish Environment Protection Agency. It conducts examinations of strategic and local development plans and inquiries held in relation to compulsory purchase orders, transport and other infrastructure projects such as on shore renewables, and core path plans which promote access to the countryside.

In 2011-12 we will:

- conduct robust research to fully inform Scottish Government policies supporting Scotland's climate change commitments;

- build on the success of the e-planning programme to continue to drive public sector efficiencies by delivering a modern, efficient and inclusive planning service to the people of Scotland;
- continue to support the Scottish Sustainable Communities Initiative, supporting the promotion of sustainable low carbon places; and
- fund the costs associated with Planning and Environmental Appeals and other casework.

Rail Services in Scotland

Table 7.14 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Rail Franchise	315.2	299.5
Rail Infrastructure	331.0	426.1
Rail Development	0.9	0.8
Rail Small Programmes	20.0	–
Major Public Transport Projects	175.7	53.0
Total	**842.8**	**779.4**
of which:		
DEL Resource	442.1	420.4
DEL Capital	400.7	359.0
AME		

What the budget does

The budget supports the delivery of ScotRail passenger rail services in Scotland, the maintenance and safe operation of the Scottish rail network and investment in service upgrades. The rail infrastructure costs relating to rail services are set by the Rail Regulator.

Funding is provided under Major Public Transport Projects for the delivery of major rail public transport projects such as the Edinburgh – Glasgow Improvements Programme (EGIP) and the Borders Railway.

In 2011-12 we will:

- increase expenditure on rail services and maintaining the current rail network;
- increase train services on the Airdrie to Bathgate railway to four trains per hour;
- deploy the new fleet of longer electric trains between Glasgow, Ayrshire and Inverclyde and Edinburgh and East Lothian;
- increase long distance services to Inverness on the Highland Mainline from 9 to 11 trains per day;

- continue advanced works and procurement for the Borders Railway to open in 2014;
- continue design development of the Edinburgh – Glasgow Improvements Programme for completion in 2016; and
- continue to meet the Scottish Government's funding obligation to make a £500 million contribution to the City of Edinburgh Council's tram project.

Registers of Scotland

What the budget does

Registers of Scotland (RoS) is a Trading Fund and is self-financing from fees (so does not receive direct funding from government). RoS maintains and supplies information from a range of public registers. The main two registers, the Land Register and the General Register of Sasines, are concerned with the ownership of land and property. The public registers play a key role in underpinning the economic and social stability of Scotland. RoS's purpose is to record and safeguard rights, providing the people and institutions of Scotland with the social and economic benefits that flow from a publicly guaranteed system of rights in land and property.

Scottish Public Pensions Agency

Table 7.15 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Agency Administration	11.8	11.2
Scottish Teachers Pension Scheme	1,424.3	1,424.3
NHS in Scotland Pension Scheme	1,806.1	1,806.1
Total	**3,242.2**	**3,241.6**
of which:		
DEL Resource	10.7	10.7
DEL Capital	1.1	0.5
AME	3,230.4	3,230.4

What the budget does

The Scottish Public Pensions Agency's (SPPA) principal role is to administer the pensions, premature retirement and injury benefits schemes for members of the National Health Service in Scotland Pension Scheme and the Scottish Teachers Superannuation Scheme.

The Agency also has responsibility for developing the regulations covering the National Health Service in Scotland Pension Scheme, the Scottish Teachers Superannuation Scheme, and the Local Government, Police and Fire pension schemes in Scotland; for determining appeals made by members of these schemes; and providing a pensions calculation service for a small number of small public pension schemes operating in Scotland and elsewhere.

The pension scheme funding represents the costs of pensions accrued in that year plus notional interest on current liabilities less income received. It is classified as annually managed expenditure (AME), funded separately by Treasury from the Departmental Expenditure Limit (DEL) settlement and, as such, variations in the scheme expenditure do not have to be balanced by adjustments elsewhere in the Scottish Budget.

In 2011-12 we will:

- maintain its current service standards during 2011-12 against the context of significant increases in casework growth; and
- ensure that the policy and operational aspects of the UK Government's agenda of public service pension reform are implemented where appropriate.

Third Sector

Table 7.16 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Third Sector	20.7	24.0
Scottish Investment Fund	14.8	3.0
Total	**35.5**	**27.0**
of which:		
DEL Resource	35.5	27.0
DEL Capital	–	–
AME		

What the budget does

The Third Sector budget seeks to secure the development of an innovative, sustainable and inclusive third sector, supporting communities to be more cohesive and contributing to high quality public services and raised economic growth. The budget also supports active citizenship, including volunteering, and a series of strategic partnerships with national third sector organisations aimed at building third sector capacity.

We have been able to increase our core spending on the Third Sector and, despite the fact that the Scottish Investment Fund was planned only as a three-year fund concluding in 2011, we have also been able to sustain it with a further £3 million investment.

In 2011-12 we will:

- from spring 2011 take a more strategic approach to our investment in the third sector, with the aim of increasing the resilience and capacity of third sector organisations;
- deliver a range of business support to third sector organisations via strategic contracts, with the aim of increasing organisational capacity and capability; and

- enhance our strategic engagement with the sector at a national level and support engagement with community planning through third sector interfaces in each Community Planning Partnership area.

Water and Climate Change

Table 7.17 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Support for Scottish Water Borrowing	150.0	–
Interest on Voted Loans	(89.2)	(89.2)
Climate Change	1.2	1.2
Total	**62.0**	**(88.0)**
of which:		
DEL Resource	(88.0)	(88.0)
DEL Capital	150.0	–
AME		

What the budget does

In 2011-12, Scottish Water will have sufficient cash so that no loans are required from the Scottish Government other than to replace those loans that come to maturity and therefore the capital programme will be able to continue as planned. Over the 2010-15 regulatory period, the Government remains committed to lending £700 million to Scottish Water to enable it to deliver vital improvements to services.

In 2011-12:

- Scottish Water will be investing to deliver improvements to water and sewerage services. These improvements required by Ministers are set out in directions issued to Scottish Water in October 2009 and cover the period 2010-15. Examples of specific improvements include:

- further reductions in levels of leakage;

- progressing plans to deliver improvements to Glasgow's drainage and wastewater treatment facilities;

- providing the necessary water and wastewater infrastructure to support the Commonwealth Games;

- continuing to support economic growth by providing strategic capacity at water and wastewater assets as and when it is required; and

- completion of the new water treatment works for Edinburgh City.

In 2011-12, the climate change programme line will support:

- the Scottish contribution to the independent Committee on Climate Change, which provides expert advice to Ministers on matters concerning climate change, including emissions reduction targets;
- work to understand and prepare for the likely impacts of a changing climate, through the Scottish Climate Change Impacts Partnership; and
- activities related to implementation of the Climate Change (Scotland) Act 2009.

CHAPTER 8
Health and Wellbeing

PORTFOLIO RESPONSIBILITIES

The Health and Wellbeing portfolio is responsible for helping people to maintain and improve their health, especially in disadvantaged communities, and for delivering high quality healthcare. The portfolio works to provide good quality, sustainable and affordable housing, tackles homelessness and helps regenerate Scotland's communities. Our remit also includes tackling discrimination, promoting equality and sport.

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

Scotland's healthcare sector directly supports sustainable economic growth by providing continuous improvement in the quality of services it provides. It helps those out of work because of poor health return to employment and, by improving the health and wellbeing of those in work, reduces sickness absence, promotes motivation and increases productivity. As Scotland's single biggest employer, with more than 168,000 employees across the country, it makes an important contribution to local economies. The portfolio further contributes to sustainable economic growth by tackling the discrimination and inequality that prevent people from participating fully in the labour market and reaching their full potential.

The healthcare sector also contributes to economic growth through its significant investment in world-leading healthcare related research and development in medical and life sciences technology.

Tackling inequalities and promoting equality help to support more cohesive communities, foster good relations and create the conditions which make Scotland a more attractive place to come to visit, live and work.

The portfolio's lead role in supporting the 2014 Commonwealth Games will stimulate investment of around £2 billion in infrastructure for Games venues and associated transport networks and support an estimated 1200 jobs across Scotland. The Games will bring particular benefits to the East End of Glasgow where the injection of housing development and supporting infrastructure will promote sustainable economic growth. More broadly, our support for this and other major sporting events will create jobs and boost the tourism industry.

The portfolio has responsibility for regenerating Scotland's communities; working with partners to provide homes and places for people to live, work and flourish which in turn will enable them to contribute most productively to economic growth.

OUR NATIONAL OUTCOMES

The policies, activities and expenditure of the Health and Wellbeing portfolio contribute to all of our National Outcomes. Among the most significant are:

- We live longer, healthier lives;
- Our children have the best start in life and are ready to succeed;
- We have tackled significant inequalities in Scottish society;
- We have improved the life chances for children, young people and families at risk;

- We live in well-designed, sustainable places where we are able to access the amenities and services we need; and

- We reduce the local and global environmental impact of our consumption and production.

The portfolio makes the most significant contribution to ensuring that the people of Scotland ***live longer, healthier lives*** by providing high quality healthcare and by focusing on prevention and early intervention to reduce key health risk drivers of premature mortality, such as alcohol misuse, smoking, mental illness, and poor mental wellbeing.

The emphasis on early healthcare intervention from conception through early childhood within the portfolio will make a significant contribution to ensuring that ***our children have the best start in life and are ready to succeed.***

The portfolio has an important role to play in ***tackling the significant inequalities in Scottish society*** through building on the success of *Keep Well*. We will also promote equality and fair treatment by promoting equality across our healthcare services, and will support NHS Boards in tackling discrimination, prejudice and the barriers to equality of opportunity.

The portfolio has an important contribution to make in ***improving the life chances for children, young people and families at risk,*** including support for preventative measures focusing on the early years, parenting support, education and learning support, employability services, drugs and alcohol services, community policing and services targeted at particular groups such as looked after children, offenders and children affected by domestic abuse.

The portfolio will give priority to regenerating Scotland's communities, helping to ensure that we ***live in well-designed, sustainable places where we are able to access the amenities and services we need***. In particular, we will work with partners to ensure the right quality, quantity and types of homes and places for people to live and work. Assisting vulnerable households through the difficult economic times ahead will make a key contribution to the delivery of this outcome. Health facilities are designed to support sustainable delivery of health services and provide appropriate environments for the delivery of modern healthcare.

The portfolio will contribute to ***reducing the local and global environmental impact of our consumption and production*** through our investment in insulating our homes and tackling fuel poverty through the Energy Assistance Package and our Home Insulation Schemes and through a range of other programmes set out in our *Energy Efficiency Action Plan*.

OUR ACHIEVEMENTS

- We have made a significant contribution to the marked **reductions in mortality rates from the three big killers** – cancer, heart disease and stroke. Over the past four years NHSScotland has made some significant improvements which have already improved outcomes for the people of Scotland. Between 1995 and 2009, there has been a 60 per cent decrease in premature mortality from Coronary Heart Disease (CHD), a 54 per cent decrease from stroke and a 22 per cent decrease from cancer.

- Since 2007 the initial *Keep Well* programme of **inequalities targeted health checks** has successfully engaged more than 85,000 people. Local outcomes of reductions in blood pressure and cholesterol, and of people quitting smoking as a result of the programme are very positive, and if sustained should in time lead to a reduction in cardiovascular mortality and morbidity.

- On smoking, we acted decisively by increasing the age of purchasing tobacco from 16 to 18 on 1 October 2007. In May 2008, we launched a **smoking prevention** action plan, *Scotland's Future is Smoke-free* which set out an ambitious programme of measures designed specifically to prevent smoking among children and young people. We have invested record sums in smoking cessation measures – more than £40 million in the current Spending Review period. There has been an increase of 73 per cent in smokers successfully quitting (one month post quit date) with the support of NHSScotland stop smoking services.

- We have backed our radical **action on alcohol misuse** with a record £100 million investment in prevention, treatment and support services. This, along with our reform of local Alcohol and Drug Partnerships is significantly improving services to those in need. Through the alcohol brief interventions programme, NHS Boards are on target to help almost 150,000 people to reduce their risk of requiring services in the future.

- Through significantly increased investment we achieved a step change in **Hepatitis C services**, putting Scotland at the forefront of international efforts to tackle this condition, which has become a major public health challenge particularly among vulnerable groups.

- We have ensured greatly improved **access to services** through significant reductions in maximum waiting times standards. Waiting times standards for a first outpatient consultation following a GP or dentist referral and for inpatient and day case treatment have reduced from 6 months to 12 weeks. A new standard for diagnostic tests for the eight key diagnostic tests such as MRI and CT scans of six weeks has been introduced. Cancer patients are treated faster than ever, with urgently referred patients being treated within 62 days.

- We secured the delivery of **Free Personal Care** by providing an extra £40 million a year, agreeing with COSLA a fair and consistent approach to the delivery of Free Personal Care across the country. This will continue to improve the lives of older people and their carers.

- We have made significant progress towards the **abolition of prescription charges** with charges currently reduced to £3. From 1 April 2011 we will abolish the prescription charge.

- We were at the forefront of the successful UK-wide **response to the H1N1 flu pandemic**. Measures we took included a successful vaccination programme with higher uptake rates than in other parts of the UK, a doubling of critical care capacity, and the establishment of the Scottish Flu Response Centre within NHS 24 which reduced pressures in primary care and was a vital source of information for the Scottish public.

- We have reduced the number of Clostridium difficile infections by 63 per cent and MRSA by 63 per cent, introduced a national screening programme for MRSA and invested more than £50 million in the fight against **Healthcare Associated Infection**. In our drive to continue to reduce Healthcare Associated Infections we have established an independent Healthcare Environment Inspectorate to improve standards in hospitals. The Inspectorate will ensure the highest standards of infection prevention and cleanliness with the aim of building public confidence.

- In 2010 we jointly published with COSLA a *Carers and Young Carers Strategy* which sets a framework for action for the next five years aimed at supporting carers and sustaining them in their caring role, while enabling young carers to be children first and foremost. Further as set out in chapter 14, local government will continue to work with the Scottish Government towards maintenance of an extra 10,000 weeks respite provision.

- We published Scotland's first ever *Dementia Strategy* and are making good progress towards meeting the national target to increase the number of people registered with a diagnosis of dementia.

- We made considerable progress in implementing *Living and Dying Well – a national action plan for palliative and end of life care in Scotland* to ensure that people are supported to live as well as possible, in their preferred place of care, at the end of their lives.

- We have invested in the **child and adolescent mental health** (CAMHS) workforce with a 29 per cent increase since 2008, and have introduced a HEAT target to reduce the waiting time for access to specialist CAMHS services.

- **Nurse agency spend** reduced by 69 per cent from £28 million in 2006-07 to £8.2 million as of 2009-10. Agency staff now only account for 0.6 per cent of total nursing and midwifery capacity.

- We have continued to invest in the NHS and have successfully delivered a varied **capital investment** programme which totals £1.676 billion over three years - an increase of 19.9 per cent on the previous three years. In 2010 the First Minister opened the £17.7 million Aberdeen Dental School which exemplifies an innovative design and helps reduce the NHS's carbon footprint.

- We kept open **A&E services** at Ayr and Monklands hospitals, reversing the previous administration's decision to close these services.

- We established NHS Research Scotland (NRS), an initiative initially developed to streamline the process of obtaining **research and development** approval for multi-centre research studies in Scotland, which will deliver major efficiencies to industry. This is regarded as crucial to attracting pharma industry to invest in research in Scotland.

- We worked in partnership with colleagues across NHSScotland to establish a new shared focus on pursuing excellence in our healthcare services through the development of the *Healthcare Quality Strategy for NHSScotland*. This strategy will now become the overarching context for the prioritisation of policy development and improvement as we face the challenges of the future, both in terms of securing improvement in the quality of healthcare services, and in achieving the necessary efficiencies.

Housing and Regeneration

- Responding to the credit crunch and recession, we supported the wider housing market and enabled the retention of skilled employees through accelerating £120 million of investment in affordable housing supply in 2008-09 and 2009-10, protecting an estimated 2,500 jobs.

- Through a £80 million investment in new council houses we will support the construction of 3,300 new homes for social tenants and support more than 2000 jobs in construction and related trades. This is the first central government support for new council housing in more than 20 years and, combined with ending the right to buy on new social housing, will increase availability of council house stock.

- Over the period 2007-10, 5,351 households were helped into home ownership through the *Low cost Initiative for First Time buyers* (LIFT), including 2,625 households through the *Open Market Shared Equity Pilot*.

- Over the period 2010-12, innovation in the financing and delivery of affordable housing for rent and ownership is delivering new affordable rented homes in rural areas in partnership with private landowners, and 100 households are being helped into home ownership in 2010-11 through a new supply shared equity scheme developed with the house building industry.

- *The National Housing Trust* initiative, delivered through a financial partnership with 12 local authorities, is enabling the approval of at least 1,000 new affordable homes for rent including future options for home ownership.

- Investment of £92 million in Urban Regeneration Companies has helped transform some of our most deprived communities and helped create jobs.

- The *Energy Assistance Package* (EAP) was introduced in April 2009 to assist families and older people suffering fuel poverty. More than 67,000 families were helped in the first year. The EAP will create or sustain over 400 jobs. The scheme and its predecessor, the *Central Heating Programme*, has installed over 40,000 heating and insulation measures since April 2007.

- We introduced area-based *Home Insulation Schemes* offering free or low cost energy efficiency measures to 500,000 households which has helped them save money, address fuel poverty and combat climate change. Delivery from early phases has led to savings in household fuel bills worth £23 million over the lifetime of the measures.

- Responding to the impact of the recession, we helped 850 households to avoid repossession by doubling funding for the *Home Owner Support Fund*, and introduced the strongest legislative protection anywhere in the UK for those at risk of repossession.

- We continued to support local authorities as they move towards meeting the 2012 target that entitles all unintentionally homeless households to settled accommodation.

Sport

- We were the successful bidder for hosting the 2014 Commonwealth Games and in our bid to improve Scotland's level of participation in sport we have started to roll out community sport hubs throughout Scotland with 24 already identified.

- We have made considerable investment in upgrading and developing Scotland's sporting facilities infrastructure. Since 2008 we have provided over £11.5 million through sportscotland in direct support to projects across Scotland, as we believe that sport has the potential to significantly transform lives in every community. For example, over the past 3 years we have seen the upgrading of the pavilion and pitches at Seedhill Playing Fields in Paisley; enhancements to the mountain biking tracks at Fort William; new facilities for juniors players at Orkney Golf Club; and a new skatepark at Saughton in Edinburgh.

- In addition we have invested over £16 million through our national and regional sports facilities strategy to help deliver a new Regional Indoor Football Centre at Toryglen in Glasgow; a new Sports Village in Aberdeen, the creation of the Peak Centre in Stirling and new state of the art sporting facilities at Ravenscraig in Motherwell.

Equalities and Social Inclusion

- We supported a wide range of activity to promote and to tackle issues of inequality and discrimination, violence against women and domestic abuse.

- We introduced the Forced Marriage Protection Bill in September 2010 which will provide civil remedies for those at risk of forced marriages and victims of forced marriage.

- We developed for consultation a new set of public equality duties to help bodies take forward their responsibilities under the Equality Act 2010.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. However, the health budget has received the full Barnett consequentials of £280 million towards its resource budget. This has lifted the resource budget by 2.7 per cent to £10.8 billion. Within the Health and Wellbeing portfolio, the year on year cuts in cash terms on capital budgets is £171 million. Notwithstanding the increase in NHS funding, issues such as the ageing population, new technology and the cost of drugs means that the NHS will still face considerable budget pressures. These pressures mean that the NHS will need to deliver maximum value from our investment through a focus on increased efficiency while protecting the quality of care. Taking into account these pressures, we have considered all areas of expenditure within the Health and Wellbeing portfolio, the scope for efficiencies and the contribution that spending programmes make to sustainable economic growth and the delivery of portfolio priorities.

In respect of NHSScotland the fiscal environment will have an impact on the timing of delivery of some capital projects currently in development. The Scottish Government is exploring other financing options in conjunction with the Scottish Futures Trust to maximise capital investment in NHSScotland on a sustainable financial basis.

Key pressures within Housing and Regeneration in 2011-12 include meeting the commitments for capital investment made as part of the *Economic Recovery Programme*, and also maintaining a forward programme for new housing to continue progress towards our 2012 homelessness target, to support the economy and Scottish jobs, and to provide a range of housing options, particularly for people unable to access the housing market.

In order to reduce the level of spending within Housing and Regeneration, we have taken the following difficult decisions:

- to reprofile some housing and regeneration capital spending; and
- to focus the support available to those affected by the economic downturn.

OUR PRIORITIES

The Health and Wellbeing portfolio will be responsible for public spending totalling £11.9 billion in 2011-12. Funding allocated to healthcare will be £11.4 billion, of which Territorial Boards and Special Boards will receive a core allocation of £8.6 billion. £390.8 million will be allocated to Housing and Regeneration, £66.4 million to Sport, £27.5 million to Social Inclusion and Equalities and £10.9 million to the Food Standards Agency.

Our total healthcare funding in 2011-12 of £11.4 billion reflects an increase of £190.5 million. This comprises annually managed expenditure of £100 million, net capital funding of £488.2 million and resource funding of £10.8 billion. Resource funding has increased by £280 million, from £10,504.2 million to £10,784.2 million. This is the full amount of the budget consequentials arising from the increase to health in England and delivers on the Scottish Government's commitment to pass on the resource budget consequentials in full to the NHS in Scotland.

Health and Wellbeing

Building on the firm foundation established over recent years our key priorities for health for 2011-12 will be to:

- protect the most vulnerable people in our society through early intervention and by promoting equality; and
- achieve world-leading quality in healthcare and maximise value through increased efficiency.

Protecting the Most Vulnerable in Our Society though Early Intervention and Promoting Equality

We will continue to address the significant **health inequalities** that exist in Scotland. In recent years, significant advances have been made in protecting and enabling society's most vulnerable people but substantial challenges remain. We believe that action in children's early years is the most fundamental and effective form of early intervention to address poor health. Evidence shows that the **early years** are crucial in developing a person's strengths and the assets they will need to maintain their health and wellbeing in the future. We will also continue to support wider preventative services, such as parenting support, education and learning support, employability services, drugs and alcohol services, community policing and services, with a particular focus on vulnerable groups, such as looked after children, offenders and children affected by domestic abuse. We will do this by implementing the *Getting it Right for Every Child* approach across all relevant parts of our Health services.

Building on the success of the *Keep Well/Well North* programme of health checks, we will extend a programme of inequalities-targeted, high risk primary prevention to all NHS Boards' activities from 2012-13. Evidence tells us that this is an effective and efficient approach to delaying the onset of cardiovascular disease and to tackling **excess premature mortality** within deprived communities.

It is still the case that age, race, gender, gender identity, disability, sexual orientation and religion can impact on a person's health and wellbeing and, therefore, on Scotland's economic and social wellbeing. We will promote **equality and fair treatment** for people of Scotland and across Government activity to tackle discrimination, prejudice and the barriers to equality of opportunity.

Achieving World-Leading Quality in Healthcare and Maximising Value through Increased Efficiency

By concentrating on what really matters to people, we have established three Healthcare Quality Ambitions for Scotland which will focus our combined efforts to become a world leader in healthcare quality:

- Mutually beneficial partnerships between patients, their families and those delivering healthcare services which respect individual needs and values and which demonstrate compassion, continuity, clear communication and shared decision-making.

- There will be no avoidable injury or harm to people from healthcare they receive, and an appropriate, clean and safe environment will be provided for the delivery of healthcare services at all times.

- The most appropriate treatments, interventions, support and services will be provided at the right time to everyone who will benefit, and wasteful or harmful variation will be eradicated.

We will **implement the *Healthcare Quality Strategy*** in partnership with Local Authorities, the independent sector and the public and will report on the progress we are making towards achieving our Healthcare Quality Ambitions and aim of becoming a world leader in healthcare quality.

We will provide a strengthened focus on supporting NHS Boards to **increase efficiency and productivity** and will prioritise approaches which simultaneously improve the quality of healthcare services but do not compromise quality, such as eradicating harmful and wasteful variation and implementing key modernisation programmes. As part of this process we will reduce the number of senior managers in the NHS by 25 per cent by the end of the next Parliament.

As part of our approach to achieving world leading quality in our healthcare services, we will continue our focus on **tackling HAI** through the work of the HAI Task Force.

Delivering world-leading healthcare services for people will require strong partnership working across health and care services. In recognition of the pressures on the health and social care system in a challenging fiscal climate, the **Scottish Government has allocated £70 million in 2011-12 within the NHS Budget to a Change Fund for NHS Boards and partner local authorities to redesign services to support the delivery of new approaches to improved quality and outcomes.** By ensuring that older people remain independent in their own homes, Health Boards and local authorities will be able to focus on reducing unnecessary hospital admissions and speeding discharge after a crisis. This will result in better outcomes for older people and ease the pressure on acute hospital provision.

The *Reshaping Care for Older People* programme will continue, as part of the implementation of the *Healthcare Quality Strategy*, to address the challenges faced by a rapidly increasing older population at a time of financial constraint while at the same time delivering better outcomes for older people. This will be achieved by remaining focused on the key policy goal of optimising the independence and wellbeing of older people at home or in a homely setting.

From December 2011, NHSScotland will deliver the 18 weeks Referral to Treatment standard. Shorter waits can lead to earlier diagnosis and better outcomes for many patients as well as reducing unnecessary worry and uncertainty for patients and their relatives. It also reduces inequalities by **addressing variations in waiting times** across Scotland.

Housing and Regeneration

We will support economic growth with an extra £600 million investment **in new affordable housing supply** through use of £55 million of new government funding, helping to support around 7,500 jobs. We will build around 6,000 new affordable homes, including for new social tenancies.

We will support **Urban Regeneration Companies (URC)**, with priority investment in Clyde Gateway URC to support delivery of a successful Commonwealth Games.

We will continue our successful *Energy Assistance Package* and *Home Insulation Scheme*.

Spending Plans for 2011-12 are set out below.

Table 8.01: Spending plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
Health	11,181.9	11,359.8
Housing and Regeneration	488.0	393.8
Equalities and Social Inclusion	27.5	27.5
Sport	54.1	66.4
Food Standards Agency Scotland	10.9	10.9
Total	**11,762.4**	**11,858.4**
of which:		
DEL Resource	10,747.5	11,014.4
DEL Capital	914.9	744.0
AME	100.0	100.0

Table 8.02: Spending plans (Level 2 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Health	11,181.9	11,148.0
Housing and Regeneration	488.0	386.5
Equalities and Social Inclusion	27.5	27.0
Active (including Sport)	54.1	65.2
Food Standards Agency Scotland	10.9	10.7
Total	**11,762.4**	**11,637.4**
of which:		
DEL Resource	10,747.5	10,809.1
DEL Capital	914.9	730.1
AME	100.0	98.2

Health

Table 8.03: More detailed spending plans (Level 3)

Resource	2010-11 Budget £m	2011-12 Draft Budget £m
NHS and Special Health Boards	8,402.2	8,625.7
Education and Training		
Workforce	25.9	28.5
Nursing	150.1	150.4
Primary and Community Care Services		
General Medical Services[1]	700.1	700.1
Pharmaceutical Services Contractors' Remuneration	187.8	186.0
General Dental Services	356.6	396.6
General Ophthalmic Services	88.0	93.0
Improving Health and Better Public Health		
Health Improvement and Health Inequalities	51.1	58.5
Pandemic Flu	6.1	5.4
Health Screening	8.5	8.0
Tobacco Control	12.3	12.3
Alcohol Misuse	42.3	42.3
Health Protection[2]	38.8	40.0
Mental Wellbeing	6.0	6.0
Healthy Start	8.5	12.4
Mental Health Legislation and Services	12.1	15.3
Specialist Children's Services	19.4	21.4
General Services		
Research	64.6	68.6
Distinction Awards	28.0	26.0
Access Support for the NHS	101.3	101.3
Improvement and Support of the NHS	18.9	18.9
Clean Hospitals / MRSA Screening Programme	20.4	28.4
eHealth	100.0	90.0
Miscellaneous Other Services[3]	158.4	152.3
Scottish Commission for the Regulation for Care[4]	16.6	16.6
Resource Income	(119.8)	(119.8)
	10,504.2	**10,784.2**
CAPITAL		
Investment[5]	594.4	496.7
Capital Income	(16.7)	(8.5)
	577.7	**488.2**
AME – NHS Impairments[6]	**100.0**	**100.0**
TOTAL HEALTH	**11,181.9**	**11,372.4**
Transfer to Sport : Commonwealth Games 2014[7]	-	**(12.6)**
Total[8]	**11,181.9**	**11,359.8**
Of which:		
DEL Resource	10,504.2	10,771.6
DEL Capital	577.7	488.2
AME	100.0	100.0

Notes:

1. Allocations for 2011-12 for General Medical Services are still to be decided and are subject to UK pay negotiations with the professional groups concerned.
2. Hepatitis C Action Plan is now included within the Health Protection line.
3. £32 million has been transferred from Miscellaneous Other Services to Territorial Boards in respect of Prescription Charges funding in 2010-11. The balance of funding to fully abolish Prescription Charges is included in the increase in funding to Boards in 2011-12.
4. The Scottish Commission for the Regulation of Care will be merged within the new Social Care and Social Work Improvement Scotland (SCSWIS) from April 2011.
5. The 2010-11 Capital Investment figure includes £20 million contingent funding in respect of Pandemic Flu which was not available for spend elsewhere in the health budget. After excluding this figure the reduction in capital spend is £69.5 million which reflects the Department of Health Consequentials reduction.
6. Health Impairments which is Annually Managed Expenditure was previously included within Miscellaneous Other Services.
7. Transfer to Sport: Commonwealth Games 2014. The £12.6 million additional funding for Commonwealth Games 2014 in 2011-12 has been identified from contingency funding for Pandemic Flu together with procurement efficiencies within eHealth.
8. 2010-11 position has been restated reflecting transfers in respect of the removal of the cost of capital following revised HM Treasury guidance, transfer of funding in respect of Adult Support and Protection Act to Local Government and other corporate transfers.

Table 8.04: Territorial and Special Health Boards spending plans

	2010-11 Budget £m	2011-12 Draft Budget £m
Territorial and Special Health Boards		
NHS Ayrshire and Arran	561.5	579.2
NHS Borders	163.2	168.3
NHS Dumfries and Galloway	235.8	243.2
NHS Fife	494.0	509.7
NHS Forth Valley	392.2	404.7
NHS Grampian	666.8	687.9
NHS Greater Glasgow and Clyde	1,835.3	1,893.5
NHS Highland	473.2	488.2
NHS Lanarkshire	793.9	819.0
NHS Lothian	1,005.5	1,037.4
NHS Orkney	30.8	31.8
NHS Shetland	35.8	36.9
NHS Tayside	580.9	599.3
NHS Western Isles	56.5	58.3
Total Territorial Boards	**7,325.4**	**7,557.4**
NHS Waiting Times Centre	37.8	38.2
NHS Scottish Ambulance Service	194.8	199.5
NHS National Services Scotland	253.2	248.2
NHS Quality Improvement Scotland	17.2	16.5
NHS State Hospital	33.9	34.3
NHS 24	56.9	57.4
NHS Education for Scotland	400.0	392.0
NHS Health Scotland	21.4	20.6
Total Special Boards	**1,015.2**	**1,006.7**
Other Income	61.6	61.6
Total	**8,402.2**	**8,625.7**

Notes:

1. 2010-11 position has been restated reflecting transfers in respect of the removal of the cost of capital following revised HM Treasury guidance and other internal transfers.
2. Budgets for 2010-11 are indicative and will change as final funding allocations are calculated according to the NHS Resource funding formula that will be updated later this financial year and includes a provision for progressing towards parity in baseline formula.
3. NHS Quality Improvement Scotland will merge into Health Improvement Scotland as at April 2011.

What the budget does

The budget supports services and initiatives designed to help people in Scotland to live longer and healthier lives with reduced health inequalities; and to provide more sustainable, high quality and continually improving healthcare services close to home.

NHS Boards allocations will increase overall by 2.7 per cent. However, the increase for Territorial Boards will be 3.2 per cent, reflecting our commitment to direct resources as far as possible to frontline services.

To achieve this and also to support an increase for Special Boards delivering direct patient care, such as the Scottish Ambulance Service, we have adopted a different approach to 2011-12 funding where a differential efficiency target has been set.

NHS Boards provide free and universal frontline healthcare services for patients and their families. NHS Boards will build on their recent achievements in order to deliver quality healthcare services. They will continue to improve health and wellbeing through the millions of reliable frontline healthcare interactions that really matter to people. Through their Local Delivery Plans, NHS Boards will demonstrate how they will deliver accelerated improvements for key priorities including a continued focus on tackling health inequalities, improving access to elective mental health and substance misuse services, and reducing healthcare associated infection.

In addition to formula-based allocations to Territorial Boards, the capital budget will support the commencement of construction on the adult and children's hospitals as part of the New South Glasgow Hospitals Project.

The capital budget will also support delivery of projects across Scotland including the continuation of the £105 million Emergency Care Centre in Aberdeen due to complete in 2012-13 and completion of projects including Acute Mental Health Services in Dumfries; the Chalmers Hospital in Grampian; Migdale Community Hospital in Highland; Airdrie Resource Centre in Lanarkshire; the Royal Victoria Hospital in Edinburgh; and Nuclear Medicine facilities at Ninewells Hospital. Programmes will continue to support the replacement of vehicles and defibrillators by the Scottish Ambulance service, as well as national programmes to support radiotherapy equipment replacement and the roll out of the hub initiative. We will also ensure the delivery of a range of other health projects, including the Royal Sick Children's Hospital and Department of Clinical Neurosciences in Edinburgh through the NPD approach outlined in chapter 3.

In 2011-12 our priorities will be to:

- protect frontline healthcare services;
- implement Scotland's first *National Dementia Strategy* in full and take forward the work to improve post-diagnostic information and support and to improve the care in general hospital settings;
- support older people and those with long term conditions to remain independent in their own homes or in the community, by a focus across Health Boards and local authorities on supported self management, reducing unnecessary hospital admissions and speeding discharge after a crisis;

- support NHSScotland to eliminate waste and drive modernisation programmes;
- support NHSScotland to achieve productivity and efficiency gains without compromising quality through the implementation of the new *Efficiency and Productivity* plan;
- implement the *Healthcare Quality Strategy*;
- identify and eradicate harmful and wasteful variation;
- continue to reduce Healthcare Associated Infection;
- continue to protect and enable the most vulnerable in our society by addressing health inequalities and, through early interventions, to support our children;
- deliver the 18 week Referral to Treatment standard;
- continue to address the major public health challenges facing Scotland, including alcohol misuse, smoking, obesity, sexual health and Hepatitis C;
- invest a further £25 million within NHS Boards to keep our commitment to abolish prescription charges;
- continue to fund free personal care;
- deliver the *Obesity Route Map Action Plan*;
- increase levels of physical activity and participation in sport;
- support people in Scotland to maintain their health through commencement of the implementation of the recently enacted tobacco control legislation and the implementation of the provisions of the Alcohol Etc (Scotland) Act;
- begin the roll out of abdominal aortic aneurism screening for men aged 65;
- continue to work to support measures which respond to the needs of equality communities and help to address the inequalities they experience;
- commence delivery of the three-week waiting time target for alcohol misuse services;
- reflect the importance of our person-centred approach to improving healthcare quality by gathering new information and taking related action on patient, carer and staff experience and patient reported outcomes, and through the enactment of the Patients' Rights Bill;
- continue to focus on patient safety by rolling out our successful approaches across acute, mental health and primary care;
- maintain our commitment to research;
- begin the implementation of the 25 per cent reduction in management costs; and
- continue investment in new and replacement health facilities, IT and equipment.

Housing and Regeneration

Table 8.05: More detailed spending plans (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Supporting Economic Growth / Housing Supply[1]	280.3	268.5
Supporting Sustainability[2]	104.6	83.9
Supporting Transitions[3]	77.4	57.2
Scottish Housing Regulator	4.7	4.2
Less Income	(20.0)	(20.0)
Non Recurring Budget Consequentials[4]	41.0	-
Total	**488.0**	**393.8**
of which:		
DEL Resource	167.0	153.9
DEL Capital	321.0	239.9
AME		

Notes:

1. In 2010-11 includes resources from previous level 3s : AHIP – Regeneration Programmes – Private Housing.
2. In 2010-11 includes resources from previous level 3s : AHIP – Home Insulation – Energy Assistance Package – Private Housing.
3. In 2010-11 includes resources from previous level 3s : AHIP - Wider Role - Regeneration Programmes - Community Engagement – Tackling and Preventing Homelessness – Housing Voluntary Sector Grant Scheme – Social Housing – Private Housing – Communities Analytical Services.
4. In 2010-11 the Housing and Regeneration budget received non-recurring budget consequentials arising from UK budget announcements. (£31 million in respect of Supporting Economic Growth/Housing Supply (Affordable Housing Investment Programme) and £10 million for Supporting Sustainability (Home Insulation).

What the budget does

In 2011-12 we will meet the commitments for housing and regeneration capital investment which commenced during the recession and continue to support the economy and protect the supply of new homes. This can be achieved jointly with partners, using less taxpayer investment for each new home by leveraging more funding from other sources.

In detail, in 2011-12, we will:

- introduce a new £50 million competitive funding arrangement to allow all suppliers to provide new affordable homes;
- expand the National Housing Trust initiative to maximise the delivery of new affordable homes;
- build on the successful developer New Supply Shared Equity pilot scheme;
- maintain our successful Energy Assistance Package and Home Insulation Scheme;

- use the new £50 million *Scottish Joint European Support for Sustainable Investment in City Areas* (JESSICA) Fund to target sustainable investment in the most disadvantaged areas and then recycle gains into further projects in the future; and
- give transitional support to tenants and homeowners to improve their options in the economic downturn - including the *Home Owners Support Fund, Wider Role Fund and Open Market Shared Equity Programme* focused on helping existing social tenants.

Equalities and Social Inclusion

Table 8.06: More detailed spending plans (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Promoting Social Inclusion	7.2	7.2
Promoting Equality	20.3	20.3
Total	**27.5**	**27.5**
of which:		
DEL Resource	27.5	27.5
DEL Capital		
AME		

* The responsibility for the Social Inclusion budget will transfer to Education and Lifelong Learning portfolio in 2011-12

What the budget does

The budget supports wellbeing through cross-cutting work to tackle poverty and disadvantage, in particular, meeting our commitments in our tackling poverty framework *Achieving our Potential*.

In 2011-12, our priorities will be to:

- implement our *Child Poverty Strategy*;
- take forward the Tackling Poverty Board recommendations to further develop the *Achieving Our Potential framework*; and
- embed tackling poverty considerations throughout mainstream services.

The equality budget is used to promote equality and fair treatment for the wellbeing of the people of Scotland to mainstream equality across Government activity and to tackle discrimination prejudice and the barriers to equality of opportunity.

In 2011-12, our priorities will be to:

- support interventions which will promote equality, reduce inequalities and tackle disadvantage; and
- focus on the equality issues around employment and the economy.

Sport

Table 8.07: More detailed spending plans (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Active - Sport and Physical Activity	42.5	39.2
Active - Glasgow 2014: Delivery of Commonwealth Games	11.6	27.2
Total	**54.1**	**66.4**
of which:		
DEL Resource	38.0	50.5
DEL Capital	16.1	15.9
AME		

What the budget does

The budget provides support for the development of physical activity and sport within Scotland in order to increase Scotland's level of participation and improve our national sporting performance. We will use the Commonwealth Games in Glasgow as a catalyst to encourage Scotland to become a healthier, fitter and more active nation.

There are also a range of programmes and interventions funded through other portfolios which contribute towards increasing physical activity and encouraging everyone to lead a more active lifestyle. Examples of this include the development of local and national walking and cycling routes, and of cycle training. These sustainable and active travel interventions amount to around £17 million in 2010-11.

The Sport budget provides the main contribution to the operational costs of staging the Glasgow 2014 Commonwealth Games. The Scottish Government is working in partnership with Glasgow City Council, Commonwealth Games Scotland and the 2014 Organising Committee to ensure that the Games are an outstanding success.

The activity above directly supports the aims set out in *Preventing Overweight and Obesity in Scotland: A Route Map towards a Healthy Weight.* In addition, the new school curriculum will include *2 hours* of quality PE for all children and young people further supporting our ambitions for Scotland as a sporting/physically active nation.

Cashback funding has also been a significant contributor and has successfully utilised sport as a mechanism to engage young people through diversionary activities. This funding will continue to be used to provide opportunities over the spending review period, part of this is £2 million to be used to support sporting facilities.

In 2011-12, our priorities will be to:

- sustain and improve participation in sport;
- contribute to the successful delivery of the 2014 Commonwealth Games; and
- implement a network of Community Sports Hubs which will bring together local people to participate in sport and physical activity in their own community.

Food Standards Agency Scotland

Table 8.08: More detailed spending plans (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Food Safety	7.3	7.3
Eating for Health	2.0	2.0
Choice (making it easier for consumers to make informed choices)	1.6	1.6
Total	**10.9**	**10.9**
of which:		
DEL Resource	10.8	10.9
DEL Capital	0.1	-
AME		

What the budget does

The Food Standard Agency Scotland (FSASs') main purpose is to improve food safety and encourage a balanced diet. The primary focus of the work carried out by the FSA in Scotland is to protect the Scottish public from the risk of consuming contaminated food. The FSAS develops, delivers and implements effective policies, projects, scientific research and consumer engagement events.

In 2011-12, our priorities will be to:

- protect and improve the health of the people of Scotland by ensuring food entering the market or produced in the UK is safe to eat;
- reduce foodborne-illness and diet-related diseases through a proportionate, risk-based regulatory regime;
- achieve reductions in levels of saturated fat, salt and calories in food products and encourage the development, promotion and availability of healthier options and portion sizes; and
- enable all consumers in Scotland to make informed choices and to understand about food, hygiene and a healthy diet, both in the home and where they choose to eat.

CHAPTER 9
Education and Lifelong Learning

PORTFOLIO RESPONSIBILITIES

The Education and Lifelong Learning portfolio is responsible for government policy related to improving outcomes for children, young people and users of social care. It covers all aspects of school education and national qualifications; university research and science; further and higher education; as well as community and adult learning and development, skills and training. The majority of the budget is however contained within the Local Government settlement as it provides for local authority delivery of school education.

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

Education and lifelong learning is a key contributor to economic recovery and long term economic growth in which we want everyone across Scotland to share. Scotland's long term economic success depends on having highly skilled people who can confidently capitalise on opportunities, adapt to changing demands, create and develop new knowledge and harness the potential of technological advances. That is why investment in this portfolio is focused on empowering individuals to support themselves and their families while making the maximum possible contribution to the success of Scotland's economy and society, and enriching our culture. These have been our guiding principles in making the tough choices demanded of us.

Our ongoing focus on the early years will provide a strong base for all of our children, irrespective of background to develop, learn and achieve their potential. It also delivers clear economic benefits in terms of making better and more effective use of resources and reducing the need in both the short-term and the long-term for more expensive, crisis intervention.

Investment to support the implementation of *Curriculum for Excellence* will ensure that our young people will have the capacity to flourish in the labour market of the future. *Curriculum for Excellence* will transform the prospects of a generation of our young people, providing our society with the skills and behaviours they will need to thrive as citizens in the economy of tomorrow.

Moving beyond school, through investment in training opportunities, colleges and universities, we will be helping young people to move from education into work, supporting people of all ages and backgrounds to find jobs, and enabling people to acquire the higher levels skills which lead to individual prosperity and will underpin our future economic growth.

By working creatively with the Scottish education system we can also help ensure that future generations will see the need to protect our environment as a means of achieving economic growth rather than as a constraint to prosperity.

The portfolio supports our collective efforts across Government to advance Scotland's position as an environmental leader, and ensure that we make the most of the economic opportunity that this provides. Over a thousand Scottish schools already have 'Green Flag' status and the portfolio continues to support sustainability and an environmental awareness across the whole school community. Similarly, the portfolio supports development of the specialist skills and research needed for our ambitions in renewable energy and supports our institutions as they develop world-leading energy technology partnerships.

OUR NATIONAL OUTCOMES

The policies, activities and expenditure of the Education and Lifelong Learning portfolio contribute to a number of our national outcomes, especially;

- We realise our full economic potential with more and better employment opportunities for our people.
- We are better educated, more skilled and more successful, renowned for our research and innovation.
- Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
- Our children have the best start in life and are ready to succeed.
- We have improved the life chances for children, young people and families at risk.

Covering all aspects of education and lifelong learning, including employability and skills, community learning and development and science, the portfolio supports our efforts ***to realise our full economic potential with more and better employment opportunities for our people.*** This is particularly important at a time of economic recovery and we will continue to focus policy on individuals and groups who are most at risk of being affected by the downturn and pressure on public spending. By investing in education and skills, and promoting innovation in research, we are providing creative people with the expertise that our employers need, while helping build solid foundations for longer term growth.

The portfolio leads on ensuring that ***we are better educated, more skilled and more successful, renowned for our research and innovation.*** By supporting students, funding Scotland's universities and colleges and investing in our research base we will produce the highly skilled workforce of the future that is capable of creating new knowledge and exploiting the commercial benefits of our research.

The portfolio ensures ***our young people are successful learners, confident individuals, effective contributors and responsible citizens.*** Recognising the crucial role of teachers in helping the achievement of these outcomes, the portfolio supports the development of the profession as well as quality assurance by national inspection of school education.

In partnership with other portfolios, the portfolio also works toward ensuring that our children have the best start in life and are ready to succeed and supports our efforts to improve the life chances for children, young people and families at risk. It does this by working across government and with delivery partners to support systems and behavioural change to improve outcomes for children and young people; and by developing the capacity and leadership needed to improve outcomes for users of social care.

OUR ACHIEVEMENTS

Since 2007 the Scottish Government has invested over £7 billion to support our colleges and universities to provide more and better learning opportunities. It has also increased investment in the vital Modern Apprenticeship programme to support economic recovery, and, through the £150 million ScotAction programme of training and skills support, targeted additional resources to help the unemployed or those facing redundancy to enter or remain in the labour market.

Through the Step Forward Scotland initiative, additional support has been provided in 2010-11 to support young people as they seek to move into work for the first time within very challenging labour market conditions. The support provided to those continuing in education after school will ensure that we further enhance Scotland's already highly skilled labour force.

We are delivering on our ambition of better outcomes for children and young people, particularly the most vulnerable, through more personalised services delivered by a confident, competent and valued workforce.

We have undertaken a range of national actions to support local implementation of the Early Years Framework to give every child the best start in life and appointed former Scottish Health Minister Susan Deacon to lead a wide-ranging, national dialogue on how best to take action to improve children's early years. Child protection practice has been improved through multi-agency inspections of each of Scotland's 30 Child Protection Committees and we are implementing the Protection of Vulnerable Groups (Scotland) Act; protecting both children and vulnerable adults. We are taking legislation through Parliament to strengthen and modernise the Children's Hearings System. We have strengthened choice and decision making for looked-after children; raised the minimum age of prosecution from 8 to 12 and invested in early intervention to reduce the number of young people subject to the criminal justice system. Underpinning delivery in these priority areas, we are continuing to roll out the business, systems and culture change approach of *Getting it Right for Every Child.*

To raise standards in teaching and learning, we have worked with a range of delivery partners to implement Curriculum for Excellence, equipping young people with the knowledge and skills they need and putting literacy and numeracy at the heart of the curriculum. We have provided additional resources for schools and others for implementation of *Curriculum for Excellence* including targeted support for every school which needs it through Her Majesty's Inspectorate of Education and provided opportunities through regional events to assist headteachers to share experience and best practice.

Since May 2007, 303 new or refurbished schools have been completed and we have published a new School Estate Strategy as well as identifying the first 35 schools in the £1.25 billion Scotland's Schools for the Future Programme. This continued investment and support recognises the high value we place on learning, makes communities proud and supports the delivery of *Curriculum for Excellence*.

Working with our local government partners we have achieved the lowest class sizes in primary school ever seen in Scotland including significant reductions to 18 and below in P1, P2 and P3 to improve the learning experience for children in the early years of primary school.

We have implemented legislation to extend entitlement of free school lunches to pupils from the hard pressed families in receipt of both maximum child tax credit and maximum working tax credit.

We have launched our *Literacy Action Plan*, which sets out our vision to drive up standards of literacy for all, from the early years through to adulthood, and aims to break the longstanding link between poverty and poor literacy. The plan emphasises the need for action in the early years to tackle the problem of poor literacy early on, with a particular focus on supporting vulnerable families in deprived areas. All 32 local authorities in Scotland are signed up to Glow, the national platform for learning and the Interconnect, the underlying high speed broadband network infrastructure. This annual investment of around £8.2 million has enabled the Scottish learning and teaching community to collaborate as never before across geographical boundaries.

To improve wealth creation and equity and make full use of people's skills, we have abolished the graduate endowment fee and provided £38 million of funding for part time students with a new £500 grant benefiting up to 20,000 students annually. We have also introduced a new package of student support in the academic year 2010-11, including a new grant for independent students of up to £1,000 and an extra £2 million for childcare support.

We have created a £10 million national life sciences institute in Dundee and supported all universities in Scotland to undertake world-leading research. Partly as a result of this increased support, 15 per cent of our researchers were described as world-leading in the 2008 Research Assessment Exercise. With 0.1 per cent of the world population, the impact of Scottish research represents a 1.8 per cent global share as measured by citations.

The Education and Lifelong Learning portfolio has contributed to improving employment opportunities too. For example, through ScotAction – our programme of training and skills support – we have invested £150 million to help thousands of individuals and hundreds of employers through the recession. We have also committed £3 million in 2008-11 to local authorities to deliver 16+ Learning Choices and supported an estimated additional 3,000 young people leaving school, college and university this summer, backed by £6.5 million from the European Social Fund.

The Education and Lifelong Learning portfolio has contributed to improving employment opportunities. We have launched the Skills for Scotland Skills Strategy and refreshed it in response to the changing economic environment; established Skills Development Scotland and ensured Scotland had a focal point for the skills and training response to the economic downturn; and reviewed and invested additional resources in vital Modern Apprenticeships.

The Education and Lifelong Learning portfolio will continue to work to strengthen partnerships and collective responsibility, helping to increase efficiency and improve outcomes for children and young people, develop the skills of our workforce and support economic growth. The Government has made significant progress in streamlining and improving the efficiency of services.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the office of the Education and Lifelong Learning portfolio, the year-on-year cut in cash terms on budgets is £168 million on resource and £65.8 million on capital. There will be a variety of demands on the portfolio's resources in 2011-12. Demand for college and university places will remain strong; there will be an increased urgency in enhancing peoples' skills and employability in these challenging economic times; and the increased expense arising from the PPP/PFI legacy of the previous administration. We must also work to limit the impact of budget reductions on the most vulnerable within our communities.

Taking the pressures into account, we have considered all areas of expenditure within the Education and Lifelong Learning portfolio, the scope for efficiencies and the contribution that spending programmes make to sustainable economic growth and the delivery of portfolio priorities. In order to reduce the level of spending across the portfolio, we have taken a number of difficult decisions.

While we have decided to reduce those budgets which we provide to LTS and SQA for national support and challenge, we have ensured that their resources are targeted at the implementation of *Curriculum for Excellence*.

Though the Scottish Funding Council's budget is falling we have agreed with the further and higher education sectors that they will work collaboratively and efficiently to manage this reduction without reducing overall learning opportunities. Both sectors have agreed that core college and university student places will be maintained. In addition, and mirroring the position in England, the Scottish Funding Council's main research excellence grant will also be protected in cash terms. Skills Development Scotland will receive less money this year but this reflects the fact that we expect them to become more efficient and redesign the services they offer. We aim to introduce 34,500 new training opportunities in 2011-12. Despite the constraints on our budgets, we are guaranteeing that no existing student will see their living costs support decrease in academic year 2011-12.

OUR PRIORITIES

By taking these difficult decisions and maximising the levels of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of key priorities within the Education and Lifelong Learning portfolio. In 2011-12 the Education and Lifelong Learning Portfolio will spend a total of £2,583.6 million to continue providing opportunities for all people in Scotland to reach their potential and contribute to the economic recovery and long term economic growth of our nation.

- We will continue to focus resources on supporting improved outcomes for children, young people and users of social care. Similarly, we will invest so that we continue to deliver a better, more relevant learning experience for all learners; a further education sector which meets our needs in terms of skills; and a higher education sector which continues to enhance its international reputation for excellence. While we will continue to invest in these priorities, we will ensure that, across the portfolio, there is less regulation and national bureaucracy and less money spent on national support and challenge to protect as far as possible those frontline services we support. At the same time, we support our partners, in local government, higher and further education and elsewhere, to continue to find efficiencies and continuous improvement in the services they deliver.

- *Curriculum for Excellence* is transforming teaching and learning in schools across Scotland, making our education system fit for the modern world and improving our children's achievements, attainment and life chances. Our National Qualifications system is being reviewed in line with *Curriculum for Excellence*, to ensure that our young people have a coherent educational experience 3-18 and beyond. The qualifications system must meet the needs of all young people and adult learners and be credible to them, parents, employers and the college and university sectors. That is why we are investing over £9 million in the development of a new generation of National Qualifications which will retain the strengths of the current arrangements but with reduced complexity and greater autonomy for teaching professionals to raise the standards of learning and teaching for all young people.

- As indicated above, the Scotland's school estate has been transformed since May 2007 and this Government continues to be committed to supporting investment in the school estate across the length and breadth of the country. Despite the economic challenges which we face, we are committed to ensuring that this remains a top priority for investment with £20 million of funding in 2011-12. *Scotland's Schools for the Future*, the new school building programme, will provide support to every local authority in Scotland to either rebuild or refurbish a primary, secondary or special school and, through the Scottish Futures Trust, we will ensure that the programme delivers value for money as well as exceptional schools for our children, teachers and communities.

- We are establishing a new executive agency – the Scottish Education Quality and Improvement Agency – initially bringing together Her Majesty's Inspectorate of Education and Learning and Teaching Scotland. This will improve efficiency and ensure that the best possible national level systems are in place to provide support and challenge to teachers, schools, colleges, local authorities and others as we move forward with *Curriculum for Excellence*.

- As set out in chapter 14, the Scottish Government has reached agreement with COSLA Leadership on a total funding package which is linked to delivery of a range of measures. Under the terms of the package, local government remains committed to implementation of *Curriculum for Excellence* and the *Early Years Framework* and the extent of teacher input into the crucial early years of primary school is protected. The package also protects teacher posts as far as possible to ensure employment opportunities are available in the 2011-12 school year equivalent to the number of this year's probationary teachers and, over and above that, to enable a reduction in longer-term teacher unemployment.

- We will continue to give priority to early years and early intervention. We will introduce a new Early Years and Early Intervention Fund from 2011-12 with initial start-up funding of £5 million. This will make additional funding available to support the third sector deliver early years provision and early intervention and ensure that in these difficult economic times, this fund improves outcomes and helps build capacity within the third sector to deliver these vital services to those who need them most. In addition to this fund, we have sought to protect funding that we provide direct to the third sector to improve outcomes for children and young people, including children with disabilities.

Alongside investment from other portfolios, **we will invest £86 million to support the most vulnerable in our society**. In addition to supporting continued delivery of the *Early Years Framework*, this will support the reform of the children's hearings system through the establishment of Children's Hearings Scotland; the modernisation of the Scottish Children's Reporters Administration and continued roll-out of *Getting it Right for Every Child* in support of improved outcomes for children in need of protection and looked after children.

We will continue to invest in supporting our students in school, further and higher education and training. In England, tuition fees are being raised at universities and charges proposed for college students. We are not proposing these measures and we are guaranteeing that no existing student will see their living costs support decrease in academic year 2011-12.

It is critical to keep young people aged 16-19 engaged in learning. In other parts of the UK, the Education Maintenance Allowance scheme – the flagship programme for supporting this group of young people – is being removed whereas we will continue this scheme. This funding honours our commitment to support the least well off students in Scotland, and open up opportunities to poorer families.

We will continue to support those who are unemployed; those facing redundancy; and particularly young people facing tough challenges in the labour market. To make the most of this support we are placing decision making in the hands of those working with unemployed people locally. From the start of next year Skills Development Scotland will commission provision on behalf of Community Planning Partnerships across Scotland. This will deliver much more effective support for those most directly affected by the impacts of the recession and budget cuts. Through the *Step Forward Scotland* initiative, we will build on the support we provided in 2010-11 to help young people as they seek to move into work for the first time within incredibly challenging labour market conditions.

The scale of the reductions required mean that we have had to take the difficult decision to reduce the overall resources for the further and higher education sectors in Scotland. In doing so, we have been very clear that our objective, in this current economic climate, is to continue to protect student numbers and to protect our investment in research. We have asked the sectors to extract maximum value from the unprecedented levels of investment they have received over the past four years by managing these reductions through greater efficiency and collaborative working.

They have responded to this challenge. So we have agreed with the sectors that we will work in 2011-12 to preserve the number of core college and university student places. In addition, and mirroring the position in England, the Scottish Funding Council's research budget will also be protected in cash terms.

Spending plans for 2011-12 are set out below.

Table 9.01 Detailed Spending Plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
Learning	126.0	156.9
Children, Young People & Social Care	96.9	95.4
Student Awards Agency for Scotland (SAAS)	534.6	516.6
Scottish Further and Higher Education Funding Council	1,786.1	1,570.3
Other Lifelong Learning	277.9	244.4
Total	**2,821.5**	**2,583.6**
of which:		
DEL Resource	2,487.0	2,319.0
DEL Capital	228.0	162.1
AME	106.5	102.5

Table 9.02 Detailed Spending Plans (Level 2 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Learning	126.0	154.0
Children, Young People & Social Care	96.9	93.6
Student Awards Agency for Scotland (SAAS)	534.6	507.0
Scottish Further and Higher Education Funding Council	1,786.1	1,541.0
Other Lifelong Learning	277.9	239.8
Total	**2,821.5**	**2,535.4**
of which:		
DEL Resource	2,487.0	2,275.8
DEL Capital	228.0	159.0
AME	106.5	100.6

Learning Directorate

Table 9.03 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Schools People & Places	29.3	67.1
Qualifications, Assessment & Skills	34.4	36.2
Curriculum	23.1	18.0
Support for Learning	15.4	14.1
Options & Partnerships	8.3	8.2
HM Inspectorate of Education	15.5	13.3
Total	**126.0**	**156.9**
of which:		
DEL Resource	114.8	92.1
DEL Capital	11.2	64.8
AME		

What the budget does

The majority of expenditure on school education in Scotland is funded by local authorities from the budgets outlined in chapter 14. We have reduced the national support and challenge budget by £26 million to protect as far as possible the resources available for frontline provision.

The Learning Directorate budget supports, at a reduced level in 2011-12, the national support, challenge and improvement elements of policy on school education. In bringing together Her Majesty's Inspectorate of Education and Learning and Teaching Scotland, it will fund the new agency, the Scottish Education Quality and Improvement Agency, which will come into effect in July 2011. It also supports the activities of the Scottish Qualifications Authority.

In 2011-12, working with national partners and local government, we will:

- Support the development of the national elements and local delivery of *Curriculum for Excellence* by schools and colleges for all learners, including delivery of the New Qualifications in conjunction with the Scottish Qualifications Authority and the new assessment framework to support learning and teaching taking full account of issues relating to equality, diversity and inclusion.

- Maintain and develop a skilled, supported and flexible teaching profession and support staff, with excellent local and school leadership, providing the maximum possible employment opportunities for teachers through an agreement (as described earlier in this chapter and set out in more detail in chapter 14) with COSLA's Leadership to tackle teacher unemployment and secure the existing pupil – teacher ratio in the crucial early years of primary school.

- A fit-for-purpose school estate through *Scotland's Schools for the Future* programme.

- Deliver the national implementation and support the local delivery of *Curriculum for Excellence* which will ensure that every learner has the right personal support for their learning, particularly those with additional support needs and those in need of more choices and more chances.

- Deliver a public sector landscape for school education which is robust, efficient and effective as part of our wider work to achieve these goals in all learning environments.

Children, Young People & Social Care

Table 9.04 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Care & Justice	8.7	6.5
Workforce & Capacity	56.6	49.6
Safer Children, Stronger Families	10.2	14.5
Positive Futures	11.0	15.8
Education Analytical Services	4.9	3.5
Social Work Inspection Agency	4.0	4.0
Disclosure Scotland	21.6	32.6
Less retained income (Disclosure Scotland)	(20.1)	(31.1)
Total	**96.9**	**95.4**
of which:		
DEL Resource	89.8	89.5
DEL Capital	7.1	5.9
AME		

What the budget does

Most of the expenditure on children's services is channelled through local authorities and NHS Boards from the budgets outlined in chapters 8 and 14.

The Children, Young People and Social Care budget supports a range of activity to improve outcomes for children and young people and users of social care, with a particular focus on early years and early intervention. It supports sponsorship of the Scottish Children's Reporters Administration and Scottish Social Services Council. From 2011-12 it will support the establishment of Children's Hearings Scotland, building on the reform of the children's hearings system. It also supports workforce development in the social care sector and Centres for Excellence providing training and support for the workforce on specialist areas such as residential child care.

In 2011-12 we will:

- Introduce a new early years/early intervention fund for the voluntary sector with initial start-up funding of £5 million.

- Work with local government towards improving the learning experience for children and young people by ensuring access to teachers in pre-school and making progress towards an increase in pre-school entitlement.

- Maintain focus and spend by delivery partners on early years and early intervention in order to support the Government's Purpose.

- Implement the second phase of the Protecting Vulnerable Groups Scheme to improve protection for children and vulnerable adults and to reduce the bureaucratic burdens on those working with them.

- Develop and work with Community Planning Partnerships to strengthen strategy and practice, including *Getting it Right for Every Child*, child protection, looked after children and preventing offending by young people, to improve outcomes for the children, young people, families and communities most at risk.

- Fund the programme of work of the Education Analytical Services (including schools, children and young people and lifelong learning) and contribute to the funding of the new scrutiny body Social Care and Social Work Improvement Scotland.

Student Awards Agency for Scotland (SAAS)

Table 9.05 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Student Awards Running Costs	6.6	6.6
Student Awards Capital Charges	1.1	1.1
Fees Grants and Bursaries	343.4	329.4
Student Loans Company Administration	5.6	5.6
Cost of Student Loans	71.4	71.4
AME		
Student Loans Net New Lending	183.0	208.0
Capitalised Interest	(30.0)	(60.0)
Unwinding of Discount on Debt Sale Subsidy Provision	4.0	3.5
Unwinding of discount on Write-Off Provision	25.0	18.0
Unwinding of Discount on Interest Subsidy provision	19.0	16.0
Release from Interest Subsidy provision	(94.5)	(83.0)
Total	**534.6**	**516.6**
of which:		
DEL Resource	427.7	413.7
DEL Capital	0.4	0.4
AME	106.5	102.5

What the budget does

The Student Awards Agency for Scotland budget meets the cost of the Agency's functions which are to provide financial support and advice to Scottish domiciled students undertaking higher education courses in the UK and abroad and to EU students studying in Scotland. The level of spend is demand led, depending on the student population in a given year, but an overall control is maintained on the number of students for which the Scottish Further and Higher Education Funding Council funds institutions.

The Agency administers schemes covering undergraduate and postgraduate students as well as bursaries for nursing and midwifery students. It administers the Individual Learning Accounts Scotland scheme in partnership with Skills Development Scotland.

The budget for the Student Awards Agency for Scotland includes the additional resources we have allocated over the last three years and will further improve the support students receive.

In 2011-12 we will:

- Guarantee, despite the constraints on our budgets, that no existing student will see living costs support decreases in acacdemic year 2011-12.

Scottish Council for Further & Higher Education (SFHEFC)[1]

Table 9.06 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Current Funding for Further Education Colleges	578.2	544.7
Capital Funding for Further Education Colleges and Higher Education Institutions	209.2	91.0
Current Funding for Higher Education Institutions	989.3	926.2
SFHEFC Administration	9.4	8.4
Total	**1,786.1**	**1,570.3**
of which:		
DEL Resource	1576.9	1,479.3
DEL Capital	209.2	91.0
AME		

What the budget does

The Scottish Further and Higher Education Funding Council budgets fund strategic investment in Scotland's 41 colleges and 20 higher educational institutions (including Open University (Scotland)). This funding will support the development and delivery of study programmes that offer coherent high quality provision for learners across Scotland. It will also enable universities to undertake world class research to maintain Scotland's international reputation for educational excellence in teaching and research.

In 2011-12 we will:

- Preserve the numbers of core college and university student places.
- Protect the main research excellence grant budget in cash terms.

1 The actual current funding reductions for college and universities in the 2011-12 financial year are £39 million and £67 million, based on unadjusted financial year 2010-11 baselines of £583.7 million and £993.2 million respectively. The 2010-11 capital figure of £209.2 million includes £17 million of consequential funding for the FE sector.

Other Lifelong Learning

Table 9.07 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Skills Development Scotland	202.3	181.3
Further and Adult Education	9.6	6.5
Higher Education	2.6	2.2
Skills	5.0	4.2
Employability and Tackling Poverty	1.7	1.2
Employability for Young People	49.1	42.6
Science and Society	7.6	6.4
Total	**277.9**	**244.4**
of which:		
DEL Resource	277.9	244.4
DEL Capital	–	–
AME		

What the budget does

The **other Lifelong Learning budgets** support policy and development relating to all aspects of lifelong learning. This includes our investment in skills and national training programmes and our continued support for young people to develop their skills as they move into training and work.

In 2011-12 we will:

- Protect and improve the support available to the unemployed and young people, built on 34,500 new training opportunities.
- Guarantee, despite the constraints on our budgets, that no existing student will see living costs support decreases in academic year 2011-12.
- Support and promote student and staff mobility overseas, plus the international work of our colleagues and universities in key global markets.

CHAPTER 10
Justice

PORTFOLIO RESPONSIBILITIES

The Justice portfolio aims to create a safer and stronger Scotland by protecting individuals and communities from threats to their prosperity and safety. It also plays an important role in helping communities to flourish, in fostering good relations and in improving access to justice. It has responsibility for the civil and criminal justice systems and covers Scotland's police, fire, courts and prison services as well as having responsibility for the legal aid system and criminal justice social work services. In addition, the Justice portfolio underwrites the work of Alcohol and Drug Partnerships in Scotland and provides treatment and services to help people recover from drug addiction through its funding of NHS Boards.

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

The Justice portfolio makes a central contribution to the Scottish Government's purpose of increasing sustainable economic growth. It provides the framework through which people and businesses are protected from threats to their economic wellbeing and is a foundation of the modern functioning economy.

The current challenging economic backdrop is placing pressures on many individuals, families, businesses, organisations and communities. While by no means the sole factor, these increased strains on society are likely to increase pressures on the justice system. The Justice portfolio must respond by delivering efficiencies whilst maintaining delivery of key outcomes – both to support Scotland's public finances and to contribute to sustainable economic recovery and a safer and stronger society.

We have invested significant resources through *CashBack for Communities* (£20 million through to 2012) in activities for young people in Scotland to keep them engaged with their communities. From providing free football coaching on a Friday night to supporting activities organised by local youth groups, CashBack for Communities is giving young people positive things to do and keeping them away from trouble. Over 300,000 young people have already benefited, and tens of thousands more will benefit as more projects are rolled out across Scotland.

Across the Justice portfolio, action is being taken to contribute to our vision of a low carbon economy. Considerable efforts have been made across the portfolio to reduce carbon emissions. These include increased use of technology, such as video conferencing rather than travel and exploring the use of video technology in courts for both police officers and prisoners; modernising the Justice estate, in particular in the Scottish Prison Service; and more efficient vehicles in the fleets of police and fire services.

While we are required to make reductions in the funding available to the Justice estate in 2011-12, which will mean some projects being delayed, a realistic level of new expenditure will still go ahead, and maintenance will be funded at the minimum sustainable levels. We will ensure that this spending also improves the energy performance of the estate.

OUR NATIONAL OUTCOMES

Crime in Scotland is falling and people are feeling safer in their communities. The number of police officers across Scotland has increased by more than 1,000 since March 2007 and levels of violent crime are at their lowest since 1984. We said that we would deliver safer communities and we have. Despite the budget reductions imposed by the UK Government, we will maintain our commitment to a safer and stronger Scotland.

Our vision is of a Scotland where communities are secure and welcoming, where people are happy to live, where they take responsibility for their actions and where they have access to high quality services, care and amenities. We are delivering that vision. We have taken action to create a culture of personal and collective responsibility, with widely understood rules to resolve disputes, public confidence in justice institutions and the effective rule of law.

The policies, activities and expenditure of the Justice portfolio contribute to a number of our national outcomes, especially:

- we live our lives safe from crime, disorder and danger;
- we have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others;
- we live longer, healthier lives; and
- we have improved the life chances for children, young people and families at risk.

The Justice portfolio is ensuring that ***we live our lives safe from crime, disorder and danger*** by maintaining record numbers of police officers in our communities; by supporting Scotland's fire and rescue services; by providing resources to our prison service to take those who commit the most serious crime off our streets; and by investing in community sentences for other offenders to break the cycle of reoffending and deliver payback to the communities that they have harmed.

The portfolio is delivering ***strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others*** by ensuring that individuals and businesses can be held to account for their actions and can enforce their own legal rights through the effective functioning of our civil and criminal courts. Key to this is our support for the legal aid system to ensure fair access to justice.

The portfolio provides resources to the NHS in Scotland to deliver better drug treatment and support services to promote recovery from drug problems in our communities. This, and the accumulated impact of the national drugs strategy, *The Road to Recovery*, will help more people to ***live longer healthier lives*** and ***will improve life chances for children, young people and families at risk.*** The Justice portfolio also supports the work of the police and other agencies who tackle the drug dealers and organised criminals who have blighted too many of our communities for too long.

The portfolio supports work to tackle offending by young people; to stop them becoming the high risk and adult offenders of the future. This will ***improve the life chances for children, young people and families at risk***, and help reduce the burden on the justice system over time.

OUR ACHIEVEMENTS

Recorded crime is at its lowest level in 32 years and is down 19 per cent since 2006-07. Overall crime, as measured by the Scottish Crime and Justice Survey, is down 10 per cent in 2009-10 compared to 2008-09 and over seven out of ten people (71 per cent) think crime levels in their local area are either falling or stable, up 2 per cent from the previous year.

This has been achieved by providing record levels of funding to our police forces to ensure record numbers of police officers in our communities. We have focused resources on breaking the cycle of offending and imprisonment and on tough community-based sentences. We have supported the police and other agencies to tackle serious organised crime. Through record investment in violence reduction we have worked to remove knives, air weapons and firearms from our communities. We have invested in services to provide early and effective interventions for young people at risk and have supported the roll out of a programme to tackle and confront domestic abusers and improve the support offered to their victims.

The award-winning *No Knives, Better Lives* youth engagement initiative is changing attitudes to knife carrying among young people in Scotland. In Inverclyde, the first area where the campaign has been rolled out, Strathclyde Police have seen a 35 per cent reduction in knife carrying.

We have given a new direction to addressing antisocial behaviour with a clearer focus on tackling its causes and working with communities to provide long-term, permanent solutions. We have ensured that the proceeds of crime are reinvested in our communities through *CashBack for Communities*, engaging with over 300,000 young people, committing to invest over £20 million for a range of positive activities and opportunities in sports, arts and community projects.

We have made the protection of our communities from sex offenders a priority. We have tightened controls on these offenders by investing in the Multi Agency Public Protection Arrangements in place across Scotland and legislating to strengthen Sexual Offences Prevention Orders. We are supporting our police forces in rolling out the sex offender disclosure scheme to ensure that our children and young people are protected from those who would harm them. We have also legislated to allow the retention of DNA from young people who commit the most serious crimes, strengthening the protection of our communities.

We are delivering an internationally acclaimed, recovery-focused drugs strategy that is improving outcomes in our communities by saving lives as well as improving the lives of people, families and communities affected by drugs. It is a strategy which recognises the diversity of communities and the importance of taking different needs and experiences into account. We have seen progressive improvements in drug treatment waiting times across Scotland and increasing examples of service re-design focused on recovery and the needs of individuals.

Following sustained investment in the fire and rescue services over the past four years, the overall number of fires in Scotland has fallen by one fifth since 2006-07 and are at their lowest level since devolution. The latest data (for 2009-10) show that non-fatal casualties from primary fires are the lowest since devolution – half their level in 1999; while fatal casualties from primary fires are at their second lowest level since devolution.

We have introduced a Double Jeopardy Bill to allow a second trial in certain serious cases where compelling new evidence emerges and the Forced Marriage Protection Bill, which will provide civil remedies for those at risk of forced marriages and victims of forced marriage. We have undertaken major reform and improvement of the summary justice system and have strengthened support for victims of crime and witnesses.

We have legislated to allow new forms of business structure in the legal services market in Scotland. This will allow the market to develop and grow, ensuring that Scotland's leading law firms are able to compete internationally, and that Scotland' s communities have greater choice of legal services.

We have secured judicial independence and clarified the accountability of the court system by the creation of an independent Scottish Court Service under the leadership of the Lord President, and unified the administration of Scotland's courts by bringing courts previously run by local authorities under the control of the Scottish Court Service. This has allowed the streamlining of administration, improved efficiency, reduced costs and improved collection rates of court fines and other financial penalties, reinforcing those disposals as effective sanctions against offenders. Over three quarters of criminal cases (77 per cent) in summary courts were completed within six months in 2009-10, compared to only two thirds (66 per cent) in 2006-07.

We have taken forward a series of measures to increase access to justice, including increasing financial eligibility for civil legal aid in 2009 so that those with disposable incomes of up to £25,000 could qualify. We have also made available £3 million over two years to fund additional new services to help people with legal problems, including those associated with the economic downturn.

We have launched a national debate about the purpose and future direction of imprisonment, with a significant contribution from the Scottish Prisons Commission chaired by former First Minister Henry McLeish. In response to this, we are building a credible and effective alternative to short – term custodial sentences through the creation of the Community Payback Order, and the other work of the Reducing Reoffending Programme. We are also developing robust alternatives to reduce the number of under 18 year olds being dealt with in the criminal justice system and receiving custodial sentences.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the Justice portfolio, the year on year cut in cash terms on resource budgets is £59.4 million and on capital is £108.1 million. These are significant reductions but we are prioritising the services that make the biggest impact in communities – our police and fire services, sentences to ensure that offenders repay their debt to communities and tackling drug addiction and promoting recovery. To ensure that services are maintained, we want to see every service maximising efficiency – working in new ways to get the greatest benefit from every pound. We have seen significant progress across the portfolio as services look at new ways of maintaining delivery – making better use of technology; reorganising the way that people work and addressing duplication and waste wherever it exists.

Key pressures within the portfolio in 2011-12 include the continuing cost of police and fire pensions; the rising cost of services and supplies due to the planned increase in VAT; projected increases in the prison population; the impact of the Cadder decision on police and Legal Aid budgets; and the demands on Criminal Justice Social Work budgets in delivering more community sentences. In addition, we will be completing and opening Low Moss prison in Bishopbriggs and face increasing demand for legal aid.

The overall effect of this is that every budget is under increasing pressure in the face of rising costs and demand.

Taking into account these pressures, we have considered all areas of expenditure within the Justice portfolio, the scope for efficiencies and the contribution that spending programmes make to sustainable economic growth and the delivery of portfolio priorities. In order to reduce the level of spending across the portfolio, we have faced difficult decisions.

Given the reduction in the Justice capital budget, the timing and scale of capital projects have been subject to review. As a result, maintenance of the prison and court estates will be reduced to the minimum sustainable levels and we will not be proceeding with the redevelopment of the criminal court infrastructure. We will also be required to review the timing of future investment in the prison estate.

The reduction in the Justice revenue budget will mean doing things differently to achieve improved outcomes. All services will need to consider their structures and means of delivery carefully and we will work with them to ensure that the public continue to benefit, despite fewer resources being available.

We will drive forward real improvements in all areas of the portfolio and by taking these difficult decisions and maximising the level of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of key priorities within the Justice portfolio.

OUR PRIORITIES

Communities in Scotland are getting safer. The Justice portfolio will spend £1,267.5 million on making Scotland safer in 2011-12. This is £167.5 million less than in 2010-11 and we have faced difficult choices about where to focus the remaining spending. Recorded crime is at a 32-year low and we are determined to maintain that record. We want to see flourishing local communities which are safe and secure places to live and work. Our priority is to invest in the frontline services and the Justice system that will support that.

Work has been undertaken across the portfolio to identify ways of doing things more efficiently, to ensure that services are maintained despite funding reductions. While less funding will be available for areas of the portfolio, we are confident that services can be maintained through greater efficiency, reorganisation and restructuring.

In 2011-12 we will invest our resources in the following areas:

Policing

Putting the highest ever number of police officers onto our streets has reduced crime to record lows and made our communities safer. We are committed to building on these achievements by protecting front-line policing. We want a Scottish police service which is high quality, continually improving, and responds to local people's needs. Our priority is to focus resources on the frontline – to maintain the record number of police officers now in place and enhance community policing, making sure that people know how to get in touch with neighbourhood police teams and what service to expect when they do. The majority of stakeholders have now concluded that some form of structural reform (alongside the achievement of efficiency by police forces in the short term) will be required. While specific options are still to be considered, the Scottish Government is certainly not tied to maintaining the current structure of eight – bobbies on the beat will come before boundaries of police authorities. We are determined to ensure that communities across Scotland can live their lives free from crime, disorder and danger – this is what matters.

Funding for front-line policing is delivered through the Police Grant in the local government settlement. In 2011-12 we will continue to invest to keep police officer numbers at least 1,000 ahead of their March 2007 level.

We are also committed to continuing to meet the cost of police and fire pensions, which are expected to cost £273.5 million in 2011-12.

We are asking police forces to achieve maximum efficiencies through working with police authorities, COSLA, Chief Constables and others to develop reform options.

We will invest £210.4 million in the Police Central Government budget to support a range of policing functions including ICT and Forensics services provided by the Scottish Police Services Authority, the work of the Scottish Crime and Drug Enforcement Agency, dedicated counter-terrorism officers and policing services provided across the UK and agreed with the Home Office.

Fire and rescue services and resilience

Scotland's eight fire and rescue services play a crucial role in supporting local and national resilience. We are committed to supporting frontline fire and rescue services, however a significant proportion of the fire budget is spent on back office and support functions. It is therefore appropriate for us to explore reform options to help protect frontline services in the face of significant budget reductions.

The majority of funding to the fire and rescue service comes from local government. In addition, in 2011-12 we will invest in the training of fire service personnel at the Fire Services College and through a national learning and development fund (making provision for new recruits and specialist training for staff at all levels). We will also invest in maintaining and developing the Firelink radio communications system as a shared service on behalf of all the fire and rescue services.

The Scottish Government is also continuing to invest in national and local multi-agency shared services initiatives designed to ensure that Scotland is as prepared as possible to deal with the consequences of any emergency. For example, the government will continue to fund posts which support the eight regional Strategic Co-ordinating Groups and support the Scottish Resilience Development Service which works collaboratively with public, private and voluntary sector organisations to develop training and exercising for staff at all levels. A major priority in 2011-12 will be to enhance community resilience by working with the voluntary sector directly and by supporting the outreach work of local and regional statutory responders.

Reducing levels of violent crime

Violent crime is at its lowest level since 1984 with the number of recorded crimes which involve the handling of an offensive weapon, including knives, at its lowest level in a decade. The figures demonstrate that the tactic of combining tough enforcement, through record numbers of stop and searches on Scotland's streets, backed by education through initiatives such as the *No Knives, Better Lives* campaign, are paying off. We want to maintain that record of success and our proposed Sentencing Council will take a considered look at sentencing for knife offences – taking into account the views of the public, victims, and police.

In 2011-12 we will invest £3.4 million in community safety.

Tackling drug problems

Problem drug use continues to affect lives and communities across Scotland and we have shown our determination to tackle this with a fresh approach focused on recovery and backed with record levels of investment. In 2011-12, we will continue to build capacity in Alcohol and Drug Partnerships to continue to drive delivery reform in service provision and to ensure the focus remains on recovery.

In 2011-12 we will invest £31.9 million in continuing to tackle drug problems across the country. Of this, £28.6 million will be invested in front-line drug treatment services, maintaining expenditure at 2010-11 levels.

Making offenders repay their debt to communities

Our priority is to end the cycle of reoffending and have offenders make good the damage they have done to communities. Prison will always be the right place for serious and dangerous offenders but for low level offenders the statistics are stark and show us that short sentences do not work. We legislated for a presumption against short sentences of three months or less in order to end the revolving door of re-offending. We will therefore provide a small increase in cash terms to the Community Justice Services budget to ensure the success of the new Community Payback Order, meaning that low level offenders must address their offending behaviour and repay their debt to the community through unpaid work.

The additional £6 million that was included in budgets for funding community service and the community payback order in 2010-11 will be maintained in 2011-12.

In 2011-12 we will invest £30.3 million in Community Justice Services – an increase on the previous year's funding.

Ensuring that serious and dangerous offenders are off our streets

We are committed to ensuring that our prisons are fit for purpose and offer opportunities for the rehabilitation of prisoners, while keeping the most dangerous off our streets. That will mean maintaining services with less funding through the achievement of greater efficiency, better partnership working and achieving maximum impact from focussing our remaining spending on areas of greatest priority. We will prioritise investment in HMP Shotts and HMP Low Moss during 2011-12 to provide the most secure and modern facilities possible. However, the reduction in overall capital funding will require us to review the timing of future investment in the prison estate.

In 2011-12 we will invest £365.5 million in the Scottish Prison Service.

Continuing to invest in the Justice Estate

Within the Justice portfolio, work is now underway on the Scottish Crime Campus at Gartcosh, which will be more than a new building with purpose-built facilities. When complete, it will provide a unique shared space that will strengthen our collaborative approach to tackling serious organised crime in Scotland and house a brand new forensic laboratory providing forensic scientists with the tools and facilities they need to support the police across Scotland. We will also redevelop the Parliament House complex to provide fit for purpose facilities for the Court of Session and investment at HMP Shotts and HMP Low Moss will continue the improvements to the prison estate. All of this has been achieved in spite of the challenges involved in delivering a balanced budget while still investing in sustainable facilities.

In 2011-12 we will invest £70.9 million in capital work including the Scottish Crime Campus, HMP Low Moss, HMP Shotts and redevelopment of Parliament House.

Ensuring access to justice

The priority will be to maintain as much as possible a legal aid system in Scotland that enables people who could not otherwise pursue or defend their rights to be able to do so. It will also be important to continue ensuring that people who could not otherwise pay for their defence are able to do so – and that the system supports the better operation of the wider justice system.

The changes proposed for 2011-12 will be designed to protect as much as possible existing levels of access to justice, focusing on those most in need, and encouraging early resolution of cases. Within the financial constraints, we will strive to maintain fee levels that are as fair as possible for necessary and skilled work. This will be achieved by delivering savings in a number of areas. First, we will deliver cheaper methods of provision including through expansion of the role taken by the Public Defence Solicitors' Office (PDSO). This will offer an increased choice of a different type of service and allow a greater ability to control costs. Second, we will remove anomalies in the current system and cut out unnecessary spend. This will be done by asking the Scottish Legal Aid Board to make further efficiencies in its grant in aid, by bringing travel time and mileage rates for solicitors more into line with those paid in other jurisdictions and by taking a structured approach to fees for counsel in civil and children's cases. Even by making all these and other changes, there will continue to be considerable demands on the legal aid budget throughout 2011-12. These will be managed throughout the year.

In 2011-12 we will invest £11.8 million in the grant funding of the Scottish Legal Aid Board, to administer the legal aid system and protect taxpayer's interests, help ensure access to justice and support the justice system.

Ensuring an efficient and accountable courts system

Following the implementation of the Judiciary and Courts (Scotland) Act 2008, from 1 April 2010 the Scottish Court Service has been established as an independent body, accountable to a Board chaired by the Lord President and with a majority of judicial members. Alongside other Justice portfolio expenditure, we will continue to invest in supporting decisions by the Scottish Court Service to ensure the effective and efficient operation of Scotland's courts and the Office of the Public Guardian.

We will maintain a policy that fees should recover the costs to public funds of providing access to court and Public Guardian services, but will review the current cost recovery arrangements to ensure they are set at the right levels for the future.

In 2011-12 we will invest £79.9 million in the Scottish Courts Service.

Spending plans for 2011-12 are set out below.

Table 10.01 Detailed Spending Plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
Community Justice Services	30.1	30.3
Courts, Judiciary and Tribunal Support	51.1	50.0
Criminal Injuries Compensation	28.1	25.5
Scottish Resilience	20.7	18.3
Legal Aid	167.9	154.1
Police Central Government	237.0	210.4
Drugs and Community Safety	36.0	35.3
Accountant in Bankruptcy	5.2	3.2
Police and Fire Pensions	273.5	273.5
Scottish Prison Service	469.9	365.5
Miscellaneous	18.4	18.2
Scottish Court Service	93.5	79.9
Office of the Scottish Charity Regulator	3.6	3.3
Total Justice	**1,435.0**	**1,267.5**
of which:		
DEL Resource	1,256.0	1,196.6
DEL Capital	179.0	70.9
AME		

Table 10.02 Detailed Spending Plans (Level 2 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Community Justice Services	30.1	29.7
Courts, Judiciary and Tribunal Support	51.1	49.1
Criminal Injuries Compensation	28.1	25.0
Scottish Resilience	20.7	18.0
Legal Aid	167.9	151.2
Police Central Government	237.0	206.5
Drugs and Community Safety	36.0	34.7
Accountant in Bankruptcy	5.2	3.1
Police and Fire Pensions	273.5	268.4
Scottish Prison Service	469.9	358.7
Miscellaneous	18.4	17.9
Scottish Court Service	93.5	78.4
Office of the Scottish Charity Regulator	3.6	3.2
Total Justice	**1,435.0**	**1,243.9**
of which:		
DEL Resource	1,256.0	1,174.3
DEL Capital	179.0	69.6
AME		

Community Justice Services

Table 10.03 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Offender services	23.6	23.8
Victim/witness support	5.6	5.6
Miscellaneous	0.9	0.9
Total	**30.1**	**30.3**
of which:		
DEL Resource	30.1	30.3
DEL Capital		
AME		

What the budget does

This programme provides funding for electronic monitoring provisions by private sector contractor including Restriction of Liberty Order across Scotland; non local government spend on Drug and Youth Courts; implementing the provisions in the Management of Offenders etc. (Scotland) Act 2005 to set up Multi-Agency Public Protection Arrangements in relation to sex offenders (MAPPAS); the running costs of Community Justice Authorities; section 10 funding of voluntary organisations operating in the criminal justice social work field; and implementation of measures that assist victims of crime, including funding for support of organisations such as Victim Support Scotland, implementation of the Vulnerable Witnesses Act and associated projects that help meet the needs of child and adult vulnerable witnesses. These resources are in addition to resources for the support of community justice services provided by local authorities, which are now included within the local government settlement.

In 2011-12 we will focus our resources on:

- continuing to improve the quality of community sentences available to the courts, in particular by implementing the Community Payback Order;
- supporting initiatives to tackle the problems of youth crime, drug-related crime and women offenders; and
- ensuring that support for victims and witnesses is directed to those most in need.

Courts, Judiciary and Tribunal Support

Table 10.04 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Courts and Tribunal Support	11.6	11.4
Mental Health Tribunal for Scotland	9.5	8.8
Judicial Salaries *	30.0	29.8
Total	**51.1**	**50.0**
of which:		
DEL Resource	51.1	50.0
DEL Capital		
AME		

* This is non-voted spending which is met from the Scottish Consolidated Fund but is also part of the Departmental spending limit.

What the budget does

The funding for courts and tribunal support provides the Scottish Government contribution to the superannuation costs of the judiciary, and for the running costs of a number of justice agencies, such as the Judicial Appointments Board for Scotland. The Mental Health Tribunal for Scotland (MHTS) is the body charged with approving and reviewing compulsory measures for the detention, care and treatment of people in Scotland who have a mental disorder.

In 2011-12 we will focus our resources on:

- maintaining an efficient support to the Scottish judicial system;
- delivering an increasingly efficient and effective service to patients whose cases are dealt with by the MHTS and to the carers and professionals that support them; and
- the development of an integrated Scottish Tribunal Service to provide support to the range of tribunals operating in Scotland.

Criminal Injuries Compensation

Table 10.05 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Administration Costs	3.0	2.7
CIC Scheme	25.1	22.8
Total	**28.1**	**25.5**
of which:		
DEL Resource	28.1	25.5
DEL Capital		
AME		

What the budget does

The Criminal Injuries Compensation Scheme provides compensation for personal injuries attributable to crimes of violence. The demand led scheme is administered by two cross-border public authorities – the Criminal Injuries Compensation Authority (CICA) and the Criminal Injuries Compensation Appeals Panel (CICAP). This programme funds the Scottish Government contribution to the scheme which is determined by a Memorandum of Understanding with the Ministry of Justice. CICAP is administered as part of the Tribunals Service, an Executive Agency of the Ministry of Justice.

In 2011-12 we will focus our resources on:

- ensuring that the CICA further improves the efficiency with which it pays compensation to victims; and
- working with the Ministry of Justice to ensure that the CICS delivers compensation that best meets victims' needs.

Scottish Resilience

Table 10.06 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Scottish Fire Services College	6.0	5.6
Firelink	7.3	5.8
Other Functions	7.4	6.9
Total	**20.7**	**18.3**
of which:		
DEL Resource	20.4	18.0
DEL Capital	0.3	0.3
AME		

What the budget does

Scottish Resilience provides practical support for the front-line agencies that deliver fire and rescue services and emergency planning and response, as well as advice to Ministers on all aspects of fire and rescue services and civil contingencies.

In 2011-12 we will focus our resources on:

- the training of fire service personnel at the Fire Services College and through a national learning and development fund;
- maintaining and developing the Firelink radio communications system as a shared service on behalf of all the Fire and Rescue Services; and
- investing in national and local multi-agency shared services initiatives designed to ensure that Scotland is prepared to deal with the consequences of an emergency.

Legal Aid

Table 10.07 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Administration	12.9	11.8
Fund	155.0	142.3
Total	**167.9**	**154.1**
of which:		
DEL Resource	166.9	153.9
DEL Capital	1.0	0.2
AME		

What the budget does

The Scottish Legal Aid Board (a Non-Departmental Public Body that derives its general powers and functions from the Legal Aid (Scotland) Act 1986) administers legal aid in Scotland. The Board funds a range of specialist legal advice services, including in-court advisers, and employs solicitors, under Part V of the 1986 Act, to provide a service, that complements existing advice provision and helps address unmet legal need in relation to matters dealt with under civil legal assistance, and to provide criminal legal advice and representation to accused persons through the Public Defence Solicitors' Office network. The Board has responsibility for the settlement of all final solicitor accounts for legal assistance.

In 2011-12 we will focus our resources on protecting access to justice as much as possible. This will be done by focusing on those most in need and endeavouring to maintain fair pay for necessary and skilled work.

Police Central Government

Table 10.08 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Police Support Services	111.9	112.2
Police Information & Communications Technology	64.2	62.2
Police Other	50.4	25.5
Special Grants	10.5	10.5
Total	**237.0**	**210.4**
of which:		
DEL Resource	216.4	197.9
DEL Capital	20.6	12.5
AME		

What the budget does

We are committed to protecting front-line policing, and in doing so this programme covers spending on:

- centrally provided costs for the Scottish Police Services Authority which provides common police services such as training, IT development and criminal records;
- centrally provided costs for the Scottish Crime and Drug Enforcement Agency (SCDEA);
- other specific payments to police authorities, including for various security measures; and
- miscellaneous expenditure, including payments to the Home Office for services provided on a GB basis (e.g. National Police Improvement Agency and Serious and Organised Crime Agency).

In 2011-12 we will focus our resources on:

- supporting the Scottish Police Services Authority and SCDEA;
- development of the Scottish Crime Campus at Gartcosh, which is a landmark development in delivering a collaborative approach to tackling serious organised crime in Scotland; and
- other specific payments to police authorities for various security measures and miscellaneous expenditure.

Drugs and Community Safety

Table 10.09 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Community Safety	3.8	3.4
Drug Misuse	32.2	31.9
Total	**36.0**	**35.3**
of which:		
DEL Resource	36.0	35.3
DEL Capital		
AME		

What the budget does

The bulk of this budget is provided to NHS Boards to provide services to promote recovery from drug addiction. This budget also supports the operation of local Alcohol and Drug Action Partnerships (formerly Alcohol and Drug Action Teams) and Community Safety Partnerships, along with a range of initiatives to tackle drug misuse, crime and antisocial behaviour.

At a Budget Revision stage the Drugs and Community Safety budget will be increased to include funds recovered under the Proceeds of Crime Act. Ministers will ensure that an amount recovered from the proceeds of crime is reinvested to support the vital work of Crown Office and Procurator Fiscal Service in their recovery work, with the rest invested in positive opportunities for young people and diversion from crime and antisocial behaviour.

In 2011-12 we will focus our resources on:

- providing central funding to NHS Boards so that they can continue to deliver front line drug treatment services focused on long-term recovery;
- national support to continue to implement the Road to Recovery, this will include support for all 30 Alcohol and Drug Partnerships, a national naloxone (life saving antidote) programme in all prisons and health boards support for substance misuse education (including *Know the Score*); and the support of the Scottish Drugs Recovery Consortium;
- improving the quality of life and safety of all people across Scotland, particularly those at risk of being a victim of crime, by encouraging a greater focus and investment nationally in prevention and earlier intervention so that the underlying causes of violence and disorder are addressed and long-term solutions are delivered;
- developing national capability in the community safety sector by building a closer alliance between centres of expertise like the Violence Reduction Unit and Scottish Business Crime Centre to build the evidence base, share good practice, improve performance and empower communities; and

- promoting positive, pro-social behaviour to help our young people fulfil their potential, with increased opportunities for personal and social development, training and employment, all of which will help make our communities safer and stronger and contribute to Scotland's economic recovery.

Accountant in Bankruptcy

Table 10.10 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Accountant in Bankruptcy	5.2	3.2
Total	**5.2**	**3.2**
of which:		
DEL Resource	5.2	3.2
DEL Capital		
AME		

What the budget does

The Agency supervises the process of personal insolvency in Scotland; approves debtor applications for bankruptcy; acts as Trustee in bankruptcy; investigates complaints against private sector Trustees in bankruptcy, and acts as the Administrator in the Debt Arrangement Scheme (DAS). This includes approving money advisers, payment distributors and debtors' debt payment programmes. The Agency also maintains the public register of bankruptcies, Protected Trust Deeds and company insolvencies. The Agency has the policy lead for the development of policy in relation to bankruptcy, corporate insolvency, the Debt Arrangement Scheme and diligence.

In 2011-12, we will focus our resources on:

- delivering, in conjunction with stakeholders, a range of options for individuals seeking debt relief and debt management;
- supporting Ministers to develop and refine policy; and
- supervising the process of debt relief.

Police and Fire Pensions

Table 10.11 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Police Pensions	217.3	217.3
Fire Pensions	56.2	56.2
Total	**273.5**	**273.5**
of which:		
DEL Resource	273.5	273.5
DEL Capital		
AME		

What the budget does

We are committed to continuing to maintain funding for police and fire authorities to meet the pension costs of police and fire officers.

Scottish Prison Service

Table 10.12 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Current expenditure	333.1	318.0
Capital spending	136.8	47.5
Total	**469.9**	**365.5**
of which:		
DEL Resource	333.1	318.0
DEL Capital	136.8	47.5
AME		

What the budget does

The Scottish Prison Service (SPS) was set up as an Executive Agency in April 1993. SPS is funded by the Scottish Government and is answerable to the Cabinet Secretary for Justice. Current expenditure for SPS has been reduced in 2011-12 to reflect the transfer of responsibility for prisoner healthcare provision to Health in the course of the year and by a further £5 million savings to be generated by SPS through additional efficiencies and improved utilisation of the prison estate.

During 2011-12, SPS will complete the construction of HMP Low Moss and prepare the prison for opening in Spring 2012. Following the completion later this year of the first phase of the redevelopment of HMP Shotts, SPS will take forward the final phase of this development during 2011-12.

In 2011-12, we will focus our resources on making Scotland a safer place by:

- holding securely and in good order the offenders sent by the courts, caring for offenders with humanity and providing them with appropriate opportunities;
- delivering offender management services, programmes and activities which address the causes of offending and re-offending and working to improve the outcomes for prisoners;
- investing to create an estate which is fit for purpose;
- supporting prison staff to deliver their difficult work for society with professionalism and skill; and
- working in partnership with other organisations in the public, private and voluntary sectors that deliver services to offenders and playing a full role in the integration of offender management services.

Miscellaneous

Table 10.13 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Residential accommodation for children	3.5	3.5
Other miscellaneous	14.9	14.7
Total	**18.4**	**18.2**
of which:		
DEL Resource	18.4	18.2
DEL Capital		
AME		

What the budget does

This budget covers a wide range of smaller justice-related spending areas including:

- secure residential accommodation for children;
- Parole Board for Scotland;
- Scottish Law Commission;
- Scottish Prisons Complaints Commission;
- Scottish Criminal Cases Review Commission;
- the Risk Management Authority;
- HM Inspectorate of Prisons;

- HM Inspectorate of Constabulary;
- Justice Analytical Services Division; and
- Cross Justice sector reform and development activity.

In 2011-12, we will focus our resources on:

- providing placements for sentenced children and young people, within the context of a new national contract for commissioning secure placements;
- working with the Parole Board for Scotland to implement further measures to improve the efficiency of the parole process; and
- monitoring and supporting key delivery areas across the Justice sector.

Scottish Court Service

Table 10.14 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Operating expenditure	73.2	69.5
Capital	20.3	10.4
Total	**93.5**	**79.9**
of which:		
DEL Resource	73.2	69.5
DEL Capital	20.3	10.4
AME		

What the budget does

The Scottish Court Service (SCS) provides the people, buildings and technology to support the operation of the courts throughout Scotland and the Office of Public Guardian.

The budget allows for the funding of core operating costs (excluding judicial salaries) and covers the running, maintenance and development of 70 (largely historic) courthouses, the employment of over 1,600 people throughout Scotland and court operational costs such as jurors' expenses.

In 2011-12 we will focus our resources on:

- reducing the number of sitting days in the court programme to a level that can be delivered effectively within a reduced funding settlement;
- working with other justice bodies on a range of projects aimed at delivering a more efficient and lower-cost criminal justice system;

- continuing the redevelopment of the Parliament House complex to provide a fit-for-purpose home for the Court of Session;
- driving down our carbon emissions by 5 per cent to contribute to the targets brought about by the Climate Change (Scotland) Act; and
- improving statutory compliance within the court estate.

Office of the Scottish Charity Regulator

Table 10.15 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Office of the Scottish Charity Regulator	3.6	3.3
Total	**3.6**	**3.3**
of which:		
DEL Resource	3.6	3.3
DEL Capital		
AME		

What the budget does

The Office of the Scottish Charity Regulator (OSCR) is the independent registrar and regulator for Scottish Charities. It has a statutory function to determine the charitable status of bodies; keep the public register of charities (the definitive on-line register contains details of over 23,500 charities); to encourage, facilitate and monitor compliance by charities; and to identify and investigate apparent misconduct in the administration of charities, taking remedial or protective action as appropriate. OSCR also has a duty to give information or advice, or to make proposals to Scottish Ministers on matters relating to OSCR's functions.

OSCR is a Non-Ministerial Department, and was created in April 2006 in accordance with the requirement of the Charities and Trustee Investment (Scotland) Act 2005.

In 2011-12, we will focus our resources on:

- continuing to undertake our statutory functions and regulatory role, thereby promoting public confidence in Scottish charities;
- implementing our Integrated Reporting Project which will result in streamlined monitoring requirements for charities; financial highlight information on charities appearing on the charity Register; and new on-line filing services for charities;
- developing new processes and procedures for the introduction of the new legal form Scottish Charitable Incorporated Organisations;

- continuing to provide support and guidance to charities and their advisors through our Outreach Programme, and through our guidance publications e.g. in respect of the Charity Accounts (Scotland) Regulations 2010; and
- providing information and advice, and making recommendations to Ministers on matters arising as a result of the general exercise of our functions.

CHAPTER 11
Rural Affairs and the Environment

PORTFOLIO RESPONSIBILITIES

The Rural Affairs and Environment portfolio has responsibility for protecting the environment and for developing rural Scotland through working with rural industries and communities. It is a wide-ranging portfolio covering agriculture, marine management and policy, aquaculture, forestry, rural development and environmental policy.

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

The Scottish Government's Purpose is to focus on creating a more successful country with opportunities for **all** of Scotland to flourish. The Rural Affairs and Environment portfolio has a particular focus on rural Scotland and ensures that all those living and working in our rural areas contribute to a strong, cohesive Scottish economy. It also helps ensure that Scotland's rural resources can help meet the food, energy and environmental challenges of the future. It does this through providing support for rural industries and rural jobs and by delivering effective and proportionate environmental regulation to ensure that our natural resources are used and managed for current and future generations as a valuable asset supporting sustainable economic growth.

Scotland's successful farming, aquaculture, fishing and forestry businesses depend on the sound management of our natural assets which in turn underpin our tourism, recreation and food industries. Our natural assets of air, water, soils and biodiversity are important public goods and make a vital contribution to sustainable economic growth.

The portfolio works towards the government's climate change targets and the development of a low carbon economy by encouraging woodland creation and working to mitigate the effect of agriculture on climate change. It also has a role in promoting the development of renewable energy on land and sea in order to assist with our move towards a low carbon economy. It leads on the delivery of the government's Zero Waste policy and works to change behaviour and secure long term emissions reductions.

OUR NATIONAL OUTCOMES

The policies, activities and expenditure of the Rural Affairs and Environment portfolio contribute to a number of our national outcomes, especially:

- We value and enjoy our built and natural environment and protect and enhance it for future generations;
- We live in a Scotland that is the most attractive place for doing business in Europe;
- We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others; and
- We reduce the local and global environmental impact of our consumption and production.

The Rural Affairs and Environment portfolio leads on making Scotland a place where ***we value and enjoy our built and natural environment and protect and enhance it for future generations*** by ensuring that our natural assets are well managed, accessible and in good condition. Through the work of the Forestry Commission and Scottish National Heritage (SNH) we aim to improve access to the outdoors, especially for those who face barriers to do so. The government will implement its Marine Act, which will ensure better marine planning and conservation in the future. It will continue to protect and enhance the environment through the Scottish Environment Protection Agency (SEPA) and SNH and provide funding for biodiversity and environmental projects through the Scotland Rural Development Programme (SRDP).

The portfolio works towards ensuring that ***Scotland is the most attractive place for doing business in Europe*** by ensuring that our agriculture, marine and forestry industries are competitive and innovative. The government will continue to assist these industries through the one and a half billion pound SRDP, which includes £10 million over 6 years for a new entrant support scheme for farmers. It also distributes a further £450 million of EU support annually to farmers.

It has an important role in ensuring that ***we have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others*** through investing in, and empowering, our rural communities to build a better future for themselves. The government will continue to make financial support available to local action groups through the SRDP LEADER delivery mechanism for local decision making on locally driven projects. Within this programme, we provide specific support for women and young people. We will continue to support community projects, creating and preserving jobs across Scotland. The government also sponsors the Scottish National Rural Network which encourages community interaction and showcases good development practice.

It is also vital in ensuring that ***we reduce the local and global environmental impact of our consumption and production*** through ensuring that our local environment is protected by our national environment agency and that our carbon emissions from land management activities are reduced through promoting renewable energy, sequestering carbon in soils and better use of slurry and fertilisers. It will continue to promote waste as something that should be regarded as a resource rather than discarded, through the implementation of Scotland's first Zero Waste strategy with support from the Zero Waste Fund.

OUR ACHIEVEMENTS

Since 2007 we have made significant progress in protecting the environment and developing rural Scotland for the benefit of rural communities and the Scottish Economy.

- The government's £27.4 million Climate Challenge Fund (2008-11) has been hugely successful; empowering 261 communities across Scotland to come forward with their own solutions to make a significant reduction in carbon emissions. The government has also launched an ambitious zero waste plan; provided funding for local authorities to take forward a number of important flood schemes; and grown Scottish food and drink overseas exports by 26 per cent between 2007 and 2009, whilst retail sales of Scottish brands have increased by 30 per cent between May 2007 and May 2010. It has also implemented the SRDP, a programme of economic, environmental and social measures, which brings together a wide range of formerly separate schemes including those covering farming, forestry and primary processing sectors, rural enterprise, business development, diversification and rural tourism.

- The government has also brought in a system of statutory marine planning, streamlined licensing and nature conservation through the Marine (Scotland) Act; improved conservation of fish stocks and fisheries management; and launched a strategic framework for Scottish aquaculture. The new marine planning framework will ensure that we are well placed to take advantage of the growth in offshore renewables, whilst ensuring that other uses of the sea are given proper consideration. In 2009, the value of seafish landed by Scottish fishing vessels increased by 10 per cent in real terms to £443 million. As the third largest producer in the world, Scottish aquaculture also produced over £400 million of farmed salmon at farm gate prices, with an increase in value of 23 per cent from 2008 to 2009 alone. We have provided certification of seed potatoes to maintain high quality potato crops that contribute £200 million to the Scottish economy and have invested significant sums in developing new forests.

- The government has made great strides over the last few years to streamline and improve the efficiency of its services through programmes such as SEARS, which introduced integrated service delivery for rural land managers and helped to reduce the burden of inspections on customers. In carrying out their advice and regulatory functions, SEPA and SNH have sought to apply a lighter touch with a focus on enabling economic development and helping businesses to comply more readily with regulations that help to protect our natural heritage and environment.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios.

In 2011-12 the Rural Affairs and Environment portfolio will spend £539.4 million on supporting rural communities, boosting the Scottish economy and protecting our environment. The year on year cut in cash terms on resource budgets is £35 million and on capital is £20 million. Key pressures in the portfolio in 2011-12 include levels of demand within the SRDP and operational costs, including the effects of the increase in VAT, within the portfolio's Non-Departmental Public Bodies. Expenditure in these areas forms a significant proportion of the portfolio's overall budget.

The effects of these pressures have been a reduction in the National funds budget for the SRDP of £27.6 million and a total reduction in the budgets of SEPA, SNH and the National Park Authorities of £12.2 million. We have reduced expenditure for some components of the SRDP such as the Rural Enterprise and Rural Communities budget. There will be fewer and more focused rounds and we will review the size of grants awarded to ensure that the benefits of these schemes are more widely spread. We have maintained funding for the Less Favoured Area Support Scheme (LFASS), LEADER and other programmes that are important to our farmers, crofters and rural communities. We have also reduced the portfolio's Programmes of Research budget by £11.8 million.

We have taken every opportunity to make efficiency savings and to reduce spend on administration in order to protect expenditure that stimulates economic growth and provides important public services. For example, even though we will be reducing the portfolio's Programme of Research budget, the resource funding for our Main Research Providers have been protected. Tough choices have had to be made resulting in the reduction of budgets that make less of a direct contribution to sustainable economic growth. In some cases we have reduced the budget for areas where demand has been historically low such as the Rural Enterprise and Rural Communities budget within the SRDP. In other areas, we have taken a decision to make modest increases in charges where it is considered to be proportionate and fair.

OUR PRIORITIES

By taking these difficult decisions and maximising the level of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of key priorities within the Rural Affairs and Environment portfolio. In 2011-12 we will spend £539.4 million on our priorities.

- Financial support for our rural economy through payments to farmers, crofters, fishermen and land managers is often the mainstay of fragile rural communities and we have sought to prioritise these areas of expenditure, which include elements of the Scotland Rural Development Programme (SRDP) and the European Fisheries Fund (EFF). However, given the size of these budgets as a proportion of the portfolio budget, it has not been possible to avoid some reductions.

- In future within the SRDP, there will be fewer but more focused funding rounds. In 2011-12, we will spend £116.6 million, which will be matched with a further £116.6 million of EU funds, on the SRDP.

- We will spend £5 million which will be matched by a further £6 million of EU funds through the EFF in order to deliver our commitment to assist with capital investment, increasing competitiveness in the aquaculture, fishing and fish processing industries, and to promote a resilient fleet structure – sectors which contribute hundreds of millions of pounds to the Scottish economy. EFF support will also contribute to wider food policy aims, delivering against priorities in the food chain, and enhancing the reputation for excellence Scottish food enjoys abroad through the high volume of seafish, shellfish and salmon exports. Axis 4 of the EFF, which will provide support to fisheries dependent communities, will also be launched by early 2011.

- The food and drink industry is a major contributor to Scotland's economy, with one in five people in manufacturing working in the sector, approximately 360,000 people across Scotland. Our National Food and Drink policy has been a resounding success, and we are on track to meet our target of increasing the value of the industry to £12.5 billion by 2017. Continued investment, notably in processing and marketing, as part of our ground-breaking National Food and Drink policy will be essential to maintain growth and the government will invest £11.9 million (including £8 million through the SRDP) in this area in 2011-12.

- There is a premium in the marketplace for Scottish produce and our reputation – both at home and abroad – for excellent quality food and drink is dependent on our high standards of animal health and welfare, preventing disease and ensuring that contingency plans are in place for the effective management of animal disease outbreaks. As a result of the outbreak of Foot and Mouth Disease in 2001, total compensation paid to farmers in Scotland for the culling of animals was £178 million. The spending lines on animal health and veterinary surveillance are relatively small but the impact of animal disease on the economy can be considerable, so the government has prioritised expenditure and will spend £6.4 million on these measures in 2011-12.

- It will distribute a further £433.8 million through the Single Farm Payment to approximately 20,000 farmers and crofters. We will continue to ensure the prompt and efficient payment of this vital support for Scotland's agriculture industry. The inquiry by Brian Pack into *The Future of Support for Agriculture in Scotland* will report on how these funds might be best distributed in Scotland in future, and the recommendations will be considered alongside changes resulting from EU decisions on Common Agricultural Policy reform. We have been clear that there is an ongoing need for some direct support to farmers in order to maintain both a productive agricultural sector in Scotland, and our capacity to respond to issues of food security.

- The Rural Affairs and Environment portfolio's investment in our research institutes supports key sectors vital to Scotland's long-term economic success. Indeed, an independent study by DTZ has confirmed that our investment delivers significant benefits to rural businesses and to the wider economy. The research undertaken by the Scottish Agricultural College delivers improvements to the productivity of agriculture, for example £7 million from livestock genetic improvement and £12.5 million in animal health. The Moredun Research Institute is renowned for its work on animal disease and eight of the top ten global animal health companies are customers of the Moredun. Therefore, we will continue to invest in research and analysis and have budgeted £68.6 million in 2011-12 for this.

- The government aims to create a competitive advantage for Scotland through its approach to climate change and has, therefore, prioritised this area of expenditure. The government proposes to increase the Zero Waste budget by £2 million in 2011-12 to £26.4 million. Our first ever Zero Waste Plan, launched in June, set out ambitious new targets to reduce the amount of waste produced, sending less waste to landfill and recycling and recovering more resources. It is essential we maintain the momentum and commitment towards achieving a Zero Waste society. By supporting collection systems, specifically food waste, as well as supporting anaerobic digestion infrastructure, we will be able to generate sustainable energy and deliver reductions in green house gas emissions.

- By protecting the level of spending on the Sustainable Action Fund at £15.3 million, and through increasing the proportion of that Fund going to the Climate Challenge Fund by £1 million to £10.3 million, we are underlining our commitment to community led action on climate change. We will bring forward detailed plans for the effective deployment of the Funds building on the key lessons from recent experience. The Sustainable Action Fund, from which the current Climate Challenge Fund is drawn, is a powerful tool for supporting progress towards sustainability outcomes of which climate change action is a crucial aspect.

- Increasing the extent of woodland cover is also an essential element of the Climate Change Delivery Plan. We have set ambitious annual planting targets and the government is confident it will still achieve all key programmes and deliver its woodland creation targets. The government will invest £53.5 million in the Forestry Commission and Forest Enterprise in 2011-12.

- Our public bodies play a vital role in protecting our environment and natural heritage and they will need to become leaner and more efficient in their operations. These bodies have already set in hand necessary management actions, including early severance in SEPA and SNH. SEPA, SNH and the National Park Authorities will continue to deliver their regulatory responsibilities and focus their activities on delivering the National Outcomes. In 2011-12, we will invest £112.5 million in these delivery bodies.

- We are committed to helping people build a family and work life in rural Scotland and to supporting rural communities. The recent consultation *Speak Up for Rural Scotland* gave everyone with an interest in rural Scotland the opportunity to contribute to the future direction of rural policy. The portfolio will continue to champion rural and crofting communities and we will invest £6.8 million in crofting and a further £0.8 million in Rural Cohesion in 2011-12 in addition to the LEADER spend through the SRDP.

- Scotland has experienced some heavy flooding in recent years and while local authorities will be faced with some tough decisions, the total funding package within the local government settlement will allow local government to continue investment in flood prevention schemes. Not continuing to invest in flood risk management measures could lead to significant costs in the future. There were a series of flooding events across Scotland last winter and, although the final costs are yet to be quantified, a previous study of the severe flooding event in August 2004 estimated that the overall damage from that one event ranged between £7.1 and £31 million. This does not take into account the potential impact on businesses that can no longer obtain flood insurance, and the consequent economic impact on Scotland if those businesses are forced to close as a result. We will also continue to invest in ensuring clean air and water and the portfolio will spend £5.7 million on natural assets and flooding in 2011-12.

Spending plans for 2011-12 are set out below.

Table 11.01 Detailed Spending Plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
EU Support and Related Services	155.9	138.2
Research, Analysis and Other Services	95.7	82.0
Marine and Fisheries	66.7	61.3
Environmental and Rural Services	196.1	186.4
Forestry Commission	55.1	47.7
Forest Enterprise	24.9	23.8
Total	**594.4**	**539.4**
of which:		
DEL Resource	524.8	489.8
DEL Capital	69.6	49.6
AME		

Table 11.02 Detailed Spending Plans (Level 2 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
EU Support and Related Services	155.9	135.6
Research, Analysis and Other Services	95.7	80.5
Marine and Fisheries	66.7	60.2
Environmental and Rural Services	196.1	182.9
Forestry Commission	55.1	46.8
Forest Enterprise	24.9	23.4
Total	**594.4**	**529.4**
of which:		
DEL Resource	524.8	480.7
DEL Capital	69.6	48.7
AME		

EU Support and Related Services

Table 11.03 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Single Farm Payment Scheme	433.8	433.8
Scottish Beef Calf Scheme	21.0	21.0
Energy Crop Payments	0.2	0.2
Business Development	53.9	43.8
Less Favoured Area Support Scheme	65.5	65.5
Agri Environment Measures	58.3	48.9
Forestry	4.7	4.3
Rural Enterprise	34.7	14.6
Rural Communities	16.7	6.5
Leader	9.4	10.5
Technical Assistance	0.5	0.3
Payments and Inspections Administration Costs	34.0	37.7
CAP Compliance Improvements	–	3.3
EU Income	(576.8)	(552.2)
Total	**155.9**	**138.2**
of which:		
DEL Resource	117.0	108.3
DEL Capital	38.9	29.9
AME		

What the budget does

The EU Support and Related Services Level 2 budget provides support to the rural economy through the Common Agricultural Policy. Agriculture is an important element of the Scottish economy with many in rural areas directly employed in agricultural activities. The Single Farm Payment Scheme (£433.8 million in 2011-12) supports over 20,000 producers, providing stability for farmers, enabling them to adapt to major changes, and leading to a sustainable agricultural sector. Funding is solely from the EU European Agricultural Guarantee Fund (EAGF).

The Scotland Rural Development Programme (SRDP) budget, running over the period 2007-2013, comprises National funds, National Modulation, Compulsory Modulation and funding from the European Agricultural Fund for Rural Development (EAFRD). The total EU funding for the Programme period is €679 million. The National funds component includes funding from the Forestry Commission Scotland (Woodland Grants) and the Environmental and Rural Services budget (Scottish Natural Heritage). The rate and level of draw down of EAFRD depends on the amount of National funds, the co-financing rate and the exchange rate.

The SRDP includes several measures to support rural communities and land managers with particular emphasis on increasing sustainable business activity and competitiveness in agriculture and forestry, improving the environment and the countryside, and enhancing the quality of life in rural areas.

Through the Payments and Inspections Administration Costs budget, we deliver regulatory functions in relation to national and international legislation, including adaptations to ensure continuing compliance, alongside expert scientific and technical advice and information services on agricultural crops and aspects of the environment.

Research, Analysis and Other Services

Table 11.04 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Programmes of Research	74.5	62.7
Royal Botanic Garden Edinburgh	11.3	11.9
Contract Research Fund	8.4	5.9
Economic and Other Surveys	1.5	1.5
Total	**95.7**	**82.0**
of which:		
DEL Resource	86.6	78.7
DEL Capital	9.1	3.3
AME		

What the budget does

The Research, Analysis and Other Services Level 2 budget funds scientific research designed to provide government policy makers and stakeholders with research deliverables that facilitate evidence-based policy development and implementation. Medium term needs are addressed by two main programmes of research covering 'Environmental Change' and 'Land, Food and People'. These programmes are commissioned from the government's Main Research Providers (MRPs), the Macaulay Land Use, Moredun and Scottish Crop Research Institutes, the Scottish Agricultural College and the University of Aberdeen's Rowett Institute of Nutrition and Health.

In addition to these programmes, 2011-12 sees the establishment of three Centres of Expertise, focusing on Climate Change, Water and Animal Disease Preparedness and two Strategic Partnerships, covering Animal Science Excellence and Food and Drink. These initiatives will be delivered by consortia formed between the MRPs and the university sector, with Strategic Partnerships being designed to strengthen the flow of knowledge from basic through strategic research to meet longer-term policy/stakeholder needs and Centres of Expertise designed to meet more immediate policy needs through strengthening the ability of policy colleagues to draw on Scotland's scientific expertise in a co-ordinated and informed manner.

The Programmes, Centres of Expertise and Strategic Partnerships recognise that today's world is one of more rapid change and greater uncertainty, both environmentally and economically; a world where there is much more emphasis on partnerships in research and a world which increasingly recognises the need for integrated scientific evidence in support of policy, whilst also valuing continued support for strategic research to meet the longer-term challenges.

There is additional funding for research on international plant biodiversity, carried out by the Royal Botanic Garden, Edinburgh (RBGE). Although primarily directed at supporting international biodiversity policies, this research will complement work on Scottish biodiversity. Support for this international research will continue to be managed through the sponsorship funding arrangements for the RBGE.

The Contract Research Fund commissions research which addresses specific policy requirements within the portfolio or which encourages collaboration between the research establishments and between the government and other funding bodies.

Marine and Fisheries

Table 11.05 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Marine Scotland	62.4	55.9
EU Fisheries Grants	11.1	11.0
Fisheries Harbour Grants	0.4	0.4
EU Income	(7.2)	(6.0)
Total	**66.7**	**61.3**
of which:		
DEL Resource	59.5	57.7
DEL Capital	7.2	3.6
AME		

What the budget does

The Marine and Fisheries Level 2 budget supports the sustainable use of Scotland's coasts and seas and freshwater fish populations. These natural resources are vitally important to sustainable economic growth and especially so in remote rural areas.

Marine Scotland was established on April 1 2009 as a Directorate of the government to integrate core marine functions involving scientific research, compliance monitoring, policy and management of Scotland's seas. It has responsibility for marine planning; fisheries policy, compliance and enforcement; fisheries research and representing Scottish interests in relation to the Common Fisheries Policy and international fisheries negotiations; aquaculture and freshwater fisheries policy; and responsibility for meeting our marine obligations in relation to the EU Habitats Directorate, the Marine Strategy Framework Directive and international commitments. Marine Scotland administers all marine consents required for a variety of activities including depositing substances at sea, coast protection and offshore renewable energy. Grants for the sustainable development of the Scottish fisheries industry are awarded through the European Fisheries Fund (EFF). Subject to exchange rate movement (which will influence final figures) currently some £48 million is available from the European Union to Scotland over the period 2007-2013. The rate and level of draw down of EFF depends on the amount of National funds, the co-financing rate and the exchange rate.

Environmental and Rural Services

Table 11.06 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Scottish Natural Heritage	67.9	60.7
National Parks	12.5	12.4
Natural Resources	0.3	0.3
Scottish Environment Protection Agency	44.3	39.4
Zero Waste	24.4	26.4
Natural Assets and Flooding	6.9	5.7
Sustainable Action Fund	15.3	15.3
Crofting Assistance	5.5	6.8
Rural Cohesion	1.0	0.8
Agricultural and Horticultural Advice and Support	5.1	4.1
Veterinary Surveillance	4.8	5.2
Animal Health	1.2	1.2
Food Industry Support	2.0	3.9
Private Water	4.5	3.8
Drinking Water Quality Regulator	0.4	0.4
Total	**196.1**	**186.4**
of which:		
DEL Resource	187.4	176.8
DEL Capital	8.7	9.6
AME		

What the budget does

The Environmental and Rural Services Level 2 budget primarily supports the commitment, set out in the National Outcomes, to ***value and enjoy our built and natural environment and protect it and enhance it for future generations***. Funding will support Scottish Natural Heritage's (SNH's) work on delivering Scotland's biodiversity targets, fulfilling Scotland's contribution to the UN Convention on Biological Diversity (CBD), meeting Scotland's contribution to the promotion of access and helping ensure that new developments take proportionate account of our valuable natural heritage.

We will complete the passage of the Wildlife and Natural Environment Bill in order to maximise the associated environmental and economic benefits, while minimising irresponsible or damaging practice. The Bill will update wildlife and natural environment legislation in relation to a number of areas, including: game law; deer; invasive non-native species; species management; snaring; and muirburn.

Funding for the National Park Authorities will enable them to take forward the National Park Plans which were approved in early 2007 and implement the recommendations in the National Parks Review report (published November 2008).

Provision is made to enable the Scottish Environment Protection Agency (SEPA) to carry out its regulatory functions and to continue to safeguard Scotland's environment and human health. SEPA's spending is largely determined by the need to implement and enforce regulatory regimes required by national and EU legislation. SEPA will continue to monitor the quality of Scotland's environment and to implement the Water Environment and Water Services (Scotland) Act. Funding for SEPA includes support for the development of a National Flood Warning Dissemination Programme and the Scottish Flood Forecasting Service. Since 2009 SEPA has embarked on a significant programme of transformational change. The single biggest element of the change proposals is Better Regulation. SEPA has played a leading role in supporting the government in delivering a more risk based and proportionate form of regulation and associated scrutiny.

The budget for Zero Waste includes support for a number of programmes including work to develop markets for recyclate use, waste prevention and minimisation, reuse and recycling awareness, support for community recycling groups and support for local authorities to achieve municipal waste targets in 2011 and beyond. In addition, the budget funds Keep Scotland Beautiful, which carries out anti-litter and anti-fly tipping campaigns and promotes environmental education.

The Sustainable Action Fund and the Natural Assets and Flooding budgets support our actions to protect the land, air and water environment, and to protect communities from pollution, flooding, noise and nuisance. The funding provided for Natural Assets and Flooding supports initiatives on flood risk management and research to assist policy development in these areas. Resources are also provided for air quality support measures which are designed to improve air quality in hot spot areas in relevant local authorities. In addition, funding for noise supports the costs of ongoing mapping and action planning required under the EU Environmental Noise Directive.

We will continue to reform crofting so that it is fit for the 21st century and makes an ongoing contribution to the development of a thriving rural Scotland. We will commence the provisions in the Crofting Reform (Scotland) Act 2010 incrementally to deliver a more robust governance, regulatory and financial framework to safeguard the future of crofting.

We will continue to invest in Scotland's food and drink industry, support effective and efficient supply chains and collaborative ventures and work with stakeholders to ensure that sales of Scotland's food and drink continue to grow.

The Private Water budget supports actions to sustain and improve the health of the people of Scotland through good safe drinking water. Provision is made to protect the quality of private drinking water supplies through the preparation of information and advice aimed at improving public understanding of how to protect and maintain such supplies. This is supported by the Private Water Supply Grant Scheme, which provides financial assistance to users of private water supplies towards the upgrade of these supplies.

Provision is also made to support the Drinking Water Quality Regulator for Scotland (DWQR) in carrying out their duties under the Water Industry (Scotland) Act 2002.

Forestry Commission

Table 11.07 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Woodland Grants	27.1	36.0
Policy, Regulation and Administration	5.1	5.1
Programme Costs	24.5	22.5
Net Capital Expenditure	4.4	2.0
Depreciation	0.1	0.1
EU Income	(6.1)	(18.0)
Total	**55.1**	**47.7**
of which:		
DEL Resource	50.7	45.7
DEL Capital	4.4	2.0
AME		

What the budget does

Forestry Commission Scotland works to increase the contribution of Scotland's forests to health and wellbeing, the Scottish economy and environmental sustainability. It does this by regulating and supporting the private forestry sector; sustainable management of the Scottish Ministers' forest estate; promoting the expansion and sustainable management of Scotland's woodlands; increasing the contribution of woodlands to the quality of our towns and cities through the Woodlands In And Around Towns initiative; and supporting projects which reduce the impact of timber transport operations. Climate change will continue to be an area of major importance for forestry and 2011-12 will see a significant contribution to the government's pledge, as part of the Climate Group States and Regions Alliance, to plant 100 million trees by 2015. In 2011-12, we propose to:

- promote predictable and stable timber supplies to help the Scottish economy;
- introduce a code of good practice for forestry carbon schemes;
- invest in research on timber product development and use of timber in construction;
- mainstream a greening hospital grounds project;
- stimulate early work towards implementing the Central Scotland Green Network;
- stimulate management of native and ancient woods using information from the Native Woodland Survey of Scotland;
- work with other government Directorates to further promote the development of biomass for heat;
- develop interim guidance on 'future forests in a changing climate';

- enhance pest/pathogen vigilance and rapid response capacity; and
- promote landscape-scale restoration exemplar projects to contribute to the National Ecological Network.

Forest Enterprise

Table 11.08 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Operating Costs	23.6	22.6
Capital Expenditure	1.3	1.2
Total	**24.9**	**23.8**
of which:		
DEL Resource	23.6	22.6
DEL Capital	1.3	1.2
AME		

What the budget does

The Forest Enterprise Scotland budget supports the sustainable management of the national forest estate, maintains effective planning and consultation systems, maximises the value to the Scottish economy of the estate's timber resource, other forest products and estate assets, uses the estate to conserve and enhances biological diversity cultural heritage and landscape quality, and increases the opportunities for all to visit, enjoy and learn from the estate. In 2011-12, we propose to:

- establish partnerships to increase the national forest estate's contribution to the government's renewable energy targets;
- sustain timber production on the national forest estate;
- establish an integrated skills programme for new entrants into the forestry sector;
- commence direct involvement in developing and managing urban woodlands in the Clyde Gateway area of east Glasgow;
- unveil Scotland's new premier mountain biking centre in the Tweed Valley; and
- accelerate a programme to remove invasive exotic plants from the national forest estate.

CHAPTER 12
Administration

PORTFOLIO RESPONSIBILITIES

The Administration Budget covers the costs of running the core administration of the Scottish Government to help increase sustainable growth and deliver our 15 National Outcomes. The majority of this expenditure relates to civil service staff, with the remainder supporting associated costs such as accommodation, information technology and training.

OUR ACHIEVEMENTS

We have consistently exceeded our efficient government targets since 2007, re-shaping and refining the organisation structure to maximise the effective delivery of policies and working to deliver savings across all portfolios. Specific Administration achievements include:

- a reduction of 20 per cent (around £1 million) in travel expenditure between 2008-09 and 2009-10, freeing resources for frontline services;
- achieving our 10-day target for paying bills to businesses in Scotland who supply the Scottish Government – we paid over 94 per cent of invoices within 10 days in 2009-10, helping to support firms' cash flow and economic recovery; and
- making more information on Scottish Government activity widely available – since April, we have published online details of all items of government expenditure over £25,000.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

We recognise that in asking others to reduce their expenditure we must take a lead in reining back our own spending so that more can be spent on boosting the economy and frontline services.

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the Administration portfolio, the year on year cut in cash terms on the resource budget is £23.5 million and on capital is £2.5 million. Key pressures within the portfolio in 2011-12 include pay progression carried over from 2010-11, price increases for many non-staff items, the impact of VAT and National Insurance contribution rises, and higher local authority rates bills. The effects of cuts of this scale combined with these unavoidable pressures will raise significant challenges.

We have put in place early severance arrangements to reduce staff numbers. We have developed plans for reducing the costs of the Senior Civil Service by at least 10 per cent by the end of 2011-12, and 25 per cent by 2014-15 (with 2010-11 as the base year). We have also developed our plans for maintaining firm downward pressure on pay rates, in accordance with Ministerial pay policy. There will therefore be a pay freeze in 2011-12 for all staff, with specific measures to allow for some pay increases for the lower paid, and extension of the pay freeze for Senior Civil Service staff from 2010-11 for at least a further year.

We have re-prioritised tasks to ensure alignment with key Ministerial priorities over the forthcoming year, ending activities that contribute less to these priorities. We are examining how more flexible working arrangements across the organisation could improve efficiency. And we have engaged with staff and their representatives to discuss how best to manage the budget and headcount reductions required.

We will continue to maximise the savings available through further efficiency measures, supported by improved systems, delivering a leaner organisation aligned to support our policy priorities.

OUR PRIORITIES

By taking these difficult decisions and maximising the level of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of key priorities within the Administration portfolio. The Administration portfolio's priorities are:

- to ensure that the Scottish Government is well equipped and organised to help increase sustainable growth and deliver our 15 National Outcomes, and to assist the process of economic recovery in Scotland;
- to ensure that the organisation offers maximum value for public money. This includes releasing resources through the delivery of efficiency savings and through re-prioritising tasks to reduce spending on administration by £26 million in 2011-12 compared to 2010-11; and adhering closely to the Government's pay policy which reflects the current economic climate and priorities for public spending within the current tight financial settlement;
- to ensure that the percentage of total expenditure devoted to administration costs, across the core government and our agencies, remains at least 25 per cent below the comparable percentage for the UK government;
- to implement a range of measures to deliver a reduction in emissions across the Scottish Government. Specific measures include the ongoing installation of Building Management Systems across the whole estate to reduce energy consumption through optimisation of building lighting, heating, ventilation and cooling systems and more energy-efficient IT. More information about the measures to be implemented is set out in the Scottish Government carbon management plan; and
- to ensure that we continue to show we are an exemplar in diversity and equality. The Scottish Government's equality initiatives will play a key role in supporting the delivery of all national outcomes. Our overall approach focuses on four key themes: behaviour and culture change; leadership and accountability; talent management; and representation.

Spending plans for 2011-12 are set out below.

Table 12.01 Detailed Spending Plans (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget[2] £m
Scottish Government Staff	167.2	152.0
Accommodation	19.8	17.8
Other Office Overheads[1]	42.8	38.6
Training	5.4	4.9
Office of the Queen's Printer for Scotland	0.1	0.1
Capital Charges	16.7	15.1
Capital ICT Projects	7.4	5.5
Other Capital Expenditure	2.6	2.0
Total	**262.0**	**236.0**
of which:		
DEL Resource	252.0	228.5
DEL Capital	10.0	7.5
AME		

Table 12.02 Detailed Spending Plans (Level 3 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Scottish Government Staff	167.2	149.2
Accommodation	19.8	17.5
Other Office Overheads	42.8	37.9
Training	5.4	4.8
Office of the Queen's Printer for Scotland	0.1	0.1
Capital Charges	16.7	14.8
Capital ICT Projects	7.4	5.4
Other Capital Expenditure	2.6	2.0
Total	**262.0**	**231.6**
of which:		
DEL Resource	252.0	224.2
DEL Capital	10.0	7.4
AME		

1 Includes ICT projects and minor non-pay items, e.g. travel, transport, stationery, hospitality, etc.
2 The breakdown of spending plans for 2011-12 is subject to change as we seek to reduce overhead costs in favour of minimising the reduction necessary in the number of staff available for deployment to support existing and new priority activities.

CHAPTER 13
Crown Office and Procurator Fiscal Service

PORTFOLIO RESPONSIBILITIES

The Crown Office and Procurator Fiscal Service (COPFS) provides Scotland's independent public prosecution and deaths investigation service. The Lord Advocate's position as head of the systems of criminal prosecution and investigation of deaths is enshrined in the Scotland Act.

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

COPFS plays a key role in providing and supporting effective and fair justice for the people and communities of Scotland. In doing this and providing confidence in the independent system of prosecution and investigation of deaths it makes Scotland a good place to do business. A major priority for COPFS is tackling serious and organised crime, and also financial crime, both of which can be damaging to the economy and people's lives. Without such confidence, businesses will include a risk premium in their evaluation of whether to operate in Scotland.

OUR NATIONAL OUTCOMES

The policies, activities and expenditure of the Crown Office and Procurator Fiscal Service contribute to a number of our national outcomes, especially:

- We live our lives safe from crime, disorder and danger.
- We have improved the life chances for children, young people and families at risk.
- We value and enjoy our built and natural environment and protect it and enhance it for future generations.

COPFS' specific contributions to the achievement of National Outcomes include:

COPFS supports lives which are ***safe from crime, disorder and danger*** by providing an effective prosecution service which has the confidence of the public and by helping to reduce crime and fear of crime by tackling crime quickly and using a wide range of measures appropriate for specific offences. The services we deliver protect victims of crime from further harm from perpetrators, ensure justice and safer environments for individuals and communities and contribute to tackling deep seated problems such as those associated with drug misuse, domestic violence and hate crime.

COPFS ***improves the life chances for children, young people and families at risk*** through the particular priority it gives to prosecuting domestic violence, crime against children and sexual offences;

COPFS' specialist approach to tackling wildlife and environmental crime and our Carbon Management Plan, aimed at reducing the carbon impact of our work, ***supports the built and natural environment and protects it and enhances it for future generations.***

OUR ACHIEVEMENTS

Since 2007, COPFS has made significant progress. Specific examples include:

- Full implementation by 2008 of all phases of the Vulnerable Witnesses (Scotland) Act 2004 which enables children and other vulnerable witnesses to give better evidence by using measures which are designed to reduce the fear and distress associated with giving evidence. The most common measures are giving evidence from behind a screen or using a CCTV link, or having a supporter present in court with the witnesses.

- Summary Justice Reform (which we implemented with Police and Court colleagues in 2009-10) has improved the delivery of justice in summary cases by tackling inefficiency and streamlining processes. It also better meets the needs of victims, communities and witnesses. The range of direct measures introduced, including formal warnings and financial penalties, has enabled police and prosecutors to deal more quickly with a proportion of cases without recourse to formal court proceedings. This has released significant amounts of police time from attendance at court (and also in many cases from preparing and submitting formal reports), as a number of cases are now dealt with by police or COPFS Direct Measures. This has also enabled prosecutors to focus resources on the preparation of cases which are prosecuted in court.

- The implementation of the Sexual Offences Review led to more effective prosecution of sexual offences and improved support to victims. It delivered better training and guidance for prosecutors dealing with sexual offences; the introduction of National and Area Sexual Crime Units within COPFS further enhanced the specialist approach to the prosecution of sexual offences and the support for victims.

- The creation of the Health and Safety Division has enabled specialist prosecutors to build on our existing expertise to deal more effectively with the complex issues that can arise in health and safety investigations, including deaths in the workplace. This specialist approach has enabled us to resolve a number of cases at an early stage, bringing benefits to both victims and witnesses, often sparing them from what can be the traumatic experience of reliving these events through a lengthy court process. It has also freed up the courts' time. The Health and Safety Division has a dedicated member of staff from our Victim Information and Advice service, who communicates with victims and families to keep them informed about the progress of cases and provides information about support resources available to them.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the Office of the COPFS portfolio, the year on year cut in cash terms on resource budgets is £5.5 million and on capital is £4.5 million. Despite the challenging financial environment, we are committed to maintaining the appropriate breadth and quality of service for the people of Scotland.

Key pressures in 2011-12 include responding to a changing profile of more sophisticated and complex crimes, and in particular an increase in the successful detection of serious and organised crime and of online offences, particularly those of a sexual nature. In prosecuting such offences, COPFS requires the use of advanced presentational tools to convey to the jury the various strands of evidence, often involving complex telecommunications and IT technology. The decision in HMA v Cadder has already necessitated further investigation into live cases and it is anticipated that this will continue, pending the outcome of Lord Carloway's review. If the current trend in reductions in the overall number of cases reported continues then this will mitigate these pressures.

In 2011-12 our budget will be £108.2 million. Taking into account these pressures (e.g. rising costs; increasing demand), we have considered all areas of expenditure incurred by COPFS, the scope for efficiencies and the contribution that spending programmes make to sustainable economic growth and the delivery of portfolio priorities. To reduce the level of spending across the portfolio, we are making significant reductions in staff numbers having recruited no new permanent members of staff since the start of April 2010.

We will also need to make significant savings in our non pay expenditure. The substantial reduction in our capital budget means that the replacement of the case management IT system, which supports our main activities, will be deferred. This will delay our ability to bring about innovations which would have improved efficiency further.

OUR PRIORITIES

By taking these difficult decisions and maximising the level of efficiencies that can be achieved, we are able to protect expenditure that supports economic growth and the delivery of our key priorities. The COPFS portfolio will spend a total of £108.2 million in 2011-12.

The key aims of COPFS are to:

- Deliver swift, effective justice, giving priority to serious crime, including sexual offending, serious violence, organised crime and drug trafficking.
- Work with the police, local communities and others to solve problems caused by localised offending, targeting persistent offenders and helping people live their lives free from crime, disorder and danger.
- Ensure that all deaths reported to the Procurator Fiscal are investigated appropriately.
- Provide services that meet the information needs of victims, witnesses and nearest relatives, in co-operation with other agencies.
- Respect and protect diversity, and promote tolerance.

Our ability to engage with and serve diverse communities is essential to maintaining and improving public confidence in the criminal justice system as a whole. We will focus resources on front line delivery, ensuring that our efforts are concentrated where they really make a difference and that we become more responsive, tailoring the services that we provide to the needs of local communities and individual victims.

In 2011-12 we will make effective use of our total budget of £108.2 million to:

- Continue to give the highest priority to the prosecution of serious and organised crime.
- Improve further the provision of information to the victims of crime on progress being made with their cases.
- Work with other parts of the Criminal Justice System, in particular the police and the court service, to increase the efficiency and effectiveness of the system as a whole.
- Take responsibility for the investigation of Military Service deaths abroad and enhance our capability to investigate complex death cases.
- Continue to give priority to tackling domestic abuse and hate crime at community level.

Spending plans for 2011-12 are set out below.

Table 13.01 Detailed Spending Plans (Level 2)

	2010-11 Budget £m	2011-12 Draft Budget £m
The Crown Office and Procurator Fiscal Service	118.2	108.2
Total Crown Office and Procurator Fiscal Service	**118.2**	**108.2**
of which:		
DEL Resource	111.0	105.5
DEL Capital	7.2	2.7
AME		

Table 13.02 More detailed categories of spending (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
Staff Costs	72.0	69.0
Office Costs	5.6	4.4
Case related	12.9	12.1
Centrally Managed Costs	20.5	20.0
Capital Expenditure	7.2	2.7
Less Retained Income	0.0	0.0
Total	**118.2**	**108.2**
of which:		
DEL Resource	111.0	105.5
DEL Capital	7.2	2.7
AME		

Table 13.03 More detailed categories of spending (Level 3 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
Staff Costs	72.0	67.7
Office Costs	5.6	4.3
Case related	12.9	11.9
Centrally Managed Costs	20.5	19.6
Capital Expenditure	7.2	2.6
Less Retained Income	–	–
Total	**118.2**	**106.1**
of which:		
DEL Resource	111.0	103.5
DEL Capital	7.2	2.6
AME		

CHAPTER 14
Local Government

PORTFOLIO RESPONSIBILITIES

Local government plays a very important role, alongside national government, in the governance of Scotland. Local authorities plan and deliver vital services and respond to the needs of Scotland's diverse local communities. They also contribute to the delivery of increased sustainable economic growth, playing a key role in the five Strategic Priorities set out in the Government Economic Strategy. The Concordat signed between local government and the Scottish Government in November 2007 established a new relationship between the Convention of Scottish Local Authorities (COSLA) (on behalf of local government) and the Scottish Government, based on mutual respect and partnership. This relationship has provided the context in which a further agreement has been reached between the Scottish Government and COSLA's Leadership covering 2011-12.

High quality local authority services make a hugely positive impact on our everyday lives. Local authorities also lead partnerships within their communities, alongside other local agencies, to deliver outcomes that matter for local people. These include:

- successful local economies;
- improved outcomes for children, including through investment in early intervention and early years;
- more employment opportunities;
- improved learning and teaching;
- protection for vulnerable people;
- reduced levels of poverty;
- better health; and
- a clean, safe and pleasant living environment.

These ambitions have been embodied in Single Outcome Agreements (SOAs) between the Scottish Government and each Community Planning Partnership in Scotland. These Partnerships involve local authorities, NHSScotland, police forces, Fire and Rescue Services, enterprise agencies and transport partnerships, and they may also involve representatives from other bodies such as the further and higher education sector, local businesses and the third sector. The Single Outcome Agreements reflect local circumstances and at the same time contribute to achieving the Scottish Government's Purpose and our National Outcomes.

As chapter 2 makes clear, co-operation between the Scottish Government and local authorities is essential to delivering excellent public services in Scotland. We are committed to the principle of partnership working, and so are our local government partners. This leads to better policy making, better service delivery, less bureaucracy and faster resolution of any problems that arise. Good joint working helps everyone to concentrate on meeting the needs of people in Scotland who use public services.

It also means the public sector in Scotland is better prepared to deal with much reduced levels of public funding in the years ahead. Clear benefits have already flowed from the relationship that has been established and all of us are committed to building on those into the future.

SUPPORTING RECOVERY AND INCREASING SUSTAINABLE ECONOMIC GROWTH

In 2011-12, the Scottish Government will provide a total baseline package of resource and capital funding of £11.548 billion in support of local authorities' services. This figure includes income from business rates. However, it does not include the council tax which authorities collect themselves nor funding provided directly from the UK Government (such as council tax benefit) nor funding from the European Union. The package will be focused on growing the Scottish economy and protecting frontline services. It consists of:

- a general revenue grant, which supports all services;
- non-domestic rate income, collected by local authorities, paid into a central pool; this is then redistributed along with the general revenue grant to each local authority, using a formula that takes account of relative need;
- a general capital grant to support local authorities' spending on infrastructure and other projects; and
- a small number of specific revenue and capital grants.

The Scottish Government guarantees the combined general revenue grant and distributable non-domestic rate income figure, approved by Parliament, to each local authority. A drop in non-domestic rate income is compensated for by an increase in general revenue grant and vice versa.

The delivery of services is the responsibility of individual local authorities who will do all they can to protect and sustain these. In so doing, they will have regard to the requirements of the Climate Change (Scotland) Act 2009 and the provisions of the Equality Act 2010. Actions that local authorities take will also continue to help grow the economy. These will be delivered in partnership with the Scottish Government and other agencies, and by undertaking activities at local level. These activities include their planning function; economic strategy and policy; support for business start up and growth; export support programmes; place regeneration and skills and training related to employment or employability. Some of these actions are provided through the Business Gateway and through councils' support to existing and new Business Improvement Districts within their areas. Local authorities themselves provide a major contribution directly to local economic wealth in the local supply chains through their purchases of goods and services.

Local government continues to be active in supporting the move to a low carbon economy and in combating climate change. Scottish councils have demonstrated consistent commitment and political leadership on climate change following the signing of Scotland's Climate Change Declaration in 2007-08 and the inclusion of local climate change outcomes in the Single Outcome Agreements agreed in 2009. Local authorities will continue to work towards the delivery of the new statutory obligations of the Climate Change (Scotland) Act 2009 and to provide leadership to wider civic society as Scotland moves to a low carbon economy.

It is recognised that these statutory commitments to take action on climate change come at a time of significantly constrained public spending. Local government has a range of competing spending priorities to consider. However, local government and the Scottish Government are committed to working together to reduce emissions as far as possible through our overall spending, and to build upon the strong foundations already established at national and local level to respond to the challenges and opportunities of climate change.

Local government also makes a vital contribution to a more equal Scotland. Protecting the most vulnerable in our society will be more difficult because of the spending cuts, but local government and we agree that decisions needed to balance the budget must take full account of their needs. The Scottish Government will work collaboratively with local government towards outcome-focused public services, using the framework provided by the Equality Act 2010. This helps public bodies to recognise and reduce negative impacts on vulnerable groups and also helps to promote equality by ensuring that services are responsive to local people's needs.

OUR NATIONAL OUTCOMES

Local government remains committed to, and also contributes directly to, the delivery of all 15 national outcomes, particularly by implementing Single Outcome Agreements through Community Planning Partnerships so that national objectives are met in a way that takes account of distinctive local circumstances and priorities.

The Scottish Government's funding support to local authorities in 2011-12 will help to achieve the overall aims of supporting the economy and protecting front-line services. Key front-line services include school and pre-school education, social services, law and order, environmental services and roads and transport.

The Scottish Government accepts that local authorities will need to prioritise their funding and that there may be some funding pressures which cannot be met. Where this happens, the Scottish Government and COSLA will jointly address the issues, including reviewing wider financial pressures.

OUR ACHIEVEMENTS

A lot has been achieved as a result of the partnership with local government established in 2007. The Scottish Government, working with local government, aims to build on that progress in 2011-12.

- Following decisions by all 32 councils to freeze council tax rates in each of 2008-09, 2009-10 and 2010-11 at 2007-08 levels, the Scottish Government provided councils with a total of £70 million in each year, representing an annual uplift in their council tax income base of over 3 per cent. As a result, over the three years to 2010-11, the Scottish Government has provided a total of £420 million to support the council tax freeze.

- Single Outcome Agreements (SOAs) based on the agreed set of national outcomes and local outcomes to take account of local priorities have been agreed and published for every local authority and their community planning partners since 2008-09. Two rounds of reports on progress with the SOAs have been published, in 2009 and in 2010.

- The Small Business Bonus Scheme, which was fully implemented in 2009-10, has provided much needed financial assistance to Scotland's small businesses to help them through the tough economic times. It was further extended in 2010-11. The latest full year figures show that 74,000 business properties benefited under the Scheme to the tune of £117 million in total, with the average saving per property worth around £1,400; 63,000 properties paid no rates at all.

- The value of ring-fenced grants has been substantially reduced from £2.7 billion in 2007-08 to £1.1 billion in 2010-11. Excluding the police ring-fenced funding, the total in 2010-11 was £0.4 billion. This has resulted in considerable savings in administrative costs both for the Scottish Government and local government and has provided local authorities with increased flexibility in how they allocate their total resources.

As well as regular meetings and contact at official level between the Scottish Government and COSLA (and councils), members of the Cabinet regularly meet COSLA's Leadership to monitor progress and discuss emerging issues. The full Scottish Cabinet formally meets COSLA's Leadership at least once a year.

MANAGING PRESSURES AND CUTS IN PUBLIC EXPENDITURE

The scale of the total reduction in the Scottish Government budget for 2011-12 has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios. Within the Local Government portfolio, the year on year cut in cash terms on resource budgets is £286.9 million and on capital is £151.4 million. Key pressures falling on local government funded from within the portfolio in 2011-12 include general inflationary pressures and demographic changes including an increasing demand for social services (including free personal care) as a result of the increasing elderly population. Other funding pressures include £7.8 million resulting from the introduction of the Flood Management Act and around £20 million from the ongoing commitment to the Schools PPP projects.

Taking into account these pressures we have jointly considered with COSLA all areas of expenditure within the Local Government portfolio, including the scope for efficiencies and the contribution the overall local government funding package makes to sustainable economic growth and the delivery of portfolio priorities. The overwhelming majority (86 per cent) of the funding package is delivered through the revenue block grant. It is for individual local authorities to allocate their total available resources, including locally raised income from the council tax and fees and charges, on the basis of local needs. This is subject to meeting statutory obligations and the jointly agreed set of national and local outcomes, which guide prioritisation at a local level.

In order to accommodate the reduction in the overall funding package and the increased inflation and demand pressures, local government will be faced with a number of very difficult decisions.

Local authorities do, however, have a statutory duty to bring forward a balanced budget for the settlement provided and they will do so by a combination of actions. These may well include overall reductions in staffing levels and the level of pay within the workforce, the scope for increased efficiencies including service redesign and the possibility of improving on their ability to generate additional income.

OUR PRIORITIES

In 2011-12 we will make available to local government a total funding package amounting to £11.548 billion. This total includes the Government's estimate of non domestic rate income to be collected during 2011-12. To access the full amount of this package, each local authority will require to agree formally to work with the Scottish Government to deliver the full list of commitments set out below which have been jointly agreed with COSLA's Leadership. How the financial support is to be distributed to authorities will be the subject of consultation with COSLA and set out in a Scottish Government Circular in December.

This is a very good deal for local government. Under our proposed settlement, the resource support available from the Scottish Government will fall by only 2.6 per cent compared to 2010-11. The average fall in resource budgets for non-protected areas of the Scottish Government in 2011-12 is 6.4 per cent.

The total funding amount also maintains local government's share of the Scottish Budget between 2010-11 and 2011-12 at 34.5 per cent (at the point of agreement with COSLA's Leadership on this funding package). Over the period 2007-08 to 2010-11, local government's share rose steadily from a low point in 2007-08 of 33.4 per cent. Previously, it had fallen steadily from a high of 36.7 per cent in 2003-04.

Under the agreement reached with COSLA's Leadership and, subject to the agreement of individual councils to the terms of the agreement, the Scottish Government and local government will each do what is required to ensure delivery of key government policies and programmes including commitments in the following areas:

National outcomes

- Local authorities remain committed to the delivery of the current Single Outcome Agreements.

Council tax

- As part of the overall funding package, the Scottish Government will make available £70 million in 2011-12 to those councils which freeze their council tax rates at 2007-08 levels for a fourth consecutive year. In the light of current continuing tough economic circumstances, extending the council tax freeze in 2011-12 will provide further protection to hard pressed households across Scotland, many of whom have been affected by the economic downturn and UK welfare reform.

Police

- The total number of police officers will be maintained at 1,000 more than were in post before this Government came into office (i.e. at 17,234) throughout 2011-12. As a result, police grant will be subject to a loss of resources no greater than that for the remainder of local government in 2011-12. The number of police officers has an impact on crime. It is clear that less crime makes our communities safer and levels of reported crime are now at a 32 year low.

Education

- Maintain the commitment to delivery of the outcomes for children and young people as specified in the Single Outcome Agreements and to implementation of the Early Years Framework and *Curriculum for Excellence*;

- Maintain the pupil-teacher ratio in P1-P3, the crucial early years of primary school;

- Protect the number of teacher posts as far as possible in order to secure:
    - places for all probationers who require a place under the induction scheme in August 2011;

- sufficient teaching posts available for all probationers who achieve Standard for Full Registration in summer 2011 (i.e. successfully complete their probation); and
- a reduction in the total number of unemployed teachers.

● Work jointly with the teacher unions – through the established national negotiating machinery – to find a way forward on teachers' pay and related issues that will ensure delivery of objectives in this area and control total pay costs. This will include an independently chaired review of the McCrone Agreement, to report and control total pay costs by June 2011.

Social care

● In recognition of the wider pressures on the health and social care system, the Scottish Government has allocated £70 million for a new change fund in 2011-12. The fund, which will be held by NHS Boards and so be additional to the local government settlement amount, is intended to enable the redesign of services that support shifting the balance of care towards primary and community care. Through a partnership governance arrangement, plans are to be agreed locally between NHS Boards, local government and the independent sector and the detailed guidance in relation to these plans is currently being developed in partnership. As set out in chapter 8, the aim is to optimise people's independence and wellbeing, in their own homes or in a homely setting. By working better together, cutting out duplication and overlap, and by ensuring that older people can remain independent in their own homes, NHS Boards and local authorities will be able to focus on reducing unnecessary hospital admissions and speeding up discharge after a crisis.

● Local government will continue to deliver the shared Scottish Government/COSLA commitments on Free Personal Care, for which payments will be uprated in 2011-12.

● Local government will continue to work with the Scottish Government towards implementation of the Carers and Young Carers Strategy at local level, including the maintenance of an extra 10,000 weeks respite provision.

Spending plans for 2011-12 are set out below.

Table 14.01 Detailed Spending Plans (Level 3)

	2010-11 Budget £m	2011-12 Draft Budget £m
General Resource Grants	8,742.3	8,354.7
Non-Domestic Rates (NDR) and other AME Grants	2,076.3	2,179.5
Support for Capital	843.2	691.8
Total Local Government portfolio	**11,661.8**	**11,226.0**
Other Local Government*	324.5	322.0
Total Support for local authorities	**11,986.3**	**11,548.0**
of which:		
DEL Resource	9,066.8	8,676.7
DEL Capital	843.2	691.8
AME	2,076.3	2,179.5

* Held within other portfolio chapters

Table 14.02 Detailed Spending Plans (Level 3 real terms) at 2010-11 prices

	2010-11 Budget £m	2011-12 Draft Budget £m
General Resource Grants	8,742.3	8,198.9
Non-Domestic Rates (NDR) and other AME Grants	2,076.3	2,138.9
Support for Capital	843.2	678.9
Total Local Government portfolio	11,661.8	11,016.7
Other Local Government*	324.5	316.0
Total Support for local authorities	**11,986.3**	**11,332.7**
of which:		
DEL Resource	9,066.8	8,514.9
DEL Capital	843.2	678.9
AME	2,076.3	2,138.9

* Held within other portfolio chapters

Local Government's Spending Plans 2010-11

For information purposes only, Scotland's local authorities have budgeted to spend the total resources available to them from the Scottish Government's funding and income raised locally through the council tax on services as set out in Table 14.03.

Table 14.03 Local Government Revenue Expenditure plans 2010-11

	2010-11 Budget £m
Education	4,803.2
Social Work	2,844.1
Police	968.4
Fire	275.6
Roads and Transport	494.2
Environmental Services	695.0
Planning and Development Services	320.5
Culture and Related Services	634.1
Emergency Planning	5.0
District Courts	0.5
Administration of Housing and Council Tax Benefits	28.0
Private Sector Housing Renewal	21.5
Housing Benefits	1.8
Non Housing Revenue Account Housing	42.6
Homelessness	73.5
Housing Support Services	273.9
Welfare Services	4.1
Licensing	1.8
Elections	10.1
General Grants, Bequests and Donations	9.5
Registration of Births, Marriages and Deaths	7.9
Local Tax Collection (including Non Domestic Rates)	40.4
Council Tax and Non Domestic Lands Valuation	32.8
Non-Road Lighting	11.5
Corporate and Democratic Core	188.3
Statutory Repayment of Debt	1,021.5
Equal Pay/Single Status (prior year cost provision only)	14.7
Other Miscellaneous Services	40.3
Non Distributed Costs	71.9
Total Budgeted 2010-11 Net Revenue Expenditure	**12,936.7**

In addition, Scotland's local authorities are planning a capital expenditure programme for 2010-11 as set out in Table 14.04. The capital resources available to them to fund this programme come from grants from the Scottish Government and its agencies, supported and self financed borrowing, capital receipts from the sale of assets and other sources.

Table 14.04 Local Government Capital Expenditure plans 2010-11

	2010-11 Budget £m
Police	33.0
Fire	32.8
Non Housing Revenue Account Housing	188.8
Roads and Transport	510.8
Education	632.1
Social Work	95.8
Environmental Services	158.2
Culture and Related Services	261.4
Planning and Economic Development	168.2
Trading Services	14.5
Central Services	190.4
Other Services	46.8
Capitalisation of Equal Pay	9.7
Capital Grants to Community Groups	1.4
Total Estimated 2010-11 Capital Expenditure	**2,344.1**

SECTION 3
ANNEXES

Annex A

Table 1 Departmental Expenditure Limits

	2010-11	2011-12
	Budget	Plans
	£m	£m
Office of the First Minister	279.8	255.1
Finance & Sustainable Growth	2,473.5	2,219.2
Health	11,081.9	11,272.4
Other Health & Wellbeing portfolio	580.5	486.0
Total Health and Wellbeing	11,662.4	11,758.4
Education and Lifelong Learning	2,715.0	2,481.1
Justice*	1,435.0	1,267.5
Rural Affairs & the Environment	594.4	539.4
Administration	262.0	236.0
Crown Office & Procurator Fiscal	118.2	108.2
Local Government	9,585.5	9,046.5
Scottish Parliament and Audit Scotland	98.7	95.9
Total	**29,224.5**	**28,007.3**

*includes Police & Fire pensions

Notes

1. Reduction in 2010-11 DEL mainly due to removal of cost of capital (£500 million) as part of the UK Government's Clear Line of Sight initiative.

Annex B

Table 2 Annually Managed Expenditure

	2010-11	2011-12
	Budget	Plans
	£m	£m
Office of the First Minister	-	-
Finance & Sustainable Growth	3,230.4	3,230.4
Health and Wellbeing	100.0	100.0
Education and Lifelong Learning	106.5	102.5
Justice	-	-
Rural Affairs & the Environment	-	-
Administration	-	-
Crown Office & Procurator Fiscal	-	-
Local Government	2,076.3	2,179.5
Scottish Parliament and Audit Scotland	-	-
Total	**5,513.2**	**5,612.4**

Annex C

Table 3 Departmental Expenditure Limits: Capital/Resource Split

Level 2	2010-11		2011-12	
	Capital	Resource	Capital	Resource
	£m	£m	£m	£m
Europe and External Affairs	–	16.7	–	16.1
Culture and Gaelic	24.6	169.6	16.6	158.3
Corporate and Central Budgets	–	9.5	–	8.2
Historic Scotland	1.0	48.3	2.1	44.9
National Archives of Scotland	2.7	7.4	1.8	7.1
Total First Minister	**28.3**	**251.5**	**20.5**	**234.6**
Scottish Public Pensions Agency	1.1	10.7	0.5	10.7
Committees commissions & other expenditure	5.8	25.6	3.0	15.4
Rail Services in Scotland	400.7	442.1	359.0	420.4
Concessionary Fares and Bus Services	2.1	253.0	9.5	245.8
Other Transport Policy Projects and Agency	26.5	49.8	23.3	43.8
Motorways and Trunk Roads	313.1	231.0	345.0	212.6
Ferry Services in Scotland	14.8	87.1	8.1	100.9
Air Services in Scotland	7.0	28.1	10.0	25.3
European Structural Funds -local authorities 2007-2013	–	–	–	–
European Structural Funds -central government 2007-2013	–	–	–	–
Planning	0.6	4.7	0.2	3.9
Enterprise Energy & Tourism	87.0	363.3	95.6	328.2
Scottish Water and Climate Change	150.0	(88.0)	–	(88.0)
Third Sector and Social Economy	–	35.5	–	27.0
General Register Office of Scotland	0.8	21.1	0.5	18.5
Total Finance & Sustainable Growth	**1,009.5**	**1,464.0**	**854.7**	**1,364.5**
Health	577.7	10 504.2	488.2	10 771.6
Housing and Regeneration	321.0	167.0	239.9	153.9
Equalities and Social Inclusion	–	27.5	–	27.5
Sport	16.1	38.0	15.9	50.5
Food Standards Agency	0.1	10.8	–	10.9
Total Health and Wellbeing	**914.9**	**10,747.5**	**744.0**	**11,014.4**
Learning	11.2	114.8	64.8	92.1
Children Young People & Social Care	7.1	89.8	5.9	89.5
Student Awards Agency for Scotland	0.4	427.7	0.4	413.7
Scottish Further & Higher Education Funding Council	209.2	1 576.9	91.0	1 479.3
Other ELL (ELL)	–	277.9	–	244.4
Total Education & Lifelong Learning	**227.9**	**2,487.1**	**162.1**	**2,319.0**

Table 3 Departmental Expenditure Limits: Capital/Resource Split (continued)

Level 2	2010-11		2011-12	
	Capital	Resource	Capital	Resource
	£m	£m	£m	£m
Community Justice Services	–	30.1	–	30.3
Courts Judiciary & Tribunal support	–	51.1	–	50.0
Criminal Injuries Compensation	–	28.1	–	25.5
Legal Aid	1.0	166.9	0.2	153.9
Miscellaneous	–	18.4	–	18.2
Police Central Government	20.6	216.4	12.5	197.9
Drugs and Community Safety	–	36.0	–	35.3
Scottish Resilence	0.3	20.4	0.3	18.0
Accountant in Bankruptcy	–	5.2	–	3.2
Police and Fire Pensions	–	273.5	–	273.5
Scottish Court Service	20.3	73.2	10.4	69.5
Scottish Prison Service	136.8	333.1	47.5	318.0
Office of the Scottish Charity Regulator	–	3.6	–	3.3
Total Justice	**179.0**	**1,256.0**	**70.9**	**1,196.6**
EU Support and Related Services	38.9	117.0	29.9	108.3
Research Analysis & Other Services	9.1	86.6	3.3	78.7
Marine & Fisheries	7.2	59.5	3.6	57.7
Environmental and Rural Services	8.7	187.4	9.6	176.8
Forestry Commission Scotland	4.4	50.7	2.0	45.7
Forest Enterprise Scotland	1.3	23.6	1.2	22.6
Total Rural Affairs and the Environment	**69.6**	**524.8**	**49.6**	**489.8**
Total Administration	**10.0**	**252.0**	**7.5**	**228.5**
Total Crown Office & Procurator Fiscal	**7.2**	**111.0**	**2.7**	**105.5**
Total Local Government	**843.2**	**8,742.3**	**691.8**	**8,354.7**
Total Scottish Parliament & Audit	**3.3**	**95.4**	**2.8**	**93.1**
Total DEL	**3,292.9**	**25,931.6**	**2,606.6**	**25,400.7**

Annex D

Table 4 Comparison 2005-06 to 2011-12

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	Outturn	Outturn	Outturn	Outturn	Outturn[1]	Budget	Plans
	£m	£m	£m	£m	£m	£m	£m
Europe and External Affairs	8.8	9.1	9.9	11.9	10.0	16.7	16.1
Culture and Gaelic	137.9	158.3	187.8	178.6	187.7	194.2	174.9
Corporate and Central Budgets	13.5	12.8	12.1	13.9	13.2	9.5	8.2
Historic Scotland	41.3	41.7	52.2	47.4	48.8	49.3	47.0
National Archives of Scotland	8.3	12.8	8.4	12.2	9.6	10.1	8.9
Total First Minister	**209.8**	**234.6**	**270.4**	**264.0**	**269.3**	**279.8**	**255.1**
Scottish Public Pensions Agency	1 781.9	1 583.0	2 187.3	2 535.0	2 390.7	3 242.2	3 241.6
Committees commissions & other expenditure	6.1	17.6	38.3	9.7	16.8	31.4	18.4
Rail Services in Scotland	188.3	653.0	678.0	702.9	638.9	842.8	779.4
Concessionary Fares and Bus Services	92.4	226.9	241.0	257.0	264.8	255.1	255.3
Other Transport Policy Projects and Agency	84.7	224.8	332.6	180.9	202.0	76.3	67.1
Motorways and Trunk Roads	314.5	477.1	417.9	498.9	646.3	544.1	557.6
Ferry Services in Scotland	76.8	90.0	84.6	92.9	103.9	101.9	109.0
Air Services in Scotland	59.8	28.3	40.3	36.2	36.0	35.1	35.3
European Structural Funds -local authorities 2000-2006	46.0	–	–	–	–	–	–
European Structural Funds -central government 2000-2006	118.1	–	–	–	–	–	–
European Structural Funds -local authorities 2007-2013	–	–	–	–	–	–	–
European Structural Funds -central government 2007-2013	–	–	–	–	–	–	–
Planning	1.5	3.2	5.0	9.1	7.3	5.3	4.1
Enterprise Energy & Tourism	683.5	676.9	789.4	502.3	545.1	450.3	423.8
Scottish Water and Climate Change	110.8	(58.7)	173.3	145.9	100.6	62.0	(88.0)
Third Sector and Social Economy	17.9	24.8	19.9	19.3	33.9	35.5	27.0
General Register Office of Scotland	7.9	7.5	12.5	15.3	14.0	21.9	19.0
Registers of Scotland	–	–	–	(4.3)	–	–	–
Total Finance & Sustainable Growth	**3,590.1**	**3,954.2**	**5,020.1**	**5,001.1**	**5,000.3**	**5,703.9**	**5,449.6**
Health	8 758.3	9 244.2	10 021.2	10 479.8	10 952.8	11 181.9	11 359.8
Housing and Regeneration	423.7	516.9	615.1	486.3	692.0	488.0	393.8
Equalities and Social Inclusion	18.1	20.9	19.3	22.3	22.9	27.5	27.5
Sport	25.9	31.9	50.2	45.5	55.5	54.1	66.4
Food Standards Agency	10.5	9.8	9.7	10.3	10.2	10.9	10.9
Total Health and Wellbeing	**9,236.5**	**9,823.8**	**10,715.5**	**11,044.2**	**11,733.4**	**11,762.4**	**11,858.4**

Learning	123.6	136.4	159.2	98.1	98.5	126.0	156.9
Children Young People & Social Care	101.7	163.0	145.6	98.5	107.0	96.9	95.4
Student Awards Agency for Scotland	276.3	414.3	428.5	387.9	450.7	534.6	516.6
Scottish Higher Education Funding Council	868.6	-	–	–	–	–	–
Scottish Further Education Funding Council	521.5	-	–	–	–	–	–
Scottish Further & Higher Education Funding Council	–	1 714.3	1 806.9	1 730.4	1 871.1	1 786.1	1 570.3
Other ELL (ELL)	46.0	61.4	66.6	247.3	260.1	277.9	244.4
Total Education & Lifelong Learning	**1,937.7**	**2,489.4**	**2,606.8**	**2,562.2**	**2,787.4**	**2,821.5**	**2,583.6**
Student Loans - net new lending (outside TME)	150.4	-		-	4.5	4.5	4.5
Community Justice Services	90.5	93.4	103.3	11.4	26.6	30.1	30.3
Courts Group	40.1	43.8	41.6	41.8	53.2	51.1	50.0
Criminal Injuries Compensation	21.1	22.4	21.0	29.4	28.4	28.1	25.5
Fire Central Government	9.3	10.4	13.9	-	-	-	-
Legal Aid	158.8	162.3	173.2	160.6	163.5	167.9	154.1
Misceallaneous	9.5	15.6	21.1	20.8	16.2	18.4	18.2
Police Central Government	155.7	105.9	147.1	238.2	265.0	237.0	210.4
Drugs and Community Safety	–	-	9.7	5.7	6.7	36.0	35.3
Scottish Resilience	-	-		17.4	44.5	20.7	18.3
Accountant in Bankruptcy	7.5	7.2	6.9	4.8	4.3	5.2	3.2
Police and Fire Pensions	-	-	-	-	-	273.5	273.5
Scottish Court Service	58.4	62.1	87.0	85.2	87.5	93.5	79.9
Scottish Prison Service	333.6	346.5	326.6	409.2	356.7	469.9	365.5
Office of the Scottish Charity Regulator	–	2.8	3.0	3.0	3.0	3.6	3.3
Total Justice	**884.5**	**872.4**	**954.4**	**1,027.5**	**1,055.6**	**1,435.0**	**1,267.5**
EU Support and Related Services	546.4	50.6	112.6	130.3	171.9	155.9	138.2
Research Analysis & Other Services	102.8	119.4	533.7	85.7	77.6	95.7	82.0
Marine & Fisheries	56.2	77.9	60.9	63.8	56.4	66.7	61.3
Natural Heritage & Rural Services	83.2	104.2	98.9	104.1	93.6	-	-
Environment Protection Sustainable Development & Climate Change	66.2	109.7	120.8	68.1	90.1	-	-
Water Quality	7.8	2.1	3.9	2.9	2.7	-	-
Environmental and Rural services	-	-	-	-	-	196.1	186.4
Forestry Commission	57.5	70.7	72.3	55.5	51.7	80.0	71.5
Total Rural Affairs and the Environment	**920.1**	**534.6**	**1,003.1**	**510.4**	**544.0**	**594.4**	**539.4**
Administration	257.4	247.8	261.5	249.4	276.8	262.0	236.0
Total Administration	**257.4**	**247.8**	**261.5**	**249.4**	**276.8**	**262.0**	**236.0**
Total Crown Office & Procurator Fiscal	91.0	101.4	95.8	107.4	118.3	118.2	108.2
Total Crown Office & Procurator Fiscal	**91.0**	**101.4**	**95.8**	**107.4**	**118.3**	**118.2**	**108.2**
Local Government	9 856.8	10 110.8	10 482.0	11 168.3	11 804.3	11 661.8	11 226.0
Total Local Government	**9,856.8**	**10,110.8**	**10,482.0**	**11,168.3**	**11,804.3**	**11,661.8**	**11,226.0**
Police Loan Charges	14.5	13.0	11.3	9.2	14.7	14.7	14.7
Total Scottish Government Budget	**26,984.0**	**28,369.1**	**31,409.6**	**31,934.5**	**33,589.4**	**34,639.0**	**33,523.8**

Notes 1. Outturn to be confirmed with HM Treasury as per its normal timetable. 2. For comparison purposes, in line with 2010-11, cost of capital has been removed from earlier year's outturn.

Annex E

Table 5 Estimated payments under PPP Contracts

	2010-11	2011-12
	£m	£m
Office of the First Minister	–	–
Finance and Sustainable Growth[1]	314.0	336.0
Education and Lifelong Learning	304.0	320.0
Health and Wellbeing	175.0	195.0
Justice	45.0	46.0
Rural Affairs and the Environment	–	–
Administration	–	–
Total	**838.0**	**897.0**

Note

1. F&SG figure comprises PPP projects undertaken by Local Authorities in the Level Playing Field Support funding round and so includes waste management and some schools PPP projects. Most schools PPP projects are shown under Education and Lifelong Learning.

This table shows the total of the unitary charges of all the PPP projects that are operational in each of the years and represents the total amount that public sector bodies will pay or will expect to pay in each year for the PPP. The unitary charge covers all the integrated services the PPP consortium will provide for the length of the contract and includes the upfront construction cost, lifecycle maintenance and facilities management.

Annex F Glossary

Aggregate External Finance (AEF)

Aggregate External Finance is the name given to the total funding which is centrally distributed to local government. It includes the Revenue Support Grant, specific grants to local government and income from non-domestic rates.

Annually Managed Expenditure (AME)

Annually Managed Expenditure is spending that does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable than expenditure in DEL and is not subject to multi-year limits. It is set each year and contains those elements of expenditure that are not readily predictable, for example, NHS and Teachers' pensions.

Audit Scotland

Audit Scotland was set up in April 2000 to audit the accounts of the Scottish Government and other public sector bodies in Scotland, and to ensure that public funds are used properly, efficiently and effectively.

Barnett Formula

The Barnett Formula allocates to Scotland a population share of changes in comparable spending programmes in England. For comparable expenditure, Scotland gets exactly the same pounds per head increase as in England. Comparability is the extent to which services delivered by Whitehall departments correspond to services delivered by the devolved administrations. Barnett only applies to expenditure classified within Departmental Expenditure Limits – about 85 per cent of Scotland's total budget.

Best Value

Best Value is about continuous improvement, seeking to change what we do in a way that transforms and sustains the delivery of quality public services in Scotland.

Cash Terms

Figures expressed in cash, or nominal, terms are not adjusted for the effect of inflation (see Real Terms).

Common Agricultural Policy (CAP)

The CAP was set up under the European Union Treaties to increase agricultural production, provide a fair standard of living for farmers and make sure that food is available at reasonable prices. The CAP accounts for more than 40 percent of EU spending.

Cross-border public authorities

The Scotland Act 1998 allows for cross-border public authorities to be specified by Order in Council. They are public bodies and agencies government department, office or office-holder which have functions exercisable in or as regards Scotland that do not relate to reserved matters (GB/UK bodies which deal only with reserved matters in Scotland cannot be cross-border public authorities). Examples include the Forestry Commission, the National Criminal Intelligence Service, British Waterways Board and the Scottish Consumer Council.

Departmental Expenditure Limit (DEL)

The Departmental Expenditure Limit (DEL) forms the majority of the Scottish Government's budget.

Depreciation

A depreciation charge is a non-cash item which measures the wearing out, consumption or other reduction in useful life of a fixed asset.

End Year Flexibility (EYF)

End Year Flexibility has been the mechanism that allows the Scottish Government to carry forward any DEL underspends for use in future financial years.

European Structural Funds

European Structural Funds are the second largest item of EU spending and include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF). They are used to tackle regional disparities and support regional development through actions including developing infrastructure and telecommunications, developing human resources and supporting research and development. The Scottish Government is the 'managing authority' for the Funds in Scotland.

Executive Agency

Semi-autonomous executive agencies operate within a framework set by the responsible Minister, which specifies policies, objectives, and available resources. All agencies are set annual performance targets by their Minister, who in turn accounts to Parliament for the work of the agency.

Gross Domestic Product (GDP)

The Gross Domestic Product is a measure of the total economic activity in a region. References to growth in the economy are quoting growth in GDP. It is a measure of the total amount of goods and services produced within a year in a country. In the UK, three different approaches (measuring production, income or expenditure) are used in the generation of a single GDP estimate.

Local Government

All 32 local authorities in Scotland.

National Renewables Infrastructure Plan (NRIP)

The National Renewables Infrastructure Plan was published in February 2010. It was drawn up by Scottish Enterprise with support from Highlands and Islands Enterprise and outlines how Scotland can capitalise on its offshore wind and tidal resources to develop a sustainable and long term renewables industry for the future.

Non-Departmental Public Body (NDPB)

A non-departmental public body that operates independently of Ministers, although Ministers have ultimate responsibility. There are two main types of NDPB: executive NDPBs, which carry out administrative, regulatory, executive or commercial functions; and advisory NDPBs, which provide independent, expert advice to Ministers.

Non-Profit Distributing (NPD) model

The Non-Profit Distributing model is a system for funding capital infrastructure projects. It is 100 per cent debt-financed and maximises value for money and allows shareholder transparency.

Office for Budget Responsibility (OBR)

The Office for Budget Responsibility (OBR) was formed in May 2010 to make an independent assessment of the public finances and the economy for each UK Budget and Pre-Budget Report.

Prudential Regime

The prudential regime for local authority capital expenditure took full effect on 1 April 2004. It allows local authorities to make their own decisions about how much to borrow or spend, but they are under a duty to determine how much they can afford and to keep that under review.

Q1, Q2

Quarter one, quarter two, etc. are time periods for government and other statistics. They refer to three month periods (a quarter of a year).

Real Terms

Any price or value adjusted for the effect of inflation.

Report on Policies and Proposals (RPP)

The Report on Policies and Proposals published by the Scottish Government on 17 November 2010, sets out how Scotland will meet its emissions targets under The Climate Change (Scotland) Act 2009.

Scottish Futures Trust (SFT)

The Scottish Futures Trust is the independent company established by the Scottish Government to deliver value for money across public infrastructure development.

Single Outcome Agreement (SOA)

The Concordat between the Scottish Government and COSLA in November 2007 required each local authority and its Community Planning Partners to develop a Single Outcome Agreement. They are intended to set out outcomes at a local level which local public bodies will work towards in order to contribute to the National Outcomes set by government. They are characterised by streamlined external scrutiny, effective performance management and an outcomes focus.

Strategic Transport Projects Review (STPR)

The Strategic Transport Projects Review (STPR) supports the process of prioritisation applied by Scottish Ministers when allocating the capital budget across all sectors and when determining the level of infrastructure investment that can be supported from revenue finance (e.g. public private partnerships (PPP/PFI), non-profit distributing, and borrowing against regulated asset base (RAB) for investment in rail infrastructure.

Total Managed Expenditure (TME)

Total Managed Expenditure comprises the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME).

The Scottish Government

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www.scotland.gov.uk

APS Group Scotland
DPPAS10935 (11/10)

To: Grant Robertson [redacted]
From: Donna Stevenson [redacted]
Sent: Tue 08/02/2011 2:53:26 PM (UTC)
Subject: RE: RHSC - Reference Design
RHSC DCN Update extract Refernce Design.doc

Grant

Further to my email. NHS Lothian have provided more information as to what it envisages in relation to its reference design (in a draft Committee paper upon which we were asked to comment). The relevant extracts are attached.

As you see the degree of prescription is greater than we have advised, though NHSL is saying the scope is to be finalised and Mike Baxter has issues on cost and timescale. There is a project specific issue concerning the interfaces with the existing RIE and the RIE PFI contract, which I will explain when we meet.

Can we please have a discussion over the next couple of days as to how we take this forward? If that is ok then I will send a meeting request.
Thanks

Donna

From: Donna Stevenson
Sent: 03 February 2011 09:52
To: Peter Reekie; Colin Proctor; Grant Robertson
Subject: FW: RHSC - Note of call with J Cole

Hi
Note of Mike Baxter's call with John Cole re design development; seems that they are intending to take a more advanced design approach than we have been envisaging.

Regards

Donna
Donna Stevenson
Associate Director
Scottish Futures Trust

Direct [redacted]
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Address 11-15 Thistle Street, Edinburgh, EH2 1DF. Main [redacted] Fax [redacted]
www.scottishfuturestrust.org.uk<http://www.scottishfuturestrust.org.uk>

[cid:image001.jpg@01CBC388.083F8420]

From: [redacted]
Sent: 03 February 2011 09:20
To: [redacted]
Cc: Donna Stevenson
Subject: RHSC - Note of call with J Cole

FYI
<<F3564502#2.doc>>

Mike Baxter
Deputy Director (Capital and Facilities)
Scottish Government Health Directorates
Tel [redacted]
Mob [redacted]

Date:	Monday, February 11 2013 04:48 PM
Subject:	RE: RHSC + DCN | Issue of Procurement documents for review
From:	Donna Stevenson
To:	Currie, Brian [redacted]
CC:	Cosens, Sorrel [redacted]; Graham, Iain [redacted];
Attachments:	RHSC_DCN_Little_France_ITPD_Volume_1_Rev L 1 CLEAN 010213with SFT comments 20130211.docx

Brian

Further the working group meeting on Thursday, which I appreciate you were to able to attend, I attach Volume 1 of the draft ITPD dated 1 February 2013 on which I have noted my comments on the body of the document. A number of issues were made in the previous comments and are not reflected in the updated draft.

As with my comments on the previous draft I have focussed on the issues which are of particular interest to SFT, rather than providing you with a detailed review as your advisers will have done.
We would expect that once the documentation is finalised and as for the purposes of the KSR, you will be able to confirm to us that you have taken advice from your advisers as to the appropriateness and effectiveness of the documentation and that your advisers provided you with confirmation that it complies with the all procurement requirements and that they have not advised the Board of any areas of potential procurement challenge.

I discussed a number of issues at the meeting yesterday and I would highlight the following:

1. **Programme** : I note the confirmation that this accords with the IM.
2. **Reference Design**: I raised again yesterday the issue which I had highlighted in my email of 25 October when I commented on the original draft, namely:

"..it would be useful to understand where the reformulation of the options available to bidders even in relation to items which are described as mandatory elements such as the layouts of the departments. The example which we gave when we met some months ago was the ability to make curved walls and corridors straight and in my email of 9 August we suggested "something along the lines of a statement that the Reference Design achieves the Operational Functionality required but the Board and that there has been full engagement with clinicians. While this represents the preferred layout, there is scope to change the layout provided the same [or an equivalent] Operational Functionality is achieved. The example of the non mandatory nature of the curved walls and corridors could be stated. Any changes would need to be evaluated by the team, including its members with clinical expertise, and the evaluation basis made clear."

When we spoke subsequently you said that there was a formulation of wording which Motts had omitted : can you please send it to me.

3. **Room Data Sheets**: as I said when we spoke I would expect that the Board would provide RDSs as part of its requirements. You said that you thought that the requirements are sufficiently expressed in the other information which is being provided and that bides are to produce RDSs. As I said we would like to understand when this is to be done and how it impacts on the workload of bidders if all 3 are to provide them for checking by the Board as the ITPD says that bidders are to produce some of these as part of their proposals. Iain said that he would send to me an example to illustrate what is proposed. I have also noted in the draft the point that it should be clear which elements of the Board's information in this regard is mandatory.

4. **Funding Approach and the evaluation of the deliverability of financing**: This was also touched on at the meeting this yesterday and Kerry and Andrew will look at this this week and let you have comments. There may be a consequential impact on the extent of due diligence pre PB for the banks: see comment at 3.4.

5. **Community Benefits**: As I said at the meeting, I note that the numbers for training places etc is based on the Construction Skills for a £100m project. As this Project is 50% larger we would expect higher numbers, though I appreciate that it may not be directly proportionate. We will speak to Construction Skills and come back to you on this point. The other issue concerns the low percentage attributed to the evaluation of this issue and we would like to discuss this with you and also the question of a minimum requirement. In terms of subcontracting it would be useful to talk though the potential applicability of the Sustainable Procurement Bill in the context of your proposed requirement.

6. **Energy Efficiency and Carbon Reduction**: I have not yet considered the revisions to Volume 3 but Iain referred to aspirational target and I would be grateful if you could confirm the contractual target, how that has been benchmarked and that the Board is satisfied that the tests on completion will be suitable to ensure that the Board will be satisfied that the target will have been met.

7. **Project Agreement** : Julia will come back to you this week. I would like to discuss the proposed adjustment for non Quantifiable Bidder Amendments which we think should be part of the quality score, bearing in mind all need to have been through the derogations process. There is also an ongoing discussion re the payment mechanism and the flow through to the triggers for Warning Notice and termination.

8. **Affordability**: we would like to discuss the proposal that the hard fm and lifecycle is expressed as a cap.

9. **Interface Proposals:** can we please discuss 4.12.7?

10. **Governance** ; I queried at the meeting whether some of the wording in the governance section is mutually inconsistent.

11 **Quality Evaluation**: We discussed the approach taken in the earlier draft after our meeting in late October after which I sent you the attached email. The approach in the current draft is similar to that previously taken

and indeed to introduction of a minimum score for each individual scored question (which is an unusual approach) increases the potential for a bidder to be non compliant due to a low score in one area which might be relatively small overall. I would welcome the opportunity to discuss the issues which arise from the approach proposed by the Board, including the issues noted below and the subdivision of elements in the context of our focus as noted in my email of 30 October. There is also an arithmetical point which we would like to clarify.

Sorrell is arranging a meeting for this Friday to discuss.
I look forward to hearing from you.

Regards
Donna

Email of 30 October 2012 :

Brian

Further to our meeting on Friday, I know that you are looking at the detail of the evaluation criteria and weightings.

As I said when we spoke briefly after the meeting, our focus is in understanding the principles of the evaluation methodology in the context of our guidance and in that regard the discussion at the meeting was helpful. We look forward to hearing from you as regards the price evaluation and consequent changes to the approach to quality scoring which we discussed.

Accordingly, the detail of the criteria and weightings are for the Board and in your consideration you might like to consider the following points which we touched on when we met.

1. The categorisation of criteria into pass/fail or scored within the 40 marks available for quality: as we discussed if a criteria is pass/fail then there will be no differentiation in quality between bidders on that issue and conversely each of the issues will be a basis upon which a bidders could potentially be excluded.

2. I was not clear as to basis for the difference between the test of pass/ fail in Table B (which apply to some pass/fail criteria) and the requirement to score 5 or more in Table C for others: the test seems quite similar save that there seems to be some overlap between the tests for pass and fail in Table B and the test in Table C is "and/or" so that only one of understanding and performance would be sufficient.

3. Is the Board clear as to the tests for passing each of the pass/fail criteria and has the Board been advised that they are sufficiently transparent and objective and comply with the procurement requirements?

4. In Table C you might wish to consider whether given the nature of the criteria the expression "and/or" is always the correct test.

5. Is the Board satisfied as to the weighting to be provided to those which feed into the 40 marks?

6. Is the Board satisfies that there are no overlaps or issues which are omitted: one issue which we touched on is the interface with ERI and SA6 requirements which I know you are considering.

7. Are there any aspects of the category on summary assumptions, clarifications or derogations which might feed through to price (if costs are not yet quantified) or minimum requirements or indeed issues to be clarified during dialogue rather than issues being left open.

8. We also discussed the derogations process for the project documentation and it was suggested that non financially quantifiable issues should perhaps be included in quality : the pre close of dialogue process should reduce the scope of derogations considerably.

9. We agreed that the evaluation of financial deliverability would need to be considered further once the ITPD requirements are settled.

I hope this is helpful and look forward to hearing from you.

Regards
Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

Direct [redacted]
Mobile [redacted]
Email [redacted]
Videoconference facilities available
Address 11-15 Thistle Street, Edinburgh, EH2 1DF. Main [redacted] Fax [redacted]
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[cid:image001.jpg@01CBD287.92D79150

From: Cosens, Sorrel [redacted]
Sent: 04 February 2013 17:09
To: Donna Stevenson
Subject: RE: RHSC + DCN | Issue of Procurement documents for review

Hi Donna,

Here you go.

Sorrel

From: Donna Stevenson [redacted]
Sent: 04 February 2013 14:18
To: Cosens, Sorrel
Subject: RE: RHSC + DCN | Issue of Procurement documents for review

Sorrel

It is

INVITATION TO PARTICIPATE IN DIALOGUE
Volume 1
[Rev K 3rd October 2012]

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

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Mobile [redacted]
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[cid:image001.jpg@01CBD287.92D79150

From: Cosens, Sorrel [redacted]@[redacted]
Sent: 04 February 2013 14:15
To: Donna Stevenson
Subject: Re: RHSC + DCN | Issue of Procurement documents for review

Donna,

Please could you let me know the revision number on the version that you are looking for - you'll find it on the front page as well as in the file title.

Thanks,
Sorrel

From: Donna Stevenson [redacted]
To: Cosens, Sorrel
Sent: Mon Feb 04 13:58:59 2013
Subject: RE: RHSC + DCN | Issue of Procurement documents for review

Sorrel

Further to your email on Friday, could you please send me a word version of volume 1 from Oct 12 so I can do an electronic comparison, please.

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

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[cid:image001.jpg@01CBD287.92D79150

From: Cosens, Sorrel [redacted]
Sent: 08 October 2012 08:43
To: Donna Stevenson
Cc: Currie, Brian
Subject: RHSC + DCN | Issue of Procurement documents for review

Dear Donna,

EMAIL SENT ON BEHALF OF BRIAN CURRIE, PROJECT DIRECTOR

Please find attached the following RHSC and DCN draft procurement documentation for review by SFT.

- **Information Memorandum / Pre-qualification Questionnaire**
- **PQQ Evaluation Manual and appendices**
- **ITPD Documentation Structure diagram**
- **ITPD Volume 1**
- **ITPD Volume 3 - Section 1, Service Level Specifications**
- **ITPD Volume 3 - Section 3, Board's Construction Requirements, Section D: Specific Clinical Requirements**
- **ITPD Volume 3 - Section 3, Board's Construction Requirements, Section E: Specific Non-clinical Requirements**

All of these have been developed by NHSL with the support of our legal, financial and technical advisers. If they are not completed, these versions are nearing the end of this iterative process. Please note the gaps list in the ITPD volume 1, and commentary on some documents, highlighting sections still in development.

Further documentation will be shared as it becomes available. Please note that the **OJEU notice** is to be discussed at the Project Management Executive next week, and will be sent on to SFT by Friday 12 October. The next draft of the **Project Agreement** is to be issued to NHSL in the w/c 15 October, and we hope to share it with SFT shortly after we receive it.

NHS Lothian welcomes SFT's review of these documents. Please can comments and queries be sent to Brian Currie in the first instance, and Brian will disseminate them among NHSL colleagues and advisers.

Regards,
Sorrel

Sorrel Cosens
Project Manager
RHSC and DCN at Little France

NHS Lothian

T: [redacted] | ext [redacted] | [redacted]

56 Canaan Lane, Edinburgh, EH10 4SG

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Royal Hospital for Sick Children and Department of Clinical Neurosciences at Little France

NHS Lothian

ACTION NOTES

Meeting Title: RHSC & DCN Project Working Group
Date/Time: 2.00 pm, Thursday 7 April
Location: MR3, Waverleygate
Attendees:

Andrew Bruce (AB)	Scottish Future Trust
Donna Stevenson (DS)	Scottish Future Trust
Brian Currie (BC)	Project Director
Susan Goldsmith (SG)	Director of Finance
Neil McLennan	Capital Planning (note taking)

NOTES

Item		Lead
1.	**APOLOGIES**	
	Iain Graham	
2.	**REFERENCE DESIGN**	
	BC stated that NHSL is making progress re the reference design. BAM had stated that using their existing design team to produce the reference design might preclude BAM from being a bidder. MacRoberts has advised that as long as the design team's work is strictly limited to the reference design this will not be an issue. **Action** **Mott MacDonald to approach design team to add them to technical advisers.** BC stated that the target is start competitive dialogue in January 2012. AB asked what stage of design is NHSL trying to reach in the reference design. BC stated that the aim is 1:200 for every department and 1:50 for generic & key rooms. DS asked whether the issue of licence rights for the design work to date has been resolved. **Action** **Close out issue through formal letter to BAM based on advice fro Macroberts.** Detailed programme will be developed by technical advisers with project team now. **Action** **Programme to be shared with SFT.**	
3.	**SA6 (CONSORT)**	
	A drawing identifying the red line for the new building & other associated areas was tabled. There was specific discussion re the turquoise area which has been identified as the area where there will be joins between the new build and the RIE. DS stated that a mechanism needs to be agreed to deal with this area as it is planned that part of the joint build will be located here. If this is treated as a novel change Consort will have the right to block. This needs to be replaced by an objective test of the effect on Consort. Paper on SA6 to go to F&PR hopefully in May.	

Item		
	Action **Specific meeting re SA6 to be set up for week starting 18 April involving IG, George Curley, SG & SFT.**	
4.	**ESA95**	
	SG stated that a report is going to NHSL's audit committee in week starting 11 April. It will then be submitted to SG for a decision. Key point is to agree required threshold re transfer of risk. SG advised that NHSL will not be able to fund compensation for Consort which may mean that the clinical enabling works will have to be funded from capital. SG confirmed that the capital funds required are identified in the OBC Addendum. **Action** **Report to be shared with SFT.**	
5.	**GOVERNANCE**	
	BC explained that it is proposed to have a strategic group overseeing the project & making key decisions with a larger group below this carrying the day to day work & meeting more frequently. The structure is currently being fleshed out. **Action** **Governance structure to be shared with SFT when thinking is more developed.**	
6.	**COSTS**	
	BC stated that Motts & DL are currently looking at lifecycle & hard FM costs for the joint build.	
7.	**DATE & TIME OF NEXT MEETING**	
	11.00 am on Thursday, 14 April in MR2, Waverleygate.	

Lothian NHS Board

By Email Only

Finance Director's Office
Waverley Gate
2-4 Waterloo Place
Edinburgh
EH1 3EG
Telephone [redacted]
Fax [redacted]

www.nhslothian.scot.nhs.uk

NHS Lothian

Date 02 June 2011
Your Ref
Our Ref SG/AWW
Enquiries to Susan Goldsmith
Extension [redacted]
Direct Line [redacted]
Email [redacted]

Stephen Gordon
Regional Director
Consort Healthcare (Edinburgh Royal Infirmary) Limited
Royal Infirmary of Edinburgh
51 Little France Crescent
Edinburgh
EH16 4SA

Dear Stephen

Royal Hospital for Sick Children ("RHSC") and Department of Clinical Neurosciences ("DCN) (together the "Project")
Key Enabling Requirements for Delivery of the Project at Little France

As we have discussed on many occasions at our Joint Project Board and indeed at our last formal Board to Board meeting on 22 February, Consort's confirmation of their strategic support for the development of the RHSC and DCN project was welcomed. We jointly acknowledged that this is one of the largest infrastructure schemes planned in Scotland and a highly prestigious and path-finding project.

Since then we have both continued to work well together in progressing Supplementary Agreement 6 to secure the land and access for the project. In parallel we have been in extensive dialogue with Scottish Futures Trust (SFT) and Scottish Government Health Directorate (SGHD), to agree the process for PPP NPD procurement and to understand the requirement of the process. This has confirmed that in order that the project can progress to procurement we require the formal outline business case for the project to be approved by the Scottish Government who in turn will be advised by SFT.

To achieve an acceptable Business Case, as we have explained previously, we have received very clear advice from SFT bourne out by our advisors that:

> the procurement of the Project must take place via a competitive dialogue process, since no other options are deemed possible, having fully considered and discounted the Joint Venture proposals tabled by Consort;
>
> for the NPD procurement to proceed, it is essential that we ensure there is a level playing field for all potential bidders;
>
> of the various components of such a level playing field, one key requirement is for NHS Lothian to finally reach legal agreement with Consort on a range of issues that will enable the Project to proceed.

NHS Lothian

The key issues are Land; Access; Interface; Enabling Works; and other project and operational management issues.

LAND

As you know, for some time we have been engaged in discussions about how best to work with you to deliver the RHSC and DCN at Little France, focusing on the draft Supplemental Agreement No. 6 to the Project Agreement for the ERI ("SA6"). As agreed, Consort will renounce their interest in the RHSC Site and in exchange will be granted a Lease of Car Park F. This requires to be completed at the same time as car park F is concluded at the end of June.

ACCESS

Construction access to the Project Site will be taken at the point indicated on the RHSC Site Plan. We believe that it may be preferable at certain stages in the construction of the Project to have a secondary construction access / exit at Little France Crescent. NHSL wish this to be acknowledged in SA6 and for the parties to seek to agree a traffic management plan to mitigate the impact of the Project construction on the operation of RIE, while providing sufficient access to the contractor engaged in the Project.

The access arrangements during the operational phase of the Project cannot be wholly determined at this stage as the detailed design for the Project has not yet been prepared. It is planned to have an early "concept" design by September with the full reference design completed by January 2012. The main access point is likely to be at the point marked on the RHSC Site Plan. The primary access for emergency traffic will be via the south east corner of the Project Site. This access cannot be restricted only to "blue light" traffic as there will inevitably be a requirement for other traffic to use this access, for example FM traffic.

It is essential that there is a secondary access point for ambulances to A&E, to allow continued access to A&E in the event that the primary access is, for whatever reason, blocked or otherwise unavailable. The only other feasible access route to A&E is via Little France Crescent to the northern side of the new link building. This requirement for emergency access to A&E will require to be factored into plans for the re-design of Little France Crescent to form the Hospital Square. NHSL may also wish to factor into the design of the Hospital Square a secondary access to DCN from Little France Crescent.

As has already been agreed, the Project Site requires to have the benefit of reserved free and unrestricted rights of access / egress over the roads within the RIE Site into and within Little France, including the buildings and facilities, there will need to be physically unfettered access for patients, staff, visitors, contractors, etc. to ensure that the campus operates in a fully cohesive and efficient manner.

NHS Lothian

It is agreed that our right to install services in the area shaded yellow on the RHSC Site Plan will be restricted to the service corridor indicated by Consort. We do, however, require a pedestrian right of access over that service strip.

INTERFACE

The interface from the existing RIE building to the new RHSC / DCN building is an essential clinical requirement for NHSL. The Project is not viable without the linking building. As required by SFT and our advisers our approach to the procurement of the area of A&E and links (referred to as the "green shaded area" on the RHSC Site Plan in our discussions to date) has had to change.

We had initially sought to incorporate provisions in SA6 whereby the part of the green area necessary for the construction of the connection to the new development would be renounced from Consort's Lease and would form part of the RHSC Site, with the connection works being constructed by the NPD contractor engaged by NHSL in connection with the Project. Latterly, discussions have proceeded on the basis that Consort would construct these connection works and that the resultant building, insofar as within the green area, would remain part of the RIE Site.

However, in order to achieve this, the advice we received is that it is essential for the procurement of the Project to be framed so that all potential bidders can develop proposals on a level playing field.

After extensive discussions, SFT, SGHD and our advisory team are firmly of the view that the new RHSC / DCN building should be constructed by the NPD contractor to be engaged by NHSL for the Project and include this area of work and so that the new RHSC/DCN will connect into there. We wish to engage with you to better understand Consort's objection to this approach – particularly in the light of the extensive protection already afforded to Consort by the Excusing Cause regime and similar provisions within the Project Agreement. We consider that - insofar as not already contained in the Project Agreement - suitable provisions could be included in SA6 to fully protect Consort's legitimate interest in safeguarding the integrity of RIE and to relieve Consort in respect of any damage that might be caused to RIE as a result of the works to form the interface.

ENABLING WORKS

We have identified that the Project will necessitate a number of changes and works outwith the Project Site but within the remainder of the Little France Site. These works are driven by planning requirements, our clinical requirements and the need for a proper interface between RHSC/DCN and RIE.

The following works previously discussed with you (referred to as the "Enabling Works") have been identified:-

NHS
Lothian

1. Changes to the road and transport infrastructure within the remainder of RIE Site, including but not limited to the creation of a public transport terminus to the east of RIE, new bus stances and revision of existing car parking.

2. The creation of a new "Hospital Square" to the north of the Project Site including new vehicle, ambulance, taxi ranks, proximity and disabled parking and pedestrian access arrangements to RIE, the premises occupied by the University of Edinburgh and the RHSC Site.

3. The creation of an ambulance turnaround and parking area to the south east of the Project Site.

4. The formation of a cycle path from the existing footpath lying to the rear of the QMRI Building running northwards.

5. The installation of new comprehensive way-finding measures across the RIE Site (new signage and directional indicators as necessary).

6. Enhancement of the existing flood defence measures.

7. Relocation of the existing VIE plant located within the area shaded blue on the RHSC Site Plan to an agreed location east of RIE. Separate VIE plant is envisaged.

8. Reconfiguration/alteration of the following clinical facilities within RIE, including but without limit, for example, in partnership with Consort's input on the design:-

   Pharmacy stores – robotics
   Pharmacy – aseptic suite
   Laboratory services
   Adult A&E
   Adult critical care
   Medical photography
   Reconfiguration of clinical areas resulting from the related service changes at Little France

9. The physical connection of or extension of the fire alarm, security and Pneumatic Tube systems within RHSC/DCN to those serving the whole campus.

10. Diversion of trunk sewers currently located in the vicinity of the blue area on the RHSC Site Plan to positions outwith the Project Site.

The Enabling Works (with the possible exception of item number 10 which will depend upon the detailed design for the Project) will definitely be required to facilitate the Project.

NHS Lothian

The precise design for all the Enabling Works cannot be fully determined at this stage pending the full design of RHSC and DCN. However, Consort are already aware of the requirement for the bulk of the Enabling Works and it is possible for NHSL to provide at a technical level more detailed information about the other Works, as the design and project work develops.

As the Enabling Works are known to be required, NHSL, SGHD and SFT do not believe it is appropriate for these Works to be instructed at a later date pursuant to the existing change procedure contained in the ERI Project Agreement. NHSL, SGHD and SFT wish to agree with Consort in relation to these Enabling Works only, a streamlined change procedure which protects Consort's legitimate interests while ensuring that NHSL can definitely deliver the Enabling Works in order that the Project is demonstrably viable. The development and implementation of these works must be delivered through a cost effective and efficient mechanism to demonstrate value for money in the business case process.

Our legal advisers have previously provided in their property drafting paper certain provisions which sought to achieve this outcome in relation to the construction of the link building between RIE and RHSC. NHSL wish to engage with Consort in connection with the application of a similar procedure to the Essential Works.

OTHER REQUIREMENTS FOR PROJECT AND OPERATIONAL MANAGEMENT

There are a number of practical issues that will require consideration by the parties as the design for the project develops, town planning are fully engaged, and affordability is tested. There are, however, a number of issues which can be highlighted now which will be fundamental for the efficient working of the project and existing facilities. In addition to ensuring appropriate management of Health & Safety risks on site, we share a desire to protect the operational effectiveness of the RIE during the construction and operational phases of RHSC / DCN.

Oversailing:

NHSL require an unrestricted right to oversail RIE in connection with the construction of the Project. NHSL cannot agree a requirement to obtain consent from Consort on each and every occasion where NHS Lothian's contractor requires oversailing. This would be unworkable in practice and would hinder the NPD contractor's operations, with adverse cost and programme implications. NHSL consider that Consort's position is already adequately protected in terms of the ERI Project Agreement, e.g. via the Excusing Cause mechanism.

Helipad:

Please note that for operational reasons, NHSL intend to construct a helipad on the roof of the RHSC/DCN building. The new helipad will serve both RHSC and RIE. NHSL require SA6 to

NHS
Lothian

include an acknowledgement from Consort of this operational change to RIE.

Access for Maintenance:

Consort will be aware that the Project Site is very tight, so that it is likely that the Project buildings will at certain points lie very close to the Site boundaries. It is likely that during the term of the Project, access will be required onto the RIE Site for maintenance of the completed Project – for example, for the location of cherry pickers or perhaps for scaffolding. NHSL wish to include such reserved rights of access in Consort's Lease (to be included in the Partial Renunciation and Variation to the Lease) subject to the usual obligations that would be placed upon the party exercising such rights.

Substation:

NHSL no longer require locating the substation on the RIE Site. It will be located on Car Park F. The site of the substation will be excluded from the Lease of Car Park F to be granted to Consort. Cables linking the substation to the Project will run down Little France Drive, along Old Dalkeith Road and into the Project Site via the service strip in the area shaded yellow on the RHSC Site Plan.

Town Planning:

NHSL cannot agree to give Consort a right to approve the planning application for the Project. NHSL will agree a procedure whereby Consort are provided with details of the planning application in advance of the application being submitted and are given an opportunity to make representations. NHSL will not seek to impose an obligation on Consort preventing Consort from objecting to the planning application. Given that Consort will have an opportunity to comment on the planning application and we understand is supportive of the Project generally, NHSL expect that no such objection will be made.

This letter sets out NHS Lothian's requirements which require to be addressed to enable the Project to proceed. We acknowledge that there are commercial matters that remain outstanding and which still require be agreed on an equitable basis including: -

Car parking income in relation to Car Park F
Land valuation in relation to the Walk-Away Option
Deductions in relation to the enabling works on the RHSC/DCN site and the Car Park F enabling works

CONCLUSION

We trust that the above information will enable Consort to review the requirements in a constructive way. In essence, we wish to be satisfied that you will cooperate with us as necessary

NHS
Lothian

for the Project to be delivered by NHSL and its selected NPD contractor, without hindrance as you had indicated strategically at the Board to Board meetings.

We appreciate that you will wish to consider this letter and its impact on these commercial points and we will need to take some time to discuss their implications with you but would look forward to your initial response by 15th June. NHSL and advisers, including SFT, would look to engage with Consort, (shareholders and funders) in a period of intensive meetings to conclude the legal documentation to support the delivery as outlined above and would like to agree protected time of 2/3 days to conclude discussions on the key issues with the output being the legal documentation to support the delivery outlined above.

We look forward to hearing from you and our future discussions.

Yours sincerely

[redacted]

Susan Goldsmith
Director of Finance

cc John Cavill, Director, Barclays Infrastructure Funds, London

Acting Director-General Health & Social Care and
Chief Executive NHS Scotland
Derek Feeley

T: [redacted] F: [redacted]
E: [redacted]

The Scottish Government

Professor James Barbour, OBE
Chief Executive
NHS Lothian
Waverly Gate
2-4 Waterloo Place
Edinburgh
EH1 3EG

Our ref: F3782953
21 June 2011

Dear James

NHS LOTHIAN – ROYAL HOSPITAL FOR SICK CHILDREN AND DEPARTMENT OF CLINICAL NEUROSCIENCES – BUSINESS CASE UPDATE

The above Business Case Update was considered by the Capital Investment Group using expedited procedures. It is recognised that this was provided as an update paper setting out a direction of travel. We therefore note and support the proposal to develop an integrated RHSC and Department of Clinical Neurosciences at Little France and for this to be procured via a Non Profit Distributing (NPD) procurement.

You will be aware that I wrote to NHS Scotland Chief Executives on 22 March 2011 setting out the conditions associated with Scottish Government support for revenue financed projects and I am aware of ongoing engagement between NHS Lothian and both Scottish Government and the Scottish Futures Trust around these issues to ensure that necessary negotiations are concluded with Consort around the existing PFI contract to provide a level playing field to support an effective and competitive procurement process.

I would therefore ask you to proceed with the production of an Outline Business Case for the project which will require to be approved by NHS Lothian and the Scottish Government prior to the commencement of procurement. That OBC will need to demonstrate that the Board is in full compliance with the conditions set out in my letter of 22 March 2011 and provide a sound basis for procurement.

If you have any queries regarding the above please contact Mike Baxter on 0131 244 2079 or e-mail [redacted]

Yours sincerely

[redacted]

DEREK FEELEY

SCOTTISH FUTURES TRUST

Role of SFT in Project Delivery – RHSC / DCN Project

1. Introduction

This brief paper sets out the role of Scottish Futures Trust in relation to the re-provision of the Royal Hospital for Sick Children and Department of Clinical Neurosciences ('the Project'). The overall accountability for the delivery of the Project rests with NHS Lothian, but in managing the project they are subject to certain approvals from Scottish Government (SG), as has always been the case with large revenue funded procurements. SFT has a significant role in supporting SG in considering these approvals.

1.1. Role of SFT

Scottish Futures Trust has a dual role in relation to the Project. It has been established as a national centre of expertise in infrastructure procurement and it is in this role that SFT will seek to provide advice to NHS Lothian ('the Support Role'). This role is generally fulfilled through attendance at key project meetings as part of the governance process of the Project (we currently attend both the Working Group and Project Board), as well as ad hoc support on other tasks agreed with NHS Lothian.

It also has an oversight role for the Project in acting as a guardian of value for money for Scottish Government ('the Oversight Role'). This role is generally fulfilled through the carrying out of key stage reviews ('KSR') for the Project and by providing input to SG's Capital Investment Group when they are considering the approval of the Outline Business Case and Full Business Case for the Project. SFT also sits on the Infrastructure Investment Board (IIB), which has an oversight role over all infrastructure procurement in Scotland.

There are 4 KSRs being proposed for the Project and the objective of these reviews is to check that organisationally and commercially the Project is ready to progress to the next stage in the procurement process. These KSRs will take place pre OBC, pre OJEU, pre Invitation for Final Tenders and pre Financial Close. It is possible that any of these KSRs may indicate that certain identified issues should be addressed before the project can progress. Each KSR as a matter of course will be distributed to the Project Team and to the Capital Investment Group.

SFT's Oversight Role also extends to the terms of the standard NPD project agreement and the financing terms agreed with the preferred bidder. SFT will discuss with the project team any changes requested by bidders to the standard contract and indicate whether these are acceptable. With regard to the financing terms, we reserve the right to call for a debt funding competition during the preferred bidder period and would expect to approve the terms of the interest rate swap at financial close.

We expect that most of these matters, arising either from the Support Role or Oversight Role, are of sufficient importance to the Project that they would be resolved at project team level between NHS Lothian and SFT. This has certainly been our experience elsewhere. Where such agreement doesn't exist, a dialogue between the Chief Executives of SFT and NHS Lothian should take place to attempt to address any issues.

In the unlikely event that agreement on key issues cannot be reached then a three way discussion would take place between the Chief Executives of SFT and NHS Lothian and the Finance Director of NHS Scotland. Beyond that, referral to firstly the Infrastructure Investment Board and secondly Ministers remain as options should very significant issues remain unresolved.

The benefit of SFT's dual role is to reduce the chances of significant issues being raised during the approvals process or elsewhere and therefore reduce the chances of delay to the Project. We aim to undertake these roles as part of a cooperative and respectful relationship between SFT and NHS Lothian and in so doing improve the chances of a successful delivery of the Project.

Scottish Futures Trust
21st July 2011

From: Barry White
Sent: 05 September 2011 18:51
To: James Barbour [redacted]
Cc: Sansbury, Jackie;Goldsmith, Susan;Peter Reekie;Donna Stevenson;Andrew Bruce
Subject: RE: RHSC/DCN - SFT's role

James

Thank you for your response to our note regarding the role of SFT in relation to the delivery of the Royal Hospital for Sick Children / Department of Clinical Neuroscience Project (RHSC / DCN). You had raised a number of points in your email and I would respond as follows:

1. Please be assured that for a project of this size and importance, we shall field senior staff in both the Oversight and the Support roles described in the original note. All our Associate Directors, such as Donna and Andrew, are senior experienced professionals. In addition you and I have also agreed to meet on bi-monthly basis as the project progresses.
2. The performance of key stage reviews at important milestones in the development of the project should provide assurance to both the Scottish Government and NHS Lothian that the project is ready to progress to the next stage in the procurement. Therefore the four KSRs set out in the original note at pre OBC, pre OJEU, pre Invitation for Final Tenders and pre Financial Close should be retained. They can generally be performed fairly quickly and can run in parallel with other workstreams. Clearly the overarching objective must be to work together to avoid the likelihood of there being major issues. You are right that identification of a major issue could lead to a short term delay but experience has shown that is much preferable to a longer delay later on when that issue crystallises.
3. SFT has a role as 'guardian' of the standard contract form – that is to approve any suggested changes to the standard contract from bidders / procuring bodies. This is a role performed on behalf of Scottish Government to ensure that terms of the contract remain standardised and are not damaging to public sector interests. Retaining a standard form of contract which is acceptable to investors, banks and the public sector is in everyone's interest, as it serves to reduce the time taken during procurement and public and private sector legal costs.
4. SFT's right to call for a debt funding competition during the preferred bidder period is a role carried out on behalf of the Scottish Government, who is funding the construction costs of the project. You are correct that, if this process cannot be run in parallel with other workstreams during this period, it may add time to the financial close date. For this reason (and for reasons of bid costs / public sector advisory costs) we shall only take up this right if we believe that there are significant savings in unitary charge that will result.

I would be happy to consolidate this response in to the previously drafted note once you have had time to consider the points above.

Regards,

Barry

Barry White
Chief Executive
Scottish Futures Trust

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From: Calder, Janette [redacted] **On Behalf Of** Watters, Elaine
Sent: 18 August 2011 14:18
To: Barry White
Cc: Watters, Elaine; Sansbury, Jackie; McBain, Eileen; Goldsmith, Susan; Walker, Anna
Subject: FW: RHSC/DCN - SFT's role

From: James Barbour, NHS Lothian

Barry

Further to your useful note of July 22 I have now, as promised, reviewed this with key colleagues here. As explained this has taken a little time due to various annual leave commitments.

In general, the paper is pitched at a fairly high-level and, therefore, does not present us with difficulties. In particular, I welcome the further affirmation of the accountability of NHS Lothian for the delivery of the project. You, I and John Matheson discussed this at some length at our most recent meeting and it was also re-assuring to have my own role as accountable officer fully acknowledged.

It is also important to see some clarity on the role of SFT in supporting Scottish Government, as well as NHS Lothian. It is helpful to see the extent to which these roles are complementary as set out in your document. In particular, we in NHS Lothian look to SFT to bring its expertise to bear on the procurement process, especially your financial and commercial skills.

As always, the devil will lie in the detail and in how we actually work together. To that end, I think it might be helpful if the document made clear the necessary level of seniority from SFT who will engage with us in the support role, particularly as the project advances.

I also note the proposal that there be four key stage reviews for this project. I think it is important this is discussed and agreed between us and in the context of what the norm would be for a project of this size. Whilst we appreciate and understand the importance of key stage reviews, as you indicate, these are by nature consequential, such that a difficulty identified at one stage delays progress to the next. Given my continuing concerns about timescale, I would not wish there to be more key stage review points than is absolutely necessary in order to ensure the project can proceed promptly and smoothly.

With regard to the over-sight role, I note the comment that "SFT will discuss with the project team any changes requested by bidders to the standard contract and indicate whether these are acceptable." Given the dual role and the accountabilities clarity highlighted earlier, it will be important to understand to whom these need to be acceptable. Is this on behalf of Scottish Government? Equally, I note the comment that SFT "reserve the right to call for a debt funding competition during the preferred bidder period" and, again, it will be important to understand from whence that right is ascribed, given the potential affect on timescales. Hope these points are helpful and perhaps you could clarify them such that we can then sign off on the role description.

Thanks for your help in drafting this.

Best wishes.

James

Elaine Watters
Executive Assistant to Chair & Chief Executive
Lothian NHS Board
Waverley Gate
2-4 Waterloo Place
EDINBURGH
EH1 3EG

Tel: [redacted]
Email: [redacted]

From: Barbour, James
Sent: 22 July 2011 11:00
To: 'Barry White'
Cc: Goldsmith, Susan; Sansbury, Jackie; Watters, Elaine
Subject: RE: RHSC/DCN - SFT's role

barry hi. i see from your e mail notification you are on leave until July 26.I am omn leave that wek also. .as is susan goldsmith. we will review here and get back to you as soon as possible thereafter,thanks.

From: Barry White [redacted]
Sent: 22 July 2011 10:51
To: Barbour, James
Cc: Andrew Bruce
Subject: RHSC/DCN - SFT's role

James

Please find attached note on SFT's role in the Sick Kids projects.

Regards

Barry

Barry White
Chief Executive
Scottish Futures Trust

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From: [redacted]
Sent: 22 October 2011 16:32
To: Andrew Bruce
Subject: FW: Thank you

Andrew

Please see below - for your information. I have amended the recommendations so that it is clear that all interface issues should be resolved **before the OJEU notice is issued**. Grateful if you could let me know if this isn't correct.

Many thanks

Vikki

Victoria Bruce
Infrastructure Investment Unit
The Scottish Government
AREA 3-B Victoria Quay
Edinburgh

Tel [redacted]
Mob [redacted]
E-mail [redacted]

I work Monday - Thursday.

From: Goldsmith, Susan [redacted]
Sent: 13 October 2011 15:43
To: Bruce V (Victoria)
Cc: Currie, Brian; Sansbury, Jackie; Baxter M (Mike) (Health)
Subject: FW: Thank you

Victoria

Many thanks for this – unfortunately it went to the wrong email address so I have just received today.

I have a few comments which I hope are helpful.

I am concerned about some of the language “ransom strip” and “danger” which would obviously not be helpful if it got into the public domain, however I am assuming this is just the first draft.

It terms of specific points:

3.5 we also made the point that the reference design allowed us to ensure that some of the investment in the detailed design for a standalone Childrens hospital was not lost following the announcement that the project was to be funded through NPD.

In terms of the bullet points on IIB conclusions:

As discussed at the meeting we are absolutely committed to ensuring that all the Interface issues are worked through with Consort and are aiming for the land transaction to be concluded by the 30/11 and the enabling works to be contractually agreed prior to commencement of competitive dialogue.

It would be helpful to have clarity from the IIB as to what is meant by the advice that all interface issues with the existing PFI contract are worked through before the "procurement process commencing" Is procurement the placing of the OJEU notice or is it entering competitive dialogue. The 3rd bullet point then goes on to advise that the land deal, and all the enabling works are signed off by Consort and the Banks before the project is tendered. Specifically are both these similar pieces of advice about OJEU or competitive dialogue? If it is the former then the note of the meeting needs to acknowledge that there will be slippage – a further 6 months (after slippage of 3 years following the announcement of NPD funding for RHSC and DCN) if this route is followed rather than "could result in slippage".

In terms of IIB's emphasis on the importance of the funders believing there is a credible "Plan B" we advised the Committee that there is no Plan B. Clinically there is no alternative to the co-location of the services within the Project to be on the RIE site.

The comments on the project team were not made in our presence and so it is difficult understand the context for the recommendations. In particular the comments on the advisers being the "sole source of expertise on key parts of the project" are not recognized and I would be grateful if you could advise on what basis these were made.

The recommendations from the Gateway review have been accepted and indeed actioned.

We welcome the recommendation that the review assurance processes are reviewed by Scottish Government.

Regards

Susan

Susan Goldsmith
Director of Finance
NHS Lothian
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EH1 3EG

T: [redacted]
F : [redacted]
E- [redacted]

From: Currie, Brian
Sent: 13 October 2011 08:24
To: Goldsmith, Susan
Subject: FW: Thank you

Brian Currie
Project Director
LUHD - RHSC + DCN Reprovision

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EH9 1LN

T: [redacted]
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M: [redacted]
E: [redacted]

From: [redacted]
Sent: 11 October 2011 14:00
To: Currie, Brian; [redacted]
Cc: [redacted]
Subject: RE: Thank you

Brian, Susan

Thank you for participating in the IIB meeting on 26 September. Further to Kirstin's recent email, please find below draft conclusions from the discussion on the RHSC/DCN project. I should like to circulate the minutes, including conclusions from discussions, to IIB members on Thursday. It would be helpful to have any comments that you may wish to make before then. Subject to comments from IIB members, these conclusions will form the basis of a formal letter to the Senior Responsible Owner from the Chair of IIB: Alyson Stafford, DG Finance.

Please give me a call if you wish to discuss.

Best wishes

Victoria Bruce
Infrastructure Investment Unit
The Scottish Government
AREA 3-B Victoria Quay
Edinburgh

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I work Monday - Thursday.

....

- Royal Hospital for Sick Children and Department for Clinical Neurosciences (Paper 260911-3 and Paper 260911-4)

3.1 IIB heard about the rationale behind the project, why the option to build a new-build, integrated RHSC/DCN at the Little France site had been chosen and the benefits that this would bring from a clinical perspective. NHS Lothian gave details of the timetable for taking forward the project, including the intention to issue an OJEU notice in January and to open the hospital in September 2016. It was noted that planning in principle for the project would be granted in November or December and that the reference design would be well progressed by then, so NHS Lothian was confident that this timetable was achievable.

3.2 IIB heard that negotiations between NHS Lothian and Consort regarding interface issues with the existing PFI contract had made progress, but that these were highly complex. The Amber/Red making from the Gateway Review undertaken in early September had largely been due to the criticality and unpredictability of the Consort situation. IIB expressed concerns that the nine or ten banks providing Consort with finance for the PFI project could act irrationally, thereby exposing the government to a “ransom strip” situation, and that this danger is increasing as the project progresses.

3.3 IIB noted that NHS Lothian’s Finance and Performance Committee, rather than the Project Board established for the project, had to date been leading work on scrutinising the Outline Business Case and providing most of the governance around the project. IIB heard that a project team was in place, which had work streams that met together on a fortnightly basis. The project team had two members of staff with some experience of revenue financed projects, and that the best advisers in Scotland had been recruited. NHS Lothian explained that a significant amount stakeholder engagement around the project that was taking place.

3.4 IIB noted that there had been a great deal of assurance around the project: Key Stage Review, peer review and Gateway Review, and that whilst this was generally viewed to be helpful to the progression of the project, this was seen to be quite onerous at times.

3.5 In relation to financing, IIB learnt that different costs that had been presented for the project: that £150.8 million was the capital cost for the NPD element of the project, and that, on top of that, there were enabling capital costs and significant medical equipment requirements, which increased the total capital value of the project to around £230 million. IIB was informed that a reference design was being prepared for the project in order to facilitate a speedy delivery and improve its attractiveness to potential bidders.

- **IIB welcomes the integration of Sick Kids and the Department for Clinical Neurosciences on the same site, as this should generate cost efficiencies as well as clinical synergies.**
- **IIB considers that it is essential that all interface issues with the existing PFI contract- land and all enabling works to allow the effective operation of the new hospital - are worked through before the procurement process commences subject to appropriate risk mitigation being put in place**
- **IIB welcomes the progress that has been made in relation to negotiations with Consort, but believes that it is important that the land deal and all the enabling works are signed off by NHS Lothian, Consort and the banks, before the project is tendered. Whilst IIB recognises that this could lead to slippage, IIB is concerned that otherwise the Scottish Government could be exposed to a “ransom strip” situation further down the line. IIB emphasises the importance of funders believing that there is a credible “Plan B”and that appropriate risk mitigation is put in place through step in rights.**
- **IIB recommends that the wider project team should include personnel with in-depth and up-to-date skills and experience relating to the procurement and ongoing management of revenue-funded contracts. Given the size of the project, it is critical that this experience comes from the client team, as this team has to be able to manage advisory input to the project, both in terms of costs and strategic input, which becomes very difficult if the advisers themselves are the sole source of expertise on key parts of the project.**
- **IIB recommends in line with the recommendations of the Gateway Review report that delegated powers for the Project Board for the project are clarified such that they can take decisions in the procurement process so that these do not always have to be referred to the NHS Lothian Finance and Performance Committee.**
- **IIB recommends that Scottish Government review assurance processes for major projects such as the RHSC/DCN with a view to making these more streamlined.**

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From: Baker K (Kirstin)
Sent: 27 September 2011 11:44
To: [redacted]; [redacted]
Cc: DG Finance; Bruce V (Victoria); Baxter M (Mike) (Health)
Subject: Thank you

Susan, Brian

I wanted to thank you on behalf of the Infrastructure Investment Board for coming to present to us yesterday. Board members found the discussion of the Sick Kids project extremely useful and were impressed with the way you are tackling some challenging issues. I hope you also found the session useful. As I mentioned, we will be sending draft conclusions for you to review shortly.

many thanks

Kirstin

Kirstin Baker
Deputy Finance Director
Infrastructure Investment
Scottish Government
[redacted]

The Scottish Government

SCOTTISH FUTURES TRUST

Value for Money Assessment Guidance: Capital Programmes and Projects

October 2011

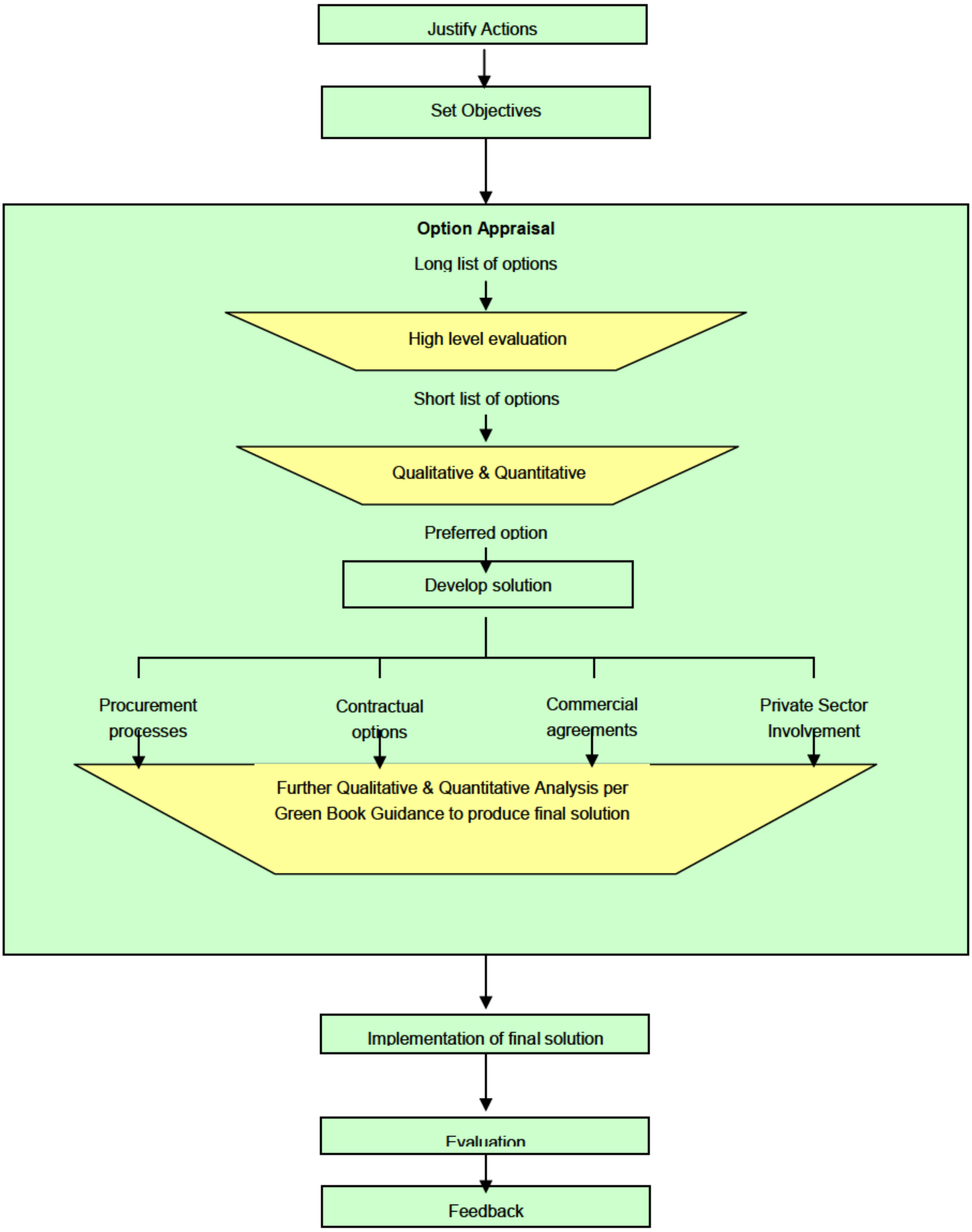
Foreword

This guidance has been prepared and issued by the Scottish Futures Trust ("SFT") on behalf of the Scottish Government ("SG"). It describes the value for money process for capital programmes and projects and the requirements that Procuring Authorities need to consider before making relevant investment decisions. Note that the guidance note previously entitled "*Quantitative VfM Assessment - how to construct a Revenue Financed Base Case and Shadow Bid Model*" is now contained in Appendix J to this document.

This guidance is mandatory for all capital programmes and projects for the Scottish Government, its Associated Directorates, Executive Agencies, Non Departmental Public Bodies and for all public bodies in receipt of funding from the Scottish Government or its Agencies.

This guidance should be applied in conjunction with the HM Treasury Green Book. The flowchart below provides a high level illustration of the HM Treasury Green Book and how this guidance sits within that.

Interaction of HM Treasury Green Book Guidance and Value for Money Guidance



Contents

1. Introduction – Aim, Application and Background to Guidance

Introduction

1.1 Within this section we summarise:

- the aims and objectives of this guidance
- what is meant by the term "Value for Money"
- when it should be applied
- the background to its development; and
- the key components of the value for money assessment process.

Aim and Objective of this Guidance

1.2 The aims and objectives of this guidance are:

1. To assist Procuring Authorities, Agencies and Directorates in **understanding the Value for Money assessment process** for infrastructure projects which encompass an element of design, build, finance and maintain (DBFM) arrangements, including the hub initiative and its application to various stages in the development of a project.

2. To **provide an approach** for determining whether the proposed procurement approach will deliver best Value for Money.

3. To ensure **consistency of approach** in assessing Value for Money of capital programmes and projects.

What is Value for Money?

1.3 Value for Money ("VfM") at a project level is defined as **the optimum available combination of whole-life costs and quality (or fitness for purpose) of the good or service to meet the users' requirements. VfM is not the choice of goods and services based on the lowest cost bid.**

1.4 By applying this guidance, Procuring Authorities, Agencies and Directorates will be able to make more informed investment decisions as to

i. which procurement route offers best VfM for a specific programme or project;
ii. the selected procurement route for a project continuing to offer VfM at all stages of the project development and procurement process.

1.5 At all stages, the emphasis of the guidance is on:

- ***Evidence****:* making a robust assessment based on detailed evidence and previous experience. Data should be collected on all projects and used to aid future assessments.

- ***Early Assessment****:* ensuring that project appraisals are started early, and are undertaken prior to engagement with the market. Late changes to a project's scope or timing, once procurement has commenced, are likely to cost more and therefore, erode VfM.

- ***Sufficient Resourcing and Planning****:* Ensuring that a procurement process is well planned, managed, executed and transparent in order to maximise VfM from the competitive process. Procuring Authorities must ensure they have sufficient capable resources to apply to the procurement regardless of which procurement route is selected.

Application of this Guidance

The Value for Money (VfM) Assessment Guidance is mandatory guidance for all capital programmes and projects for the Scottish Government, its Associated Directorates, Executive Agencies, Non Departmental Public Bodies and for all public bodies in receipt of funding from the Scottish Government or its Agencies.

The VfM principles of this guidance should also be adhered to in the event of any variations to contracts following the procurement phase.

1.6 At the programme level, this guidance will assist the Scottish Government or the relevant Directorate to establish the appropriate procurement route and strategy for future investment. At a project level, it informs Procuring Authorities of the nature of the VfM assessment process which should be followed.

1.7 This guidance is most relevant to those investments which are not funded conventionally (i.e. those that are privately financed such as NPD) but equally the assessments required in the guidance could be useful to any programme or project involving the procurement of public services over the longer term. This guidance may also be applied to support robust evaluation and VfM justification of outsourcing decisions by public bodies.

1.8 Some of the core principles relating to achieving VfM in programmes and projects which include private finance, DBFM elements or are procured through NPDs may also be applicable to other forms of public sector procurement, in particular those programmes and projects that involve substantial capital expenditure. The application of this guidance note and its VfM principles to capital expenditure, infrastructure programmes and projects where a private finance solution is not used should be considered.

1.9 Private sector involvement in infrastructure delivery is characterised by a long-term commitment by the private sector to deliver and maintain public infrastructure and services and, given the complexity generally associated with its procurement, it will normally only be relevant for certain types of investment, therefore naturally limiting its use. Private funding and its associated rigour and due diligence can often be leveraged into public infrastructure transactions. When done so, the themes and assessment tests of this guidance should be applied.

Context

1.10 The Scottish Public Finance Manual sets out the general principles which apply to the public sector's acquisition of goods and services, including works, and sets out policy on procurement which is to achieve VfM having regard to propriety and regularity. Public sector bodies which are subject to the Scottish Public Finance Manual are also subject to the mandatory policy and procedures of the SG Construction Procurement Manual in relation to non-privately financed works projects.

1.11 The guidance should be applied in conjunction with the HM Treasury Green Book, which details the approach which should be adopted in relation to option appraisal, and the Quantitative VfM Assessment Guidance. It should also be applied in conjunction with sector specific guidance, such as the Scottish Government Health Directorate's Scottish Capital Investment Manual ("SCIM"), available online at: http://www.pfcu.scot.nhs.uk/

1.12 **It is important to note that VfM is a relative concept which requires comparison of the potential or actual outcomes of alternative options.** Where appropriate this is reflected in assessments based on a relative comparison between conventional procurement and privately financed options (in whole or part) or on different available private finance routes. This requires a high degree of estimation, especially where experience and/or data on similar projects procured under different procurement routes is limited.

1.13 Care should be taken to ensure that VfM assessments consider whether markets have changed or matured, and that the most appropriate way to procure a project, or the best terms which can be achieved, may change over time. Therefore, care must be taken when comparing and benchmarking current situations to historical information and data.

Background

1.14 The VfM Assessment Guidance application note should be applied by Procuring Authorities, Agencies and Directorates planning to undertake privately financed investments (in whole or part) in Scotland. The application of these principles should be made in conjunction with the economic assessment methodology outlined within HM Treasury Green Book. Application will be relative to the stage in the project lifecycle which the project is at but will be consistently applied in each case. The guidance reflects:

- best practice procedures applicable to Scottish investment programmes;
- the approvals process for capital projects in Scotland;
- Scottish governance requirements such as the SG / STUC Staffing Protocol;
- where a decision on the use of a revenue financed approach has not already been taken at SG level, the requirement to use a Conventionally Procured Assessment Model ("CPAM") (see Quantitative VfM Assessment Guidance for further detail). This is a risk adjusted financial model which estimates the cost of the public sector procuring a project directly. It provides a quantitative VfM benchmark for the development of projects up to the point at which actual bids are received. This evaluation model will assist Procuring Authorities, Agencies and Directorates to help ensure that best value is achieved, and provide an audit trail of the VfM implications of a project throughout the procurement process.

Separate guidance is available in the Quantitative VfM Assessment guidance note.

- where a decision has already been taken at SG level that a project will only be offered revenue funding, the requirement to produce a revenue financed base case for the value for money assessment. Further guidance on this is in the Quantitative VfM Assessment guidance note
- in addition, qualitative VfM elements should be reviewed throughout the procurement process.

1.15 This note also refers to the application of Optimism Bias and risk analysis in VfM assessment. More detail on this aspect of the assessment is available in the Quantitative VfM Assessment guidance. A key concept is that better risk analysis (and in particular evidence-based analysis) should operate to reduce the level of Optimism Bias over time.

1.16 **The requirements of this guidance note are mandatory for public bodies in Scotland.** Where applicable, its requirements are included in relevant Key Stage Reviews ("KSR") completed by Procuring Authorities, Agencies and Directorates. Undertaking the KSR (or similar external review) process in Scotland is mandatory for all privately financed projects. In addition, Gateway reviews are now mandatory for other publicly procured capital investments which exceed £5 million and which are assessed as being high risk and/or mission critical.

1.17 **The default assumption for privately financed projects is that these will be funded through NPD (Non Profit Distributing) arrangements,** however this guidance can be applied to all infrastructure projects including those procured under alternative structures such as hub and joint ventures. For sectors where it is viewed that NPD is not suitable, consultation with the Scottish Futures Trust is required in order to determine the appropriate private finance model to test.

1.18 The NPD model has been developed in the Scottish market as a means of capping the returns earned by investors on public sector procurement at a level aligned with the corresponding risk transfer. The structure has been successfully implemented in the schools sector and is also being introduced to the health and transport markets. The NPD model is discussed further in the NPD Explanatory Note available online at: http://www.scottishfuturestrust.org.uk/docs/439/Explanatory%20Note%20on%20the%20NPD%20Model.pdf

1.19 Any clarifications in respect of this guidance should be referred centrally to the SFT. NHSScotland Bodies should refer to the SGHD Finance Unit / SGHD Property and Capital Planning Unit.

2. Summary of Guidance

Introduction

2.1 The guidance is designed to be applied at the following stages of a project's development:

- **Project Level** – the guidance outlines the approach which should be adopted at a project level to reconfirm that the procurement approach will be suitable. When projects are being procured through a private finance approach, NPD will be the default delivery solution (albeit recognising that, for many smaller revenue financed schemes the use of the hub initiative may be the most appropriate procurement route). The project level assessment covers the period from business case development and approval to advertising the project.

- **Procurement Level** – the guidance outlines the steps a procuring authority must take to ensure that VfM is delivered throughout the procurement process.

Application of Guidance

2.2 The flowchart overleaf summarises the steps to be taken in considering VfM in the different stages of development of a capital project (steps 2 and 3 are covered by this guidance).

Option Appraisal

- Assess available options in accordance with Green Book Guidance in order to prioritise capital projects to reflect current priorities and reform plans and associated funding availability.
- Identify programmes/projects which may be suitable for non conventional procurement, such as NPD.

STAGE 1: Programme Level Assessment
(SG/Directorate Level)

- Apply VfM Assessment to potential NPD and other revenue-funded programmes/project
- Determine NPD available funding
- Confirm there is sufficient flexibility within the overall resourcing for the proposed investment programme

- Publish investment programme including project details and timings.
- Pass Stage 1 Assessment details onto project teams

STAGE 2: Project Level Assessment

- Develop a project specific OBC following the VfM Assessment Guidance and Green Book where applicable for options appraisal,
- VfM Assessment Guidance should be applied in addition to sector specific guidelines, e.g. SGHD SCIM Guidance.
- Confirm VfM implications

Strong potential VfM Case

Weak potential VfM Case
Explore reasons e.g. scheme not suited to NPD? Is the reason for poor VfM NPD specific? If so, do not proceed as NPD.

STAGE 3: Procurement Level Assessment

- Issue OJEU if project continues to be VfM and there is sufficient market interest.
- Confirmation of continued VfM of the project against a Conventional Procurement Assessment Model / Shadow Bid Model.

Option Appraisal

2.3 Initially the public sector (and as applicable Procuring Authorities, Agencies and Directorates) should identify investment options, appraising these options by applying the principles of the Green Book therefore enabling the prioritisation of capital projects.

2.4 Investment programmes and projects should then be assessed in terms of considering their most appropriate procurement route to deliver Scottish Government policy objectives. Where a conventional procurement route is considered this can be tested for VfM against the Assessment Criteria and Qualitative VfM tests laid out in the appendices to this guidance. Procuring Authorities, Agencies and Directorates should follow any sector / Directorate specific guidance as required. However the generic principles conveyed in this guidance, particularly around qualitative assessment will apply to all projects irrespective of procurement route. Procurement disciplines and risk transfer mechanisms which enhance the investment outcome should be factored into the assessments made procurements by project teams.

2.5 Guidance on the qualitative evaluation of options can be found in the Green Book and sector specific guidance for example, SGHD SCIM guidance. In particular consideration should be given to the availability of capital and the efficiency of funding arrangements.

2.6 guidance on the quantitative VfM assessment at the various stages is contained in Appendix J.

2.7 The following appraisal process, which will be undertaken at three stages, is applicable for those projects considered suitable for private finance / DBFM procurement approaches:

Stage 1: Programme Level Investment Review

2.8 This entails testing the VfM of procurement options when overall strategic investment decisions are being made. The key aims of Stage 1 are:

Aims of Stage 1: Programme Level Assessment

- to ensure that investment decisions in Scotland are appropriate for the relevant sector and that **investment programmes are viable, desirable and achievable**;

- to recognise that **a private finance (NPD) solution is only one of a number of options and should be used when appropriate and demonstrates potential for VfM**;

- to **ensure that investment decisions demonstrate VfM at a strategic level** and to consider that there is potential budget flexibility to accommodate any subsequent decision not to use, for example NPD to deliver investments (for example, utilising the Prudential Funding regime or public capital as an alternative to private funding and related procurement);

- to **ensure programme investments are affordable.**

2.9 This stage will be carried out as part of the overall planning of the investment programme. In most circumstances, this stage will be undertaken centrally by the Scottish Government. Where Procuring Authorities, Agencies and Directorates are in receipt of central funding, they are required to adhere to this guidance which will normally mean complying with Stage 2 onwards.

2.10 Stage 1 involves assessing the suitability of a programme (or a typical project within a programme) for privately financed procurement (typically NPD), using both qualitative and high level quantitative assessment techniques which produce programme level outputs which are robust and can underpin decision making.

2.11 Where the use of NPD already been determined to fulfil national policy objectives, the high level quantitative assessment of a typical project in a programme, this stage will require **a Project Bespoke Shadow Bid Affordability Model.** This forecasts the costs and therefore the affordability implications of undertaking the project as, for example, an NPD. This will form the base case for the preferred options against which VfM can be assessed and will enable NPD / DBFM outputs to be driven from the affordability model.

2.12 SFT should be consulted in advance of such work being conducted to ensure that the methodology is robust and uses a standardised approach where appropriate.

2.13 The quantitative assessment at the investment programme stage will inevitably be conducted using only high-level estimates supported by appropriate evidence and should be used only as an indicator of whether there is potential to achieve VfM through the use of private finance. Other quantitative data that should be considered on a programme basis include:

- Economies of scale and efficiency gains across a programme;
- Programme set up and transaction costs of public and private sector participants relevant to financial / non financial benefits of the programme;
- Continuous improvement and related cost savings; and
- Transfer of risk through standardised contracts.

2.14 Separate evaluation of programme level affordability should be undertaken during the Stage 1 Assessment.

2.15 Note, the VfM of different procurement options is tested at this stage across the investment programme. Where an investment programme includes projects with significantly different characteristics, values or outcomes, then several examples may have to be analysed.

Stage 2 – Project Level Investment Review

2.16 Stage 2 covers the Project Level Assessment which includes the analysis of individual projects to ensure that they deliver VfM at a project level. In order to confirm this, programme level conclusions from Stage 1 should be re-tested in the context of the specific projects.

2.17 The key aims of Stage 2 are:

Aims of Stage 2: Project Level Assessment

- **review and confirm the VfM viability, desirability and achievability** of potential individual projects prior to making the decision to proceed with the procurement. This forms the basis of the qualitative analysis and assessment.

- **review and confirm the quantitative evaluation of VfM for the individual project**. VfM is typically tested by using a risk adjusted CPAM as an economic comparator against a shadow bid financial model (a proxy private finance structure).

- **assess and confirm** the affordability of the project (which a Shadow Bid Affordability model would inform). Projects must not proceed if affordability is not fully tested;

- **test the competitive interest for the project and the market capacity** to bid and deliver the project effectively and within the projected affordability envelope. Consideration should be given to:-

  - the likely project procurement processes and proposed timetable (for example to minimise transaction costs, promote market interest and minimise market failure in procurement etc)

  - Market capacity and optimal market launch timing should be reviewed with the relevant approving centre prior to project launch. In Scotland, Procuring Authorities, Agencies and Directorates will co-ordinate views on market capacity through the SFT. NHSScotland Bodies should refer in the first instance to the SGHD Capital and Facilities Division.

2.18 If the results of the Project Level Assessment indicate that improved VfM may be obtained by alternative procurement routes these alternative routes should be considered further by the Procuring teams.

Stage 3 – Procurement Level Investment Review

2.19 Stage 3 involves the procurement period from issue of OJEU through financial and commercial close to the operations of the project. During this period Procuring Authorities, Agencies and Directorates should continue to demonstrate that the private finance investment decision represents VfM and that the project is affordable.

2.20 Robust competition will be a key indicator of VfM throughout this stage.

2.21 The key aims of Stage 3 are documented in the table below:

Aims of Stage 3: Procurement Level Assessment

- to ensure **that the project is affordable, value for money and deliverable**;
- to reconfirm that the qualitative VfM areas of **viability, desirability and achievability still apply** (i.e. qualitative retesting);
- to **determine whether there is market failure or market abuse** and to protect against it;
- to **assess best value of private sector bids** by comparing them to previous and other current privately financed solutions, and where applicable against a conventional procurement option;
- to ensure that at all stages of the procurement process **a VfM audit trail is maintained** which supports the approvals process

2.22 Given that the potential suitability of the project for a privately financed procurement will already have been assessed in Stages 1 and 2, it is anticipated that in most circumstances this will produce a positive VfM outcome. If the project does not demonstrate a positive VfM outcome, the reason for this should be assessed and the factors should be reviewed to assess if the project should proceed and if so on what basis.

2.23 The three VfM Assessment Stages are considered in more detail in the following chapters of this guidance and within the supporting pro-formas detailed in the appendices.

Other Considerations When Comparing NPD and Conventional Procurement

2.24 When assessing a projects suitability for private finance (typically via NPD), the following factors should be considered, at each stage, by Procuring Authorities, Agencies and Directorates:

1. **Affordability** – fundamental to any procurement decision will be a realistic affordability calculation, which refers to what is affordable across a programme or for individual projects based on spending allocations, budgets and future settlements. Programmes and projects will not be able to proceed or be presented to the market unless they are signed off as affordable at appropriate board and stakeholder level. This sign off will be reviewed as part of the KSR process.

    - The Scottish Government expects Procuring Authorities, Agencies and Directorates to undertake a thorough assessment of the likely project costs (inclusive of risk and Optimism Bias). This should be based upon the expected delivery specification, balance sheet treatment and take into account current/future market pricing and conditions.

    - It is recommended that on a project basis, a robust view of affordability is derived from a shadow bid affordability model.

    - The key affordability driver for Procuring Authorities, Agencies and Directorates will be the estimate and reliability of sources of funding available to meet conventional or privately financed procurement cost over the associated timescales.

- The affordability analysis **must include appropriate sensitivity testing** to take account of likely changes in key assumptions (for example, inflation and interest rates) should be assessed.

It is vital that in drawing up specifications Procuring Authorities are mindful of their affordability envelope, and the future resource implications. For long term investment decisions Procuring Authorities will need to demonstrate that the effects of long term inflation projections and potential future budget allocations have been considered.

2. **Design Quality** – Relevant Directorate guidance should be applied (e.g. SG Design Quality in Building Procurement section of Construction Procurement Manual, SG Architecture Policy Unit, Directorate Design Development Protocols, NHSScotland Design Quality Policy, CABE etc) as well as best practice in respect of sustainability

3. **Sustainability** – The Scottish Government is committed to promoting sustainability through procurement both directly and indirectly. Therefore all business cases for major infrastructure projects should include consideration of the use of sustainability measures in the project. This should include a statement of what will be sought through the specification (for example, low carbon footprint building, maximum energy use ceiling, etc). Procuring Authorities, Directorates and Agencies should also confirm that they are applying relevant Public Procurement Guidance and incorporating the requirement for the use of a minimum of 10% recycled materials in construction projects, where appropriate.

4. **Workers Terms and Conditions** – consideration of the benefits and disadvantages of transferring staff and the corresponding impact on risk allocation should be considered when assessing the appropriateness of revenue financed solutions. Note, the STUC Staffing Protocol must be addressed and applied at Stage 2 by Procuring Authorities, Agencies and Directorates.

5. **Scope of Services Provision** – the range of services being procured should be subject to achieving improved standards of service delivery. Due consideration of the impact of long term and. short term service provision must be undertaken.

- As noted above, the SG/STUC Staffing Protocol must be applied by Directorates and Procuring Authorities
- An assessment pro-forma has been developed by the Scottish Government and is included in Appendix F.

6. **Wider factors that impact upon the VfM of different procurement routes** – Procuring Authorities, Agencies and Directorates should take account of any differentials in the benefits or risks arising from alternative procurement options, for example in terms of the timing of or the quality of service delivered (see Quantitative VfM Assessment guidance Appendix C). Specialist assistance maybe required here. Where the relevant risks and benefits of different procurement strategies are noted, reference should be made to the Scottish Government Construction Procurement Manual that refers to alternative procurement options.

7. **Uniqueness of Project** – in the case of "unique" or potential pathfinder projects, it is recommended that Procuring Authorities, Agencies and Directorates consult with the SFT (NHSScotland Bodies with the SGHD Capital and Facilities Division) to establish how the VfM assessment should be taken forward.

8. **Market related factors** – circumstances may exist in a constrained bidder market for example, where there is a strong supply of projects where certain risk transfer scenarios (for example, refurbishment scope and related risk transfer position) may not encourage competitive bidding. This needs to be monitored and the implications for individual projects assessed. Specific VfM testing should be undertaken in circumstances when there is a single supplier – See Appendix G.

9. **Disclosure of VfM information to the wider public** – it is expected that Project and Procurement level VfM information will remain confidential to public sector bodies (subject to FOI and Full Business Case disclosure). However, Evidence Bases detailing cost input information and containing details on risk assessments should be retained centrally for experience, understanding and information sharing in the public sector.

10. **Balance sheet treatment** – as well as ensuring that projects are affordable, Procuring Authorities, Agencies and Directorates should also undertake a

realistic assessment of the likely balance sheet treatment. Recognising that private finance should only be pursued where it delivers VfM and not to secure any particular balance sheet treatment Procuring Authorities, Agencies and Directorates should discuss likely accounting issues with their external auditor during the procurement process and sponsoring Directorates as appropriate. The accounting treatment of a programme or project does not form part of the direct VfM assessment. Whether the investment is on or off-balance sheet is a decision taken by independent auditors and is not relevant to the VfM of the procurement route. To ensure integrated and informed decisions on application of private finance are made Procuring Authorities should consider the consequences of the privately financed transaction being treated as a capital asset for accounting purposes.

11. **Taxation** – where a choice of procurement routes lead to different outcomes in terms of tax receipts, these should be taken into account in the VfM assessment. Procuring Authorities, Directorates and Agencies should refer to the Revised Green Book and supporting documentation. Taxation Adjustments will also be required when using the Conventional Procurement Assessment Models.

12. **Best Value** – the duty of best value allows Local Authorities flexibility to judge the most appropriate approach to procurement, including NPD solutions. It encourages approaches to procurement that challenge the economy, efficiency and effectiveness in the provision of better and more responsive public services. VfM is central to Best Value but it should not be regarded purely in terms of balancing quality and cost. In considering the most viable, desirable and achievable method of procurement VfM must also take due regard to the other elements of Best Value, including sustainable development, equalities and the capacity for continuous improvement

13. **Externalities:** As set out in the Green Book, the assessment of externalities – negative or positive – is necessary in making an investment decision. For example, the undertaking of a procurement may have an impact on the supply side capacity of a particular part of the private sector. While this should be undertaken as part of the Green Book investment assessment, should different externalities exist for different procurement routes then these also must be taken into account in making the VfM assessment.

14. **Long-term certainty and flexibility:** Most privately financed projects are procured under long-term contracts. The process of procuring long-term infrastructure and services funded by private finance can often provide greater certainty of the whole-of-life costs and standards of service compared to conventional procurement. This certainty may reduce absolute flexibility but, provided the procuring authority carefully considers the scale and scope of the service needed over the long-term and structures the contract for a commensurate term, the long term contract may still generate a better VfM outcome. Upfront consideration at Programme Level of the long-term policy strategy should, therefore, also feed into the VfM assessment.

15. **State of project and programme readiness:** It is important that Procuring Authorities allocate sufficient resource to adequately prepare and develop the project before formal engagement with the market. Excessive bid costs and delays in the procurement process resulting from poorly developed projects often erode the VfM in procurement. This is prevented through strong project management and setting realistic timetables to ensure that projects are well developed before release to market.

2.25 **These factors must be considered at the Programme Level and Project Level Stages. They should also be reconsidered as appropriate in the Procurement Level Stage.** In particular in the procurement stage, other VfM assessment guidance will be applied to decision making, for example assessing the competitiveness of Private Sector funding. The following generic factors which drive VfM must also be considered:-

Factors Driving Value for Money

2.26 The Table below details some of the factors which will influence the VfM of a project:

Generic Factors driving Value for Money
• **The optimum allocation of risks between the various parties** ensuring that risks are allocated to the party, or parties, which are best placed to manage and minimise these risks over the relevant period; • **A rigorously executed transfer of risks** to the parties which are

responsible for them, ensuring that the allocation of risks can be enforced and that the costs associated with these risk are actually borne by the parties in the manner originally allocated and agreed;

- **Focusing on the whole life costs** of the asset rather than only the upfront costs involved;

- **Integrated planning and design of the facilities-related services** through an early assessment of whether the possible integration of asset and non-asset services (e.g. soft services) should deliver VfM benefits;

- **The use of an outputs specification approach** to describe the Procuring Authority's requirements which, amongst other things, allows potential bidders to develop innovative approaches to satisfying the service needs of the procuring authorities;

- **Sufficient flexibility** to ensure that any changes to the original specification or requirements of the procuring authority and the effects of changing technology or delivery methods, can be accommodated during the life of the project at reasonable cost to ensure overall VfM;

- **Ensuring sufficient incentives within the procurement** structure and the project contracts to ensure that assets and services are developed and delivered in a timely, efficient and effective manner, including both rewards and deductions as may be appropriate;

- **The term of the contract** should be determined with reference to the period over which Procuring Authorities can reasonably predict the requirement of the services being procured. This will require careful considerations of factors including: potential changes in end-use requirements; policy changes; design life of the asset; the number of major asset upgrades or refurbishments during the period of the contract; potential changes in the way services could be delivered (e.g. technical advancements); and the arrangements for the asset at expiry of the contract;

- **Sufficient skills and expertise** in both the public and private sectors, and these are utilised effectively during the procurement process and subsequent delivery of the project; and

- **Managing the scale and complexity** of the procurement to ensure that procurement costs are not disproportionate to the underlying project(s).

Conclusion

2.27 Previous studies have concluded that other forms of procurement could secure many of the benefits that private finance delivers and further that it could be inferred that decisions in favour of privately financed procurement may be driven by stereotypes of poorly performing alternatives rather than good evidence of demonstrable benefit. Having genuine choice in procurement route should foster intelligent decisions which are likely to be in the best long term interests of both public and private sectors. Therefore the benefits of maintaining a mixed economy of procurement options should be realisable. It should be noted that the opportunity to capture the benefit from private finance is not present to the same degree in every project and some benefits are more strongly associated with particular project phases.

2.28 One of the key aspects of the approach to assessing VfM is the need to ensure that the quantitative VfM analysis is not considered in isolation – qualitative assessment, wider VfM factors and evidence based examples are central to decision making. It will be necessary to take account of previous delivery and experience of privately financed projects when Procuring Authorities, Agencies and Directorates are promoting the future procurement of infrastructure assets. It is recommended that referral is made to available project databases and reports maintained or published by the Scottish Government, Infrastructure UK, Audit Scotland and HM Treasury. Going forward, Procuring Authorities, Agencies and Directorates must put in place mechanisms for collating, retaining and sharing information to build an evidence base of relevant privately financed projects information (e.g. input cost rates, percentage risk uplifts etc). A full and transparent audit trail at each stage must be maintained to facilitate and influence future investment decision making.

2.29 In respect of the **overall VfM judgement** the following should be noted:

- **Marginal results:** At either a Programme or individual Project level, where the difference in the assessments of the conventional option and the privately financed option are marginal (small positive for or against) the outcome should not be interpreted as sufficient evidence for or against the use of revenue finance as a procurement route. In such cases more weight should be given to the qualitative rather than the quantitative assessment.

- **Uncertainty and sensitivity analysis:** Where there is a high level of uncertainty around inputs, or outputs are highly sensitive to the input variables, it is appropriate to place greater weight on the qualitative assessment or to invest more time and money in establishing higher confidence in the most critical assumptions. Procuring Authorities should in any event undertake appropriate sensitivity analysis.

In all cases, the overall assessment must note an appropriate and thorough explanation and justification of the leading factors in both the quantitative and qualitative analyses, plus wider VfM factors in coming to a decision, especially where the two assessments do not appear supportive of one another.

2.30 This guidance includes a framework for evaluating the appropriateness of revenue financed procurement (e.g. NPD) as a procurement route and subsequently providing Value for Money audit trail for privately financed investments. It must be applied to all privately financed procurements in Scotland. At each stage, appropriate sign off on Value for Money must be provided by the Scottish Government and the relevant procuring authority.

2.31 Studies and assessments have demonstrated that the level of competition in the market for a privately financed project impacts directly on VfM. Therefore strong competition is a fundamental requirement for project delivery in Scotland. This should be facilitated by adopting the appropriate scope and scale, level of risk transfer, timing of launch, promotion and marketing of programmes and projects.

2.32 Within the following sections of this guidance we review:

- The approach to be adopted in Stage 1 the Programme Level Assessment
- The approach to be adopted in Stage 2 The Project Level Assessment; and
- The approach to be adopted in Stage 3 the Procurement Level assessment.

The appendices provide additional detail on the pro-formas to be adopted when assessing VfM and the assessment of VfM in specific sectors such as transport.

3. Stage 1: Programme Level Investment Reviews

Introduction

3.1 Within this section of the guidance, we outline the approach which should be adopted at programme level to assess whether privately financed solutions such as NPD would be a suitable procurement option for policies involving significant capital investment. This section reviews the approach to the qualitative assessment, quantitative assessment, and finally how the combined results should be assessed.

3.2 This stage will be carried out as part of the overall investment programme planning. **In most circumstances, this stage will be undertaken centrally by the Scottish Government, normally as part of the Spending Review process.** A programme is defined as *"a portfolio of projects sharing a number of common characteristics, selected, commissioned, planned and managed in a co-ordinated way and which together achieve a defined set of business objectives"*.

3.3 The aim of this first stage is to confirm that there is an appropriate understanding of the procurement routes best suited for particular capital investments or investment programmes and that there is a close match between the requirements of each investment or programme and the capability, resource and market capacity to complete each investment or programme.

Stage 1 Programme Level Assessment outcomes:-

- provide an early assessment of whether alternatives to conventional procurement, including NPD, are likely to provide VfM for a programme of investment in public services
- help indicate which procurement route should be used within an overall programme (e.g. private finance / NPD in whole or part or not at all)
- assist budgeting between revenue and capital impacts
- ensure investment programmes are affordable

- give an understanding of how risks apply, or can be managed, in respect of different procurement routes
- increase transparency and improve deal flow
- ensure that necessary frameworks are in place (structure, skills, resource) to implement a programme

3.4 **The assessment at this stage may assume that there is already a prima facie case for selecting a privately financed / NPD procurement route,** for example in a sector which has a track record of delivering effective revenue financed projects above a certain capital value. Appendix A provides details of the features that make a project suitable for a privately financed solution. A checklist review of these areas must be completed.

3.5 Depending upon the sector and how investment decisions are made a Programme Level Assessment may not be required. Alternatively, a series of individual Project Level Assessments may be more applicable. If this is the case, the requirements and disciplines required at the Programme Level Investment Review stage should be encompassed and rolled into the Project Level Investment Review stage. **It is expected that "unique" or pathfinder projects within a Programme will be tested individually.**

Requirements at Stage 1:

3.6 At a Programme Level, the VfM assessment should include both a qualitative assessment and a quantitative assessment. This will most usefully be undertaken in advance of Spending Reviews, in order to help inform budget allocation decisions.

3.7 Generally this stage will be completed by the Scottish Government as part of its role in planning for, and assessing, infrastructure investment and appropriate delivery routes. This will entail investment programmes and projects being assessed in terms of considering the most appropriate procurement route to deliver Scottish Government policy objectives. For those identified as potentially suitable for private finance and therefore a move away from conventional procurement, this application note applies. For other procurement routes, applicable guidance from the SG Construction

Procurement Manual should be applied. The SG Construction Procurement Manual details various procurement routes that could be considered, including NPD and DBFM. An overview of the characteristics which could make a project suitable for private finance is provided at Appendix A of this guidance.

Stage 1: The Qualitative Assessment

3.8 The Qualitative Assessment considers the **Viability, Desirability and Achievability** of NPD compared with traditional procurement. It is likely that this assessment is best undertaken in a workshop environment involving stakeholders and, where necessary, advisors.

3.9 The underlying considerations regarding viability are:

Viability

Objectives and Outputs

- Can service requirements be stated in clear objective output based terms?
- Can the effectiveness of service delivery be measured and monitored?

Operational Flexibility

- Can operational flexibility be maintained over the lifetime of the contract?
- What is the appropriate contract length for projects in the programme?

Equity and Accountability

- Are there public equity reasons for providing the service directly?
- Are there accountability reasons for providing the service directly?

Regulation and Legislation

- Are there any regulatory reasons for providing the service directly?
- Are there any legal reasons for providing the service directly?

3.10 The above considerations focus on whether:

- there are issues that require that the services be provided by the public sector directly; and,
- the service be captured in an output specification and contract based approach.

3.11 When assessing viability, the public sector must ensure that that the appropriate Accountable Officer is satisfied that operable contracts, with built in flexibility, can be constructed and that any strategic and regulatory issues that impact on the public sector can be overcome.

Desirability – is the Procurement Route Desirable?

3.12 The underlying considerations relating to desirability are:

Desirability

Risk Management

- Does the project involve the purchase of a capital asset?
- Are the risks of cost and time overruns likely to be significant?
- Are there significant operational cost risks?

Innovation

- Is there likely to be scope for innovation in service delivery?

Service Provision

- What is the role of soft services i.e. facilities management?
- Are there good strategic reasons to retain soft services in house?
- Is soft service transfer essential for achieving improved service delivery?

Incentivisation

- Is incentivisation likely to result in enhanced service delivery?

Lifecycle Costs and Residual Value

- Is it possible to integrate asset design, construction and operation?
- Is it possible to achieve significant whole life cost savings?

3.13 The following risks should be considered on a Programme / Project Level basis:

Risks

I. **Design**: can the service provider be made responsible for ensuring the design is fit for purpose and for all resources required for design and development activity?

2. **Financing**: can the service provider be made responsible for establishing and maintaining the funding for service provision throughout the contract life?
3. **Implementation**: can the service provider be made responsible for all aspects of implementation, transition and certification?
4. **Operation**: can the service provider be made responsible for delivery of a high quality service at required levels of availability and continuity?
5. **Usage**: can the service provider be made responsible for costs associated with variations in demand?
6. **Regulatory change**: can the service provider be made responsible for the consequences of changes in non-discriminatory legislation, such as national minimum wage?
7. **Obsolescence**: can the service provider be made responsible for ensuring that the technology underpinning service delivery - and the service delivery mechanism itself - remains consistent with contemporary market standards?
8. **Service provider lock-in**: can the service provider be made responsible for ensuring that the service is provided in such a way as not to constrain the Authority's ability to continue to meet its requirements cost-effectively in due course via an alternative supplier/solution?
9. **Residual value/disposal**: can the service provider be made responsible for the residual value of the assets at the conclusion of the service contract?

3.14 In assessing the above considerations, the relevant benefits of different procurement routes should be assessed (for example, by reviewing optimal risk transfer; the impact of signing a long term service contract; the scope for innovation; the appropriateness of internal / external FM provision; the relationship between design, whole life costing and operation).

Achievability – Is the Procurement Route Achievable?

3.15 The table below documents the key underlying considerations relating to achievability:

Achievability

Market appetite

- Is there sufficient appetite in the market to take the project forward under a revenue financed structure that is without equity and with capped returns on finance?

Transaction costs and client capability

- Is there sufficient client side capability to manage the procurement?
- Can appropriately skilled procurement teams be assembled?
- Is there a sufficient budget to fund the procurement process?

Competition

- Is there evidence that the private sector can deliver the required outputs?
- Is there likely to be sufficient market appetite for the project?

Meaningful use for surpluses

- Has a meaningful use been identified for any project cash surpluses over a programme to ensure that they can be distributed for the benefit of the public sector or wider community?

3.16 In assessing the above, consideration should be given to the likely level of market interest. Market appetite is likely to differ depending on the nature and risk profile of projects in a programme and therefore market testing should be carried out to gauge interest. Procuring bodies should also consider whether the public sector has the management expertise to manage a programme and individual procurements and how costly they will be to procure (transaction costs of public and private sector participants).

3.17 When assessing achievability the public sector must ensure that the appropriate Accountable Officer is satisfied that the procurement programme is achievable, that there is sufficient client side capability to deliver the project and that projects will be attractive to the market.

3.18 Scotland has a track record of delivering revenue financed Programmes that meet these requirements. Programmes should be developed building upon previous experience and standardised methodologies and procurement practices.

Stage 1: The Quantitative Assessment

3.19 When undertaking the Programme Level Assessment, a representative project (or projects) should be selected for the purposes of high level quantitative modelling so supportable conclusions across the whole programme can be drawn. If an investment programme encompasses elements with significantly differing characteristics, then examples from each different class of project will need to be considered.

3.20 For the quantitative VfM assessment appropriate technical support and databases which estimate applicable capital, lifecycle and revenue costs of a capital investment or capital investment programme should be utilised. In addition benefits, risks (including Optimism Bias) and relevant transaction costs should be assessed. When combined these considerations amount to the **"Conventional Procurement Assessment Model"** (**CPAM)**. On an individual project where the procurement route has not already been determined at a Programme Level, the CPAM will be compared against the NPD financed option derived from a Shadow Bid Model.

3.21 Further detail on the quantitative assessment and the application of Optimism Bias and Risk is contained in Appendix J.

3.22 The following high level qualitative indicators should be assessed at the programme level:

- Economies of scale and efficiency gains across a programme;
- Programme set up costs and transaction costs of public and private sector participants relevant to financial / non financial benefits of the programme;
- Continuous improvement and related cost savings; and
- Transfer of risk through standardised contracts.

Results of the Qualitative and Quantitative Assessments

3.23 At the completion of Stage 1, the results of the Qualitative and Quantitative Assessments will need to be combined to identify the preferred option. This should provide justification for the preferred procurement route, on an individual project or programme basis, and recognise any limitations of the component parts of the assessment.

3.24 It should be noted that the Quantitative Assessment must be viewed in light of the results of the Qualitative Assessment. Care must be taken in evaluating the relative weighting of the qualitative and quantitative assessments. Where possible, reference should be made to previous experience and evidence bases.

3.25 Procuring Authorities, Agencies and Directorates can then assess the VfM implications further at the project level investment (OBC) stage.

3.26 Appendix B details the reporting requirements for this stage of the assessment.

3.27 The following section reviews the application of the VfM guidance at a project level from the development of the Outline Business Cases through to OBC project approval prior to commencing procurement through the OJEU.

4. Stage 2 – Project Level VfM Assessment

Introduction

4.1 This section of the guidance reviews the approach which should be adopted to assessing VfM at a project level covering the development of the Outline Business Case, confirmation of the final project scope and procurement route to OJEU. It is applicable to projects where the Stage 1 assessment has indicated that a NPD procurement route is likely to be VfM.

Approach

4.2 Following the Programme Level assessment, the Stage 2 assessment aims to confirm that the procurement route identified is the most appropriate procurement route for an individual project. **Typically this stage is linked to the OBC process.**

4.3 The Project Level assessment seeks to verify that the assumptions, upon which the Stage 1 decision was based, remain supportable in the market conditions which prevail prior to advertising the project. The OBC itself should confirm both the preferred option (e.g. location, scope, affordability) and the preferred / selected procurement route. This should be endorsed by the relevant stakeholders through an appropriate governance process.

4.4 The Stage 2 Project Level review further expands upon the qualitative and quantitative assessment undertaken at Stage 1, and where applicable, facilitates the review and refinement of the initial Programme Level VfM for an individual project.

4.5 It enables Procuring Authorities, Agencies and Directorates to consider and, if applicable, switch to conventional procurement if that would provide improved VfM and a better fit with the funding options compared to the initial conclusions from the Stage 1 Programme Level Assessment. In reverting to conventional procurement, Procuring Authorities, Agencies and Directorate would apply relevant guidance within the Scottish Procurement Manual.

4.6 This stage will give Procuring Authorities, Agencies and Directorates **a better understanding of capability and capacity** to take the project forward and deliver the following outcomes:-

Stage 2: Project level assessment outcomes:-

- verify the decision to use the procurement route identified at the Programme Level, or if not identified at the time select the appropriate procurement route to progress to market. If applicable, indicate to Procuring Authorities, Agencies and Directorates that better VfM may be achieved through an alternative procurement route

- ensure that the procurement only proceeds if it is affordable. It will provide improved cost estimates AND improve the evidence base in respect of cost information

- where applicable test whether a revenue financed solution is marketable and attractive to bidders (market interest)

- consider and verify expected risk sharing / allocation arrangements;

- enable, if applicable, project re-scoping

- help ensure an efficient bid process will be put in place

- ensure the procurement team is adequately resourced and project governance is appropriate.

- ensure that an appropriate and meaningful use has been identified for the distribution of surpluses.

4.7 It should be noted that any differences in the conclusions at the Stage 2 Project Level Assessment compared to the Stage 1 Programme Level Assessment must be fully explained and documented by the project owners and sponsors.

4.8 Within this stage, unless already determined at a Programme Level, a quantitative VfM assessment using the Conventional Procurement Assessment Model (CPAM) and a Shadow Bid Affordability model should be undertaken. Before this work is undertaken advice should be sought from either SFT or the relevant Finance Business Partner (or equivalent).

4.9 If required, the CPAM developed for the procurement stage will reflect the same project timings, the specification and project risk allocation that bidders are pricing. It will be a key element of the audit trail of the project. The Shadow Bid Affordability Model will include risk pricing through Optimism Bias uplift and a bespoke project risk uplift as appropriate.

Requirements which Authorities must undertake:

4.10 At Stage 2, Procuring Authorities, Agencies and Directorates who have undertaken Programme Level Investment reviews must refine the Stage 1 Qualitative Assessment and Quantitative Assessment to reflect the specific project in question. This update is undertaken during the Outline Business Case stage.

4.11 The Stage 2 assessment elements should be reflected in the Outline Business Case submitted to the relevant approval body.

4.12 Requirements noted in this guidance at the Stage 2 Project Level will be assessed in the KSR process (or equivalent).

Stage 2: The Qualitative Assessment

4.13 In relation to the decision to proceed with NPD, Procuring Authorities, Agencies and Directorates should reconfirm the:

- **Viability**
- **Desirability**
- **Achievability**

of the investment decision (refer to the requirements at Stage 1 and the detailed pro-forma at Appendix C). These were explained in detail in Section 3 - please refer to this part of the guidance.

4.14 Procuring Authorities, Agencies and Directorates will also need to assess at this stage whether there is any cause to believe that there could be market failure (lack of bidder competition), market abuse (inappropriate bidder behaviour and pricing at the preferred bidder phase) or that the project risk allocation will be undeliverable.

4.15 Appropriately structured market soundings should be undertaken. This process should cover:-

Market sounding considerations

- being aware of the range and number of projects vying for market interest; (locally and nationally, within and across sectors);
- being aware of any actual or emerging market capacity constraints within their sector or related sectors through dialogue with other directorates where necessary;
- assessing formally the level of market interest in particular projects in the context of both the individual project scope and circumstances and competing demand from other projects likely to approach the market at around the same time;
- considering the case for managing the release of projects to the market particularly within sectors, thereby creating a transparent pipeline of projects and avoiding clusters of projects reaching market at the same time;
- seeking to actively promote a dynamic market by, for example, ensuring that barriers to entry remain low (but subject to appropriate pre qualification tests); and
- considering the development and promotion of a long-term competitive marketplace across a market significant programme or new business area and avoiding creating market dominance.

4.16 **If it is determined prior to advertising the project that the benefits assumed for revenue financed procurement cannot be delivered by the market (for example due to market capacity) or the project is not considered affordable, then the investment route and project scope, timing and delivery should be reassessed**

and revised accordingly. If it is possible to achieve the benefits by delaying the launch of the project (for example if several similar projects have recently gone to the market), this should be considered by the Procuring Authority in conjunction with the SFT or SGHD PFCU.

4.17 To address this at Stage 2 Project Level Assessment, Procuring Authorities, Agencies and Directorates supported by their professional advisers, should develop a market consultation strategy and should undertake relevant market soundings and promotion with bidders, including consulting and information sharing with the SFT and other Directorates as appropriate (i.e. SGHD Capital and Facilities for NHSScotland Bodies).

Stage 2: Quantitative Assessment

4.18 At Stage 2, the quantitative evaluation should be updated so the following variables reflect the specific project and cost environment as follows:

- capital costs
- lifecycle cost
- revenue costs
- risks and Optimism Bias
- benefits appraisal (where this is likely to differ between options)
- transaction costs

4.19 This should be completed in accordance with the Green Book. It should be collated and reviewed by the Procuring Authority, Agency or Directorate. The variables should be verified by appropriate technical support.

4.20 Detailed quantitative VfM guidance is contained in Appendix J.

Affordability

4.21 To demonstrate affordability at this stage, it is necessary to develop a Shadow Bid Affordability Model, (typically developed by external advisers).

4.22 Note, at this stage, Procuring Authorities, Agencies and Directorates must have a high degree of confidence in respect of the affordability and balance sheet status of the project. Any impact of balance sheet status on central funding and support should be referred to individual Directorates.

STUC Staffing Protocol

4.23 It is mandatory to apply the STUC Staffing Protocol on all privately procured projects. In terms of the opportunity for in-house teams to deliver soft FM services within a private finance context, the Quantitative Assessment at OBC stage is not an appropriate benchmark for an in-house bid. These must be tested during the procurement process. In addition the potential savings from in-house FM provision should not be applied to the CPAM to form a differentiator for conventional and non-conventionally procured investment.

4.24 Where an in house bid is being assessed, this should be done in a market testing exercise and the public sector bid must be comparable to and based on the same assumptions as the private sector bid (e.g. in terms of risk allocation and service specification).

Results of the Qualitative and Quantitative Assessments

4.25 The quantitative assessments, sensitivity testing and the qualitative analysis will confirm the preferred project scope and procurement route. Procuring Authorities, Agencies and Directorates will need to determine the weighting to be applied to these aspects of the VfM assessment. The quantitative VfM factor is likely to differ by sector.

4.26 The Qualitative Assessment should inform the confidence placed on the Quantitative Assessment.

4.27 Procuring Authorities, Agencies and Directorates must calculate and confirm their own affordability envelope and compare this with the results of the quantitative analysis. If a project is deemed unaffordable, it should not be pursued.

4.28 If privately financed or NPD procurement does not represent VfM, the reasons why the project is not VfM should be reviewed as well as the appropriate procurement route. This may involve re-examination of the project, its scope and allocation of risk. Assessors should consider the following:-

- identify why and whether the issue is specific to the proposed procurement route or to procurement of the project in general;

- consider the case for a delay to the start of the procurement, if this can address the concern;
- reconsider the criteria to be set out in the OJEU Notice and determine whether there is another way to deliver the business requirement; and
- reconsider the procurement route and the possibility of switching to other forms of procurement.

4.29 When considering the VfM assessment, Procuring Authorities, Agencies and Directorates must accord proper weight to the respective parts of VfM analysis - qualitative and quantitative. Provided that the indicative VfM is positive and is based on a balance of combined qualitative and quantitative VfM elements, the project can proceed: there is no necessity to prove quantitative VfM above a particular percentage. Audit Scotland supports this approach. Judgement of the weighting between the qualitative and quantitative elements is a key consideration as is reference to previous evidence bases in assessing qualitative and quantitative assessments.

4.30 Where there is an affordability constraint, the combination of proposals should be selected that optimises the value of the benefits.

4.31 **In Scotland no project in receipt of central government funding should proceed to market (the Procurement Level Stage) prior to receiving OBC approval from the relevant Directorate.** In the case of NHSScotland Bodies, following OBC approval by the Capital Investment Group, a Pre-OJEU KSR is required. This should be discussed with the SGHD Capital and Facilities Division. An OJEU should only be placed following approval from the relevant Directorate. For all NPD Projects, the Director of the SFT and relevant Directorate should be informed of the launch details.

4.32 The table and reporting requirements at Appendix C must be completed.

4.33 Within the following section of the guidance, we outline how the VfM assessment must be approached during the procurement phases of a project.

5. Stage 3 – Procurement Level VfM Assessment

Introduction

5.1 Within this section of the guidance, we review the approach to the VfM assessment during Stage 3 from the final approval of the Outline Business Case and OJEU issue through to financial close / contract award. The requirements at this stage are based on the assumption that a revenue financed solution is being undertaken to deliver the project. **Key to delivering VfM at this stage is a robust bid competition in procurement.**

5.2 Before proceeding to OJEU, Procuring Authorities, Agencies and Directorates in Scotland must complete the following checklist:

Pre OJEU checklist:

i. confirm their affordability envelope;

ii. establish what affordability and cost information will be shared with bidders;

iii. confirm ongoing VfM of the project;

iv. assess and confirm that their specifications align with their affordability envelope;

v. confirm that standardised legal agreements and approach will be applied in procurement;

vi. confirm with the SFT and other relevant Directorates and Agencies the procurement timetable and forecast OJEU and ITPD issue dates;

vii. consider the timing of a funding competition;

viii. have an internal risk management register and plan in place; and decide on the scope of soft FM services to be procured, or decide to test during procurement in accordance with SG / STUC protocol.

5.3 In Scotland within procurement (post OBC) it is a requirement that Procuring Authorities, Agencies and Directorates demonstrate the VfM of NPD on both a **qualitative and quantitative**. They should therefore:

- continue to confirm that the project in procurement is Viable, Desirable and Achievable (reaffirming previous workshop outputs as applicable);
- utilise a Shadow Bid Model as an initial VfM comparison against actual bids (to ensure the bids reflect defined project scope, current market conditions and structures etc); and
- where applicable utilise market information and research databases of other NPD outturns to compare and assist with VfM calculations and benchmarks.

The need for VfM tests beyond receipt of bids

i. to provide Procuring Authorities, Agencies and Directorates with:-
   a. additional comfort and sign-off regarding investment decisions
   b. adherence with best value principles
   c. additional audit trail supporting investment decisions

ii. it addresses the fact that NPD procurements on average last a minimum of 2 years from OJEU and in some circumstances may only reach contractual and financial close 2 – 3 years post OBC submission (Project Level Stage), hence VfM reasons to progress the deal should also be reconfirmed (but always considered in the qualitative context)

iii. it needs to be recognised that the quantitative assessment at the Procurement Stage is only one of a number of VfM elements reviewed (e.g. there is a review of competition, the benefits of the investment, etc) and although there will also be sensitivity testing of the quantitative outcome, it is not to be viewed in isolation.

5.4 After taking account of supporting qualitative factors, should this assessment against a shadow bid affordability model suggest that the bids do not offer VfM, then the NPD procurement process should be halted and further analysis undertaken. The Procuring

Authority should assess the underlying reasons for the shift in VfM and should consider alternative options which address these issues, such as re-scoping the project and putting it to the market at a later date, or if capital budget becomes available, reconsideration of conventional procurement. The Procuring Authority and its advisers should consider the financial and wider implications of the alternative options put forward at this stage. The full consequences of re-scoping the project or changing procurement route should be considered, taking into account factors such as:

- impact on timetable;
- impact of delay on cost;
- sunk costs already invested;
- the ability to maintain market confidence; and
- availability of alternative sources of finance.

Procuring Authorities, Agencies and Directorates must consult with the SFT, SGHD Capital and Facilities Division as appropriate when making these decisions.

5.5 Throughout Stage 3, Procuring Authorities, Agencies and Directorates must monitor their projects to:

- **identify and be aware of any or potential market failure** (lack of competition and lack of bidders). If at any stage the procurement team identifies market failure (e.g. absence of competition), they should consider the implications for the project. Market fFailure or lack of competition occurs where there is only a single bidder for a project or perhaps where there are two or more bidders but only one is considered to be credible. The concern is that in the absence of competitive tension the bidder may not be appropriately incentivised to offer its best price, terms and conditions to the public sector. In this case market abuse might arise (see below). However, procurement should not automatically be stopped as a result of market failure and the Procuring Authority should undertake a thorough review of the market failure circumstances affecting the particular project in reaching their view on the way forward. If it is not possible to take appropriate additional action that satisfy the Accounting Officer then the procurement should be halted. In considering whether the procurement should continue, the reason for the market failure should be examined closely. The team should establish whether the failure of competition is due to systemic problems in the market, in which case the failure should equally affect alternative procurement routes. It is recommended that internal / external auditors have due sighting of the procurement process. Also see Appendix G.

- **ensure a robust competition is maintained** in procurement. A competitive procurement is one of the ways in which the public sector aims to achieve VfM in its procurement activities. Procuring Authorities should be confident that the procurement will receive an adequate competitive response and that competition can be maintained throughout the resulting procurement process. The Procuring Authority should regularly review the quality and extent of competition throughout the procurement phase until the selection of preferred bidder. A robust competition requires a number of well-qualified bidders who have expressed strong interest in bidding for the project.
- **ensure minimisation of transaction costs** to both the public and private sectors. It is key in achieving VfM for an NPD transaction that a realistic competition is maintained, but this is only likely to be the case if the public sector keeps tight control of transaction costs and completes a realistic assessment of what will be necessary to ensure a competitive market for their project that minimises these costs for both public and private sector.
- **identify market abuse** (inappropriate pricing and bidding, typically at the preferred bidder stage when competitive pressure may be reduced). Market abuse can be defined as a situation where the bid offered is out of the market, that is to say above the market price for similar projects, or where the risk profile has been substantially eroded relative to other similar recent NPD projects at this price. It is also important for the Procuring Authority to understand how bid submissions relate and reconcile to the detailed costings carried out by the Project Team's own technical advisers. It is important to understand the driver of cost creep to ensure that it is not a means by which the bidder can replace or recover the equity returns foregone in the NPD model.
- **ensure risk allocation is still deliverable** and risk sharing is appropriate. All NPD projects should be based on standardised contract approach. The overall aim of this approach is to establish the use of SoPC4 (or equivalent) and sector specific contracts in order to frame a risk profile for the NPD procurement which provides proper incentives for the private sector to perform efficiently. VfM judgements should be made on the basis that the risk allocation is given in this context.

- **regularly assess that bidders are financially robust with capacity to deliver** and invest (for example through regularly checking financial PQQ tests in accord with financial PQQ methodology).
- **monitor cost stability**. If cost estimates at OBC differ significantly from the price at Full Business Case (FBC) or financial close, questions should be asked as to whether there are legitimate external reasons which could not be foreseen and, if not, why this escalation was not captured by the Optimism Bias estimates. The level of cost variation may be subject to directorate review / directorate limits.
- **financial flexibility and financial structures**. It is important that the assessment of the impact that the use of different financial structures will have on the flexibility of the project to accommodate changes to the project requirements is considered.
- **assess alternatives**, for example assess VfM delivered by any variant bids received or changes to scoping and risk transfer implemented during a competitive dialogue process.
- **feed back appropriate information** (e.g., risk uplift quanta, cost per square metre of accommodation and services etc) and market intelligence to the SFT and relevant Directorates and Agencies.

5.6 These **requirements** have previously been met by Procuring Authorities, Agencies and Directorates in Scotland by applying relevant standardised guidance to the appropriate stage of the NPD procurement process model and through the consultation and direction provided by their appointed advisers. Further guidance on the CPAM is available in the Quantitative VfM Assessment guidance note. The KSR process will also address these areas.

5.7 In **procurement**, market sounding, market promotion and market launch of projects should be done on a “cross directorate basis” particularly at the initial stages of procurements.

5.8 Note**, in Scotland, it is not considered appropriate to conduct an NPD competition with fewer than two robust bidders.** Any circumstances where this is not the case must be immediately referred to the SFT / SGHD Capital and Facilities or relevant Agency or Directorate. If competition drops to one bidder after the receipt of bids, the procurement will be reviewed (separately from Gateway / KSR review if necessary) in order to allow for SFT / SGHD Capital and Facilities/ Scottish Procurement and Commercial Directorate assessment of the situation, the available options (including halting the procurement) and Value for Money implications.

5.9 **Once a preferred bidder has been selected (and subject to Competitive Dialogue requirements) it is essential that the ProcuringAuthority ensures that VfM is maintained in the absence of competitive tension.** The impact on changes in costs and risk profile and the corresponding impact on VfM must be carefully controlled. A protocol to deal with these changes must be agreed as part of the preferred bidder appointment process. When reporting these changes or movements from guidance / SoPC 4 for approval (for example in the FBC or to the SFT / SGHD Capital and Facilities) during procurement **(throughout Stage 3)** the following areas must be covered by Procuring Authorities in a VfM report:

Stage 3 VFM Report:

- exact position in the original bid phase (including how element was to be priced)
- treatment proposed now
- Unitary payment and NPV implications of treatment (pre and post where applicable)
- differences in non financial impacts / benefits of the two approaches including assessment of qualitative factors under each treatment (Desirability / Viability / Achievability)
- detailed contractual drafting of the proposal (or written summary of how this will be treated if drafting is not available)
- summary of contractual impact (in particular around compensation on termination scenarios, longstop dates and relief & compensation events)
- clarity on how proposals comply with guidance / SoPC 4 (and where not so, quantified impact of full compliance)

- non financial impact / qualitative aspects
- impact on wider VfM factors (for example impact on balance sheet treatment / risk transfer)
- confirmation that no procurement or competition issues exist from treatment (for example scope change post PB)

This VFM report should be signed off by the Senior Responsible Officer

The Stage 3 Procurement Level assessment reporting requirements are detailed in the table at Appendix D.

Appendix A – When should non Conventional Procurement be considered for Projects and Programmes

A.1 Non conventional procurement (e.g. private finance / NPD) should be considered when the nature of the projects or the programme includes the following characteristics:

- a major capital investment programme, requiring effective management of risks associated with construction and delivery;
- the private sector has the expertise to deliver and there is good reason to think it will offer value for money;
- there is significant constraint upon capital budget availability at either Government or Directorate level;
- proven track record in delivery
- the structure of the service is appropriate, allowing the public sector to define its needs as service outputs;
- the nature of the assets and services identified as part of the projects are capable of being costed on a whole-of-life, long term basis;
- the value of the projects / programme is sufficiently large to ensure that procurement costs are not disproportionate;
- the technology and other aspects of the sector are stable, and not susceptible to fast paced change;
- planning horizons are long term, with assets intended to be used over long periods into the future; and
- there are robust incentives on the private sector to perform.

A.2 In such circumstances, there is a prima facie case for considering privately financed (NPD / non conventional) procurement. The public sector bodies (and where applicable Procuring Authorities, Agencies and Directorates) are required to confirm that these areas have been reviewed prior to undertaking the Stage 1 Programme Level Assessment.

A.3 For projects of a capital value less than £20m, the appropriateness of procuring these on an NPD basis should be discussed directly with the SFT (SGHD Capital and Facilities for NHSScotland Bodies) or the relevant centre prior to commencing the VfM assessment stages. For smaller projects it may be more appropriate to use other procurement routes for revenue financed schemes, such as hub.

The following pro-forma should be completed and submitted with the relevant Stage 1 or Stage 2 assessment:-

NPD Consideration Checklist	Response
1. Are there major capital investments requiring management of delivery and construction?	
2. Is there evidence that the private sector can deliver the projects / programme and that it is likely to be VfM?	
3. Are the services capable of being defined in Service Outputs?	
4. Is whole life costing possible?	
5. Confirm that procurement costs are not disproportionate to total costs of set up and operation?	
6. Is there a technology stable market?	
7. Confirm that planning for asset use over long term has been conducted.	
8. Confirm that appropriate incentivisation for the private sector to perform has been considered.	
9. Confirm that there is appetite within the market to take the programme / projects forward on a private finance basis which includes capped returns / zero equity.	

A.4 The following table should be completed as part of self assessment prior to undertaking detailed VfM assessment. It will be submitted at the Stage 2 OBC assessment as applicable:

Project Element / **Detail NPD Benefit and enhancement to non NPD:**	**Design**	**Construction (including transitional activities such as decant)**	**Maintenance including life cycle maintenance**	**Operation of facilities (e.g. cleaning, reception, catering)**
Quality of service				
Project management				
Risk management				
Improved relationships promoting synergy, quality and added value				
Strong financial control and management				
Innovation				
Effective exploitation of opportunities				

Note that health projects should also consider SCIM Appendix 2a in determining the suitability of an NPD model for the project in question. SCIM guidance is available online at: http://www.pfcu.scot.nhs.uk/

Appendix B – Checklist and Pro-forma of Required Actions Stage 1

Programme Level Assessment

This should be undertaken at feasibility stage of the programme's development. The objective is to assess programme level VfM and whether a privately financed procurement route is likely to provide VfM and whether NPD options should be considered for the programme. If Procuring Authorities are commencing VfM assessment at Stage 2, the information below should be reported.

Stage 1 – Investment Programme Level Assessment (Section 4 of Guidance)		
Requirement	**Details Assessed**	**Action Undertaken / Comments / Action Required**
1. Confirm that the case for privately financed procurement on a programme basis has been tested	1. Confirmation that elements detailed in Appendix A have been reviewed & the pro-forma completed. 2. Confirm that the typical capital value of individual projects will be of sufficient size for NPD or other forms of private finance / investment	
2. Undertake Qualitative Assessment of private finance / NPD versus traditional procurement on a Programme basis	1. Viability of programme (complete table below) 2. Desirability of programme (complete table below) 3. Achievability of programme (complete table below) 4. Consider wider VfM factors and Generic VfM factors relevant to the Programme. If there is a mixed economy of procurement methods (i.e. additional to NPD / private finance), 1 to 4 above should be adjusted to cover all procurement types. A separate workshop output report should be provided to support the completed pro-forma tables on viability, desirability and achievability and summarise the wider VfM factors of the programme.	
3. Quantitative Assessment – review costs of establishing	To test a typical project in the programme: 1. Relevant costs assessed (capital, lifecycle, revenue). Supporting assumptions to be	

Stage 1 – Investment Programme Level Assessment (Section 4 of Guidance)		
Requirement	**Details Assessed**	**Action Undertaken / Comments / Action Required**
and operating the programme relative to efficiencies and economies derived and financial / non financial benefits **Also if applicable test a typical project in the programme for quantitative VfM**	provided. 2. Risks, Optimism Bias and transaction costs assessed. Supporting assumptions provided. 3. Past projects used as historical evidence of pricing of relevant costs and risks. Deliverables: • Report compiled by the public sector with input from advisers as appropriate. • Where applicable CPAM and shadow bid models available for review. All input assumptions verified. • Review of economies of scale, efficiencies and transaction costs of the programme vs benefits (financial and non financial)	
4. Combined Overall Evaluation	1. Quantitative and Qualitative programme outputs are considered together 2. Implication / Suitability of being able to switch procurement routes and impact on programme funding to be considered 3. Evidence of VfM of previous private finance / NPD projects considered in selecting a core procurement route for the programme 4. Are suitably resourced and structured delivery teams (including budgets) in place (local and central if applicable) or can be put in place. 5. Overall programme timescales considered (including different delivery dates relative to each procurement method) 6. Detail any gaps in programme information and outputs and assess their significance and provide plan to address 7. Conclusion on suitability of programme for private finance / NPD procurement The final report should cover the above points with supporting evidence.	
5. Review of Affordability	Affordability implications assessed through:	

Stage 1 – Investment Programme Level Assessment (Section 4 of Guidance)		
Requirement	**Details Assessed**	**Action Undertaken / Comments / Action Required**
	1. PayBack Period analysis 2. Programme set up cots and operational costs relevant to budgets. Internal affordability forecasts and budgets should be assessed For a typical project: 3. the shadow bid model/CPAM with sensitivity analysis. 4. Consideration of budget/funding sources and grant funding (eg. Prudential funding etc) and revenue vs. capital spend implications 5. Consider whether investment plans are in accord with Spending Reviews / Infrastructure Plan 6. Consideration of ability to switch some projects from private finance / NPD to traditional procurement and the affordability implications of this. The final report should cover the above points with supporting evidence.	
6. Review of Balance Sheets Status	Indicate the likely Accounting Treatment implications of projects procured in the Programme and detail in final report.	

QUALITATIVE VFM ASSESSMENT TABLES

NOTE – the following Viability, Desirability and Achievability Pro-forma should be used at the Programme Level for Qualitative Assessment.

It should be tailored accordingly to reflect the characteristics of the Programme Level Assessment and the procurement type. Therefore questions and references should be edited accordingly.

For example it is recommended to assess both procurement route choices under the headings below and then score and assess each.

Programme Level VfM Assessments Tables:

VIABILITY **Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.**		
Issue	**Questions**	**Response**
Programme level objectives and outputs	Is the Procuring Authority satisfied that long term and operable contracts could be constructed for the projects to be included within the Programme? *(describe the types of contracts envisaged)*	
	Could the contracts describe service requirements in clear, objective, output-based terms over a long term period?	
	Could the contracts support assessments of whether the service has been delivered to an agreed standard?	
	Is the fit between needs and outcomes on a programme basis sufficient to proceed?	
	Will there be significant levels of investment in the new capital assets and related services?	

VIABILITY Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.		
Issue	**Questions**	**Response**
	Is service certification across projects likely to be straightforward in terms of agreeing measurable criteria and satisfying the interests of stakeholders? Does the Programme have clear boundaries (especially with respect to areas of procuring authority control)? If there are interfaces with other programmes are they clear and manageable? Can the services in the programme be provided without the essential involvement of Authority personnel? To what extent does any involvement negate the risk transfer that is needed for VfM? Will the private sector likely have control/ownership of the intellectual property rights associated with the performance/design/development of the assets for the new service?	
Operational flexibility	Is the Procuring Authority, Agency or Directorate satisfied that operational flexibility is likely to be maintained over the lifetime of the contracts put in place at an acceptable cost?	
	Is there a practical balance between the degree of operational flexibility that is desired and long term contracting based on up-front capital investment in projects?	
	What is the likelihood of large contract variations being required during the life of a typical contract?	
Equity, efficiency and accountability	Are there public equity, efficiency or accountability reasons for providing the programme services directly rather than through private finance / NPD contracts?	
	Does the scope of the programme services lend itself to providing the contractor with “end-to-end” control of the relevant functional processes? Do the services have clear boundaries?	
	Are there regulatory or legal restrictions that require programme services (or those services envisaged to be included in projects) to be provided directly?	

VIABILITY Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.		
Issue	**Questions**	**Response**
	Will the private sector be able to exploit economies of scale through the provision, operation or maintenance of other similar services to other customers (not necessarily utilising the same programme assets)? Does the private sector have greater experience/expertise than the procuring authority in delivery of programmes and associated services? Are the services in the programme non-core to the procuring authority? Is a privately financed / NPD procurement basis for projects likely to deliver improved value for money to the directorate as a whole?	
OVERALL VIABILITY	**Is the relevant Accountable Officer satisfied that operable contracts with built in flexibility can be constructed across the programme, and that strategic and regulatory issues can be overcome?**	

DESIRABILITY By integrating the life-cycle and operation costs with design and construction, DBFM procurement models can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this section is to consider whether the benefits of the contract structure are likely to outweigh this additional cost.		
Issues	**Question**	**Response**
Risk management	Does the Programme involve the purchase of significant capital assets, where the risks of cost and time over-runs are likely to be significant?	
	Is the private sector likely to be able to manage the generic risks associated with the programme more effectively than the procuring authority? Bearing in mind the relevant risks that need to be managed for the programme, what is the ability of the private sector to price and manage these risks? Can envisaged standardised payment mechanisms and contract terms incentivise good risk management across the programme?	
Innovation	Does a preliminary assessment indicate that there is likely to be scope for innovation on a programme basis? Does some degree of flexibility remain in the nature of the technical solutions/services and/or the scope of the projects? Can solutions be adequately free from the constraints imposed by the procuring authority, legal requirements and/or technical standards? To what extent will individual project's scope, specification and operation be pre-set or open to negotiation with the private sector? Could the private sector improve the level of utilisation of the assets underpinning the programme and projects within it (e.g. through selling, licensing, commercially developing for third party usage etc)?	

DESIRABILITY **By integrating the life-cycle and operation costs with design and construction, DBFM procurement models can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this section is to consider whether the benefits of the contract structure are likely to outweigh this additional cost.**		
Issues	**Question**	**Response**
Service provision	Across the programme, are there good strategic reasons to retain soft service provision in-house - what are the relative advantages and disadvantages? Is optimal risk allocation achieved by transfer or not and is soft service transfer essential for achieving the overall benefits of improved standards of service delivery? (Refer to the STUC Staffing Protocol)	
Incentive and monitoring	Can the outcomes or outputs of the investment programme be described in contractual terms which would be unambiguous and measurable?	
	Can the programme services be assessed against an agreed standard?	
	Would incentives on service levels be enhanced through standard contracts and payment mechanisms?	
Lifecycle costs / residual value?	Is it possible to integrate the design, build and operation of projects?	
	Are lengthy contracts envisaged? Will long-term contractual relationships be suitable (or advantageous) for the service? Are there constraints on the status of the assets at contract end?	
	Are there significant ongoing operating costs and maintenance requirements across the programme and projects? Are these likely to be sensitive to the type of construction?	
OVERALL DESIRABILITY	**Overall, is the relevant Accountable Officer satisfied that the programme and its procurement approach would bring sufficient benefits that would outweigh the expected higher cost of capital?**	

ACHIEVABILITY

Significant transaction costs are involved in an investment programme. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for programme and individual project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. NPD and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.

Issue	Question	Response
Transaction costs and client capacity	Is there sufficient central support to the roll out and monitoring of the programme? Is there sufficient client-side capability to manage the procurement process on projects and appraise the ongoing performance against agreed outputs?	
	Can appropriately skilled procurement teams be assembled in good time?	
	Will the programme and projects be feasible within the required timescale? Is there sufficient time for resolution of key procuring authority issues? Does the size of the Programme and typical projects justify transaction costs?	
Competition / Market Interest	Is there evidence that the private sector is capable of delivering the required outcomes, including across all geographic areas covered by the programme?	
	Is there likely to be sufficient market appetite for the projects in the programme? Has this been tested robustly? Is there any evidence of market failure for similar Programmes / Projects?	

ACHIEVABILITY **Significant transaction costs are involved in an investment programme. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for programme and individual project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. NPD and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.**		
	Have any similar programmes been tendered to market? Has the procuring authority's commitment to a NPD solution for projects of the type covered in this programme been demonstrated?	
	Do the nature of the investment and/or the strategic importance of the work and/or the prospect for further business suggest that it will be seen by the market as a potentially profitable programme?	
OVERALL ACHIEVABILITY	**Overall is the relevant Accountable Officer satisfied that the procurement programme is achievable, given client side capability and the attractiveness of the proposals to the market?**	

Appendix C – Checklist and Pro-forma of Required Actions Stage 2

Project Level Assessment

The following checklists should be completed at the OBC stage of Project development and be submitted with the OBC for approval. The checklists replicate the analysis undertaken at the Programme Level to confirm either the continued desirability of NPD or whether alternative procurement routes could deliver improved VfM. Where the continued case for NPD remains, the requirement for a replication of the quantitative assessment of NPD versus the CPAM model is not required.

Stage 2 – Project Level Assessment – Refer to Section 5 of Guidance		
Requirement	**Details Assessed**	**Undertaken / Comments / Action Required**
1. Confirm that the case for NPD/alternative procurement routes has been tested	If this has not been confirmed at Programme Level: 1. Review the project characteristics against the criteria included within Appendix A to determine whether the project is suitable for privately financed / NPD procurement and complete/update the relevant pro forma. 2. Confirm the capital value is of sufficient size for NPD / alternative forms of procurement funded by private investment.	
2. Qualitative Assessment of NPD / alternative procurement routes verses conventional procurement – project level	1. Review, confirm and complete applicable pro-forma below relating to: • Viability of project • Desirability of project • Achievability of project (in particular market capacity and likely bid competition / market interest to be reviewed) 2. Consider wider VfM factors and generic VfM factors 3. Review proposed Project Timetable 4. Confirm proposed risk allocation 5. Confirm benefit assessment and deliverability 6. Support evaluation and decision with evidence from previous projects. Report findings should include the results of the assessment of the viability, desirability and achievability of NPD procurement. (This should include the pro-forma checklists and the results of	

Stage 2 – Project Level Assessment – Refer to Section 5 of Guidance		
Requirement	**Details Assessed**	**Undertaken / Comments / Action Required**
	the workshops which assessed these.)	
3. Quantitative Assessment - application to a specific project	1. All relevant costs assessed in accordance with the CPAM guidance note. Supporting assumptions should be detailed. 2. Consideration of whether alternative procurement routes may lead to a different level of benefits compared to traditional procurement. 3. Risks, Optimism Bias, Tax Differential and transaction costs assessed. Supporting assumptions should be detailed. 4. Use past projects as historical evidence of pricing. Risk / Optimism Bias should be updated as appropriate. 5. Implications in relation to STUC Staffing protocol considered 6. Where required, a CPAM and shadow bid model should be developed to inform the assessment of the affordability and VfM implications of the project. Detailed sensitivity testing and scenario analysis should be undertaken. Note that the CPAM model should only be maintained to the point of bid receipt. Any significant changes from Stage 1 assessment should be noted and commented upon. The Report should identify if costs have increased by greater than 25% from Stage 1 and explain why. The Report should be complied by Procuring Authorities / Agencies / Directorate with input from advisers as appropriate. All input assumptions should be reviewed and verified and sensitivities run.	
4. Combined Overall Evaluation	1. Quantitative and Qualitative evaluation outputs are considered in conjunction. 2. Overall project timescales are confirmed. 3. Confirm that standardised documentation will be adopted, and a full explanation of any deviations to the standard provided. 4. Conclude on the suitability of the project for privately financed / NPD procurement. The above features should be recorded within the Report.	
5. Review of	1. Affordability should be assessed using a	

Stage 2 – Project Level Assessment – Refer to Section 5 of Guidance		
Requirement	**Details Assessed**	**Undertaken / Comments / Action Required**
Affordability – to determine if the project can continue	shadow bid model. 2. Consideration of alternative funding sources should be undertaken (e.g. Prudential funding, bank funding, bond funding etc) and the revenue vs. capital spend implications assessed. 3. Confirm project is affordable / supportable based upon forecast scope and delivery timescales. The affordability implications (including the affordability envelope under a range of sensitivities) should be signed off required. The affordability assumptions and implications should be detailed within the report.	
6. Review of Balance Sheets Status	The accounting implications of the project should be assessed and recorded within the Report.	

Depending upon the sector in question, this will be assessed as part of the Pre-OJEU KSR process and OBC sign off.

Project Level VfM Assessments Tables:

VIABILITY **Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.**		
Issue	**Questions**	**Response**
Project level objectives and outputs	Is the Procuring Authority satisfied that a long term, operable contract could be constructed for the project as envisaged within the Programme Level Assessment?	
	Confirm that the proposed contract describes / will describe service requirements in clear, objective, output-based terms over a long term period?	
	Confirm that the contract will support assessments of whether the service has been delivered to an agreed standard?	
	Confirm that the proposed project outcomes will meet the project objectives and address the need.	
	Will there be significant levels of investment in the new capital assets and related services?	
	Confirm that any interfaces with other projects or programmes are clear and manageable? Confirm that the services to be provided as part of the project do not require the essential involvement of Procuring Authority personnel? To what extent does any involvement negate the risk transfer that is needed for VfM? Will the private sector have control / ownership of the intellectual property rights associated with the performance / design / development of the assets for the new service?	
Operational flexibility	Is the Procuring Authority satisfied that operational flexibility is likely to be maintained over the lifetime of the contract at an acceptable cost?	
	Is there a practical balance between the degree of operational flexibility that is desired and long term contracting based on up-front capital investment in projects?	
	What is the likelihood of large contract variations being required during the life of a typical contract?	
Equity, efficiency and accountability	Are there public equity, efficiency or accountability reasons for providing the project directly rather than through private finance / NPD contracts?	

VIABILITY Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.		
Issue	**Questions**	**Response**
	Does the scope of the project services allow the contractor to have control of all the relevant functional processes? Do the services have clear boundaries?	
	Are there regulatory or legal restrictions that require project services to be provided directly?	
	Will the private sector be able to exploit economies of scale through the provision, operation or maintenance of other similar services to other customers? Does the private sector have greater experience / expertise than the Procuring Authority in delivery of the project services? Are the services in the project non-core to the Procuring Authority? Is a privately financed / NPD procurement basis for projects likely to deliver improved value for money to the Procuring Authority as a whole?	
OVERALL VIABILITY	**Is the relevant Accountable Officer satisfied that operable contracts with built in flexibility can be constructed across the project, and that strategic and regulatory issues can be overcome?**	

DESIRABILITY By integrating the life-cycle and operation costs with design and construction, privately financed / NPD procurement models can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this section is to consider whether the benefits of the contract structure are likely to outweigh this additional cost.		
Issues	**Question**	**Response**
Risk management	Does the project involve the purchase of significant capital assets, where the risks of cost and time over-runs are likely to be significant?	
	Is the private sector likely to be able to manage the generic risks associated with the project more effectively than the Procuring Authority? Bearing in mind the relevant risks that need to be managed for the project, what is the ability of the private sector to price and manage these risks? Can envisaged standardised payment mechanisms and contract terms incentivise good risk management within the project?	
Innovation	Does a preliminary assessment indicate that there is likely to be scope for innovation on a project basis? Does some degree of flexibility remain in the nature of the technical solutions / services and / or the scope of the project? Can solutions be adequately free from the constraints imposed by the Procuring Authority, legal requirements and / or technical standards? To what extent will the individual project's scope, specification and operation be pre-set or open to negotiation with the private sector? Could the private sector improve the level of utilisation of the assets underpinning the project (e.g. through selling, licensing, commercially developing for third party usage etc)?	

DESIRABILITY **By integrating the life-cycle and operation costs with design and construction, privately financed / NPD procurement models can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this section is to consider whether the benefits of the contract structure are likely to outweigh this additional cost.**		
Issues	**Question**	**Response**
Service provision	In relation to the project, are there good strategic reasons to retain soft service provision in-house - what are the relative advantages and disadvantages? Is optimal risk allocation achieved by transfer or not and is soft service transfer essential for achieving the overall benefits of improved standards of service delivery? (Refer to the STUC Staffing Protocol)	
Incentive and monitoring	Can the outcomes or outputs of the project be described in contractual terms which would be unambiguous and measurable?	
	Can the project services be assessed against an agreed standard?	
	Would incentives on service levels be enhanced through the standard contract and payment mechanism?	
Lifecycle costs / residual value?	Is it possible to integrate the design, build and operation of the project?	
	Is a lengthy contract envisaged? Will long-term contractual relationships be suitable (or advantageous) for the service? Are there constraints on the status of the assets at contract end?	
	Are there significant ongoing operating costs and maintenance requirements across the project? Are these likely to be sensitive to the type of construction?	
OVERALL DESIRABILITY	**Overall, is the relevant Accountable Officer satisfied that the project and its procurement approach would bring sufficient benefits that would outweigh the expected higher cost of capital?**	

ACHIEVABILITY Significant transaction costs are involved in a privately financed / NPD Project. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for programme and individual project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. NPD and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.		
Issue	**Question**	**Response**
Transaction costs and client capacity	Is there sufficient Procuring Authority capability to manage the procurement process and appraise the ongoing performance against agreed outputs?	
	Can an appropriately skilled procurement team be assembled in good time?	
	Will the project be feasible within the required timescale? Is there sufficient time for resolution of key Procuring Authority issues? Does the size of the project justify the transaction costs?	
Competition / Market Interest	Is there evidence that the private sector is capable of delivering the required outcomes?	
	Is there likely to be sufficient market appetite for the project? Has this been tested robustly? Is there any evidence of market failure for similar projects?	
	Have any similar projects been tendered to market? Has the Procuring Authority's commitment to a privately financed / NPD solution for this type of project been demonstrated?	
	Does the nature of the investment and / or the strategic importance of the work and / or the prospect for further business suggest that it will be seen by the market as a potentially profitable project?	

ACHIEVABILITY Significant transaction costs are involved in a privately financed / NPD Project. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for programme and individual project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. NPD and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.		
OVERALL ACHIEVABILITY	Overall is the relevant Accountable Officer satisfied that the project is achievable, that the project team is sufficiently resourced and the project is attractive to the market?	

Appendix D – Checklist and Pro-forma of Required Actions Stage 3

Procurement Level Assessment

This analysis should be undertaken in the procurement stage of Project development when the VfM argument for proceeding with the privately financed / NPD project is subject to final confirmation.

Stage 3 – Procurement Level Assessment – Refer Section 6 of Guidance		
Requirement	**Details Assessed**	**Undertaken / Comments / Action Required**
1. The following key paramenters should be confirmed:	1. the affordability envelope for the project 2. the extent of affordability & costing information that will be shared with bidders 3. project specifications (which can be delivered within the affordability envelope) 4. SoPC / SSSC / SGHD PA and other relevant standardised documents applied 5. NPD or alternative procurement timetable and forecast OJEU date approved by SFT / SGHD PFCU / relevant Centre 6. Appropriateness of funding competition / approach to ensuring funding best value reviewed A separate report should be prepared on the above and the following pro-forma checklist completed.	
2. Qualitative Assessment	Review, confirm and complete the pro forma below relating to the: • Viability of the procurement • Desirability of the procurement • Achievability of the procurement Review and confirm the impact of wider VfM factors and generic VfM factors Report findings should include the results of the viability, desirability and achievability assessment. (This should include the pro forma checklists and the results of the workshops which assessed these.)	
3. Quantitative Assessment - Bid comparator will be	1. Consideration and application of STUC Staffing protocol and associated technical guidance undertaken.	

Stage 3 – Procurement Level Assessment – Refer Section 6 of Guidance		
Requirement	**Details Assessed**	**Undertaken / Comments / Action Required**
developed.	2. Compare private finance / NPD bids with shadow bid model / CPAM and undertake sensitivity analysis. Note that the CPAM model should only be maintained to the point of bid receipt. Report compiled by Procuring Authorities, Agency, Directorate with input from advisers as appropriate.	
4. Other Commercial Areas	1. Confirm that Risk allocation is still best practice / best value, VfM and is deliverable. 2. Confirm that a robust bidding and evaluation process has been in place during procurement. Detail in report	
5. Develop strategy to deal with ongoing project issues and elements	1. Process in place to regularly review bidders financial capacity (standard PQQ financial tests at key project stages) 2. Protect project against Market Failure through undertaking regular market soundings / reviews and actively marketing the project (is there sound competition?) 3. Protect against Market Abuse and undertake regular reviews for this (is there evidence of market abuse) 4. Confirm process to review, control and confirm ongoing affordability of the project 5. Review & confirm Balance Sheet status of the Project 6. Develop and agree bid evaluation framework 7. Internal Risk Management Register and related Internal Risk Management plan to be developed and agreed 8. Process to collate and share relevant information with other Procuring Authorities, Directorates and Agencies 9. Confirm financial standing of the preferred bidder A detailed report should be attached to the pro-forma	

Depending upon the sector in question, this should be assessed at the Pre Invitation to Submit Final Tender stage (if applicable) and at FBC.

Procurement Level VfM Assessments Tables:

VIABILITY **Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.**		
Issue	**Questions**	**Response**
Procurement level objectives and outputs	Is the Procuring Authority satisfied that a long term, operable contract will be constructed for the project as envisaged within the Programme Level Assessment?	
	Confirm that the draft contract describes service requirements in clear, objective, output-based terms over a long term period?	
	Confirm that the contract supports assessments of whether the service has been delivered to an agreed standard?	
	Confirm that the proposed project outcomes meet the project objectives and address the need.	
	Are significant levels of investment in the new capital assets and related services required?	
	Confirm that any interfaces with other projects or programmes are clear, manageable and the various responsibilities have been captured within the relevant contracts? Confirm that the services to be provided as part of the project do not require the essential involvement of Procuring Authority personnel? To what extent does any involvement negate the risk transfer that is needed for VfM? Will the private sector have control / ownership of the intellectual property rights associated with the performance / design / development of the assets for the new service?	
Operational flexibility	Is the Procuring Authority satisfied that the proposed contract offers sufficient operational flexibility which can be maintained over the lifetime of the contract at an acceptable cost?	
	Is there a practical balance between the degree of operational flexibility offered in the contract and long term contracting based on up-front capital investment in projects?	
	What is the likelihood of large contract variations being required during the life of the contract?	

VIABILITY Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed.		
Issue	**Questions**	**Response**
Equity, efficiency and accountability	Are there public equity, efficiency or accountability reasons for providing the project directly rather than through private finance / NPD contracts?	
	Does the scope of the project services allow the contractor to have control of all the relevant functional processes? Do the services have clear boundaries?	
	Are there regulatory or legal restrictions that require project services to be provided directly?	
	Will the private sector be able to exploit economies of scale through the provision, operation or maintenance of other similar services to other customers? Does the private sector have greater experience / expertise than the Procuring Authority in delivery of the project services? Are the services in the project non-core to the Procuring Authority? Is a privately financed / NPD procurement basis for projects likely to deliver improved value for money to the Procuring Authority as a whole?	
OVERALL VIABILITY	**Is the relevant Accountable Officer satisfied that operable contracts with built in flexibility have been constructed across the project, and that strategic and regulatory issues have been overcome?**	

DESIRABILITY By integrating the life-cycle and operation costs with design and construction, DBFM procurement models can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this section is to consider whether the benefits of the contract structure are likely to outweigh this additional cost.		
Issues	**Question**	**Response**
Risk management	Does the project involve the purchase of significant capital assets, where the risks of cost and time over-runs are likely to be significant?	
	Is the private sector likely to be able to manage the generic risks associated with the project more effectively than the Procuring Authority? Bearing in mind the relevant risks that need to be managed for the project, has the private sector demonstrated its ability to price and manage these risks? Do the proposed payment mechanisms and contract terms incentivise good risk management within the project?	
Innovation	Have bidder submissions displayed innovative ideas for the procurement? Does some degree of flexibility remain in the nature of the technical solutions / services and / or the scope of the project? Are solutions adequately free from constraints imposed by the Procuring Authority, legal requirements and / or technical standards? To what extent has the individual project's scope, specification and operation been pre-set or open to negotiation with the private sector? Has the private sector suggested improvements to the level of utilisation of the assets underpinning the project (e.g. through selling, licensing, commercially developing for third party usage etc)?	
Service provision	In relation to the project, has soft service provision been retained in-house - what are the relative advantages and disadvantages? Is optimal risk allocation achieved by transfer or not and is soft service transfer essential for achieving the overall benefits of improved standards of service delivery? (Refer to the STUC Staffing Protocol)	

DESIRABILITY **By integrating the life-cycle and operation costs with design and construction, DBFM procurement models can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this section is to consider whether the benefits of the contract structure are likely to outweigh this additional cost.**		
Issues	**Question**	**Response**
Incentive and monitoring	Have the outcomes or outputs of the project been described in contractual terms which are unambiguous and measurable?	
	Have standards been agreed against which the project services will be assessed?	
	Are incentives on service levels enhanced through the standard contract and payment mechanism?	
Lifecycle costs / residual value?	Has the design, build and operation of the project been integrated?	
	Is a lengthy contract envisaged? Will long-term contractual relationships be suitable (or advantageous) for the service? Are there constraints on the status of the assets at contract end?	
	Are there significant ongoing operating costs and maintenance requirements across the project? Are these sensitive to the type of construction?	
OVERALL DESIRABILITY	**Overall, is the relevant Accountable Officer satisfied that the project and the bids received would bring sufficient benefits that would outweigh the expected higher cost of capital?**	

ACHIEVABILITY Significant transaction costs are involved in a privately financed / NPD Project. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. NPD and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.		
Issue	**Question**	**Response**
Transaction costs and client capacity	Is there sufficient Procuring Authority capability to manage the preferred bidder process and appraise the ongoing performance against agreed outputs?	
	Has an appropriately skilled procurement team been assembled and made available to the project throughout the procurement?	
	Does the project remain feasible within the required timescale? Is there sufficient time for resolution of key Procuring Authority issues? Does the size of the project continue to justify the transaction costs?	
Competition / Market Interest	Is there evidence that the private sector is capable of delivering the required outcomes?	
	Has sufficient market appetite been demonstrated for the project?	
	Have any similar projects been tendered to market? Has the Procuring Authority's commitment to a privately financed / NPD solution for this type of project been demonstrated?	
	Has the nature of the investment and / or the strategic importance of the work and / or the prospect for further business resulted encourages market appetite in the project?	

ACHIEVABILITY Significant transaction costs are involved in a privately financed / NPD Project. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. NPD and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.		
OVERALL ACHIEVABILITY	Overall is the relevant Accountable Officer satisfied that the project is still achievable, that the project team will continue to be sufficiently resourced and the project has received sufficient market interest?	

Appendix E: Example of Non Standard NPD Infrastructure Projects – applying SG VfM Guidance

Rail Infrastructure Projects - Procurement Route assessment / VfM Reviews

Background

E.1 SFT NPD VfM guidance assesses VfM factors associated with an NPD procurement route. A number of the assessment categories (particularly qualitative factors) focus on key elements that should be addressed in whatever eventual procurement route is chosen. That is, regardless of the procurement route developed, the level of detailed review undertaken should be as robust as that required for a full NPD project.

E.2 In addition, public sector procurement guidance (The SG Procurement Policy Manual) states *"PPP procurement should be considered when the evidence of the benefits that PPP can deliver gives a strong case for considering PPP for a Project or Programme. These characteristics include:-*

- *A major capital investment programme, requiring effective management of risks associated with construction and delivery;*
- *The private sector has the expertise to deliver and there is good reason to think it will offer value for money;*
- *The structure of the service is appropriate, allowing the public sector to define its needs as service outputs;*
- *The nature of the assets and services identified as part of the PPP scheme are capable of being costed on a whole-of-life, long term basis;*
- *The value of the project is sufficiently large to ensure that procurement costs are not disproportionate;*
- *The technology and other aspects of the sector are stable, and not susceptible to fast paced change;*
- *Planning horizons are long term, with assets intended to be used over long periods into the future; and*
- *There are robust incentives on the private sector to perform*.

In such circumstances, there is a prima facie case for considering PPP procurement. The public sector bodies (and where applicable Procuring Authorities, Agencies and Directorates) are required to confirm that these areas have been reviewed. "

E.4 Based upon the characteristics above and, following best practice guidance, it is appropriate to develop an assessment of a Rail Infrastructure project under an NPD delivery vehicle for comparison to the alternative procurement routes likely to be used in practice. It is recognised that although a full NPD solution is potentially not sustainable for rail infrastructure projects, the preferred procurement route should demonstrate, as far as practical, compliance with the above characteristics and further review against key VfM areas outlined in Scottish Government NPD VfM Assessment Guidance.

E.5 In summary, therefore, NPD delivery can be used as a comparator to benchmark the chosen delivery route against. The objective is to ensure that the chosen procurement route addresses qualitative aspects achieved under a NPD and addresses wider VfM factors in an appropriate and best value way. Finally different quantitative outcomes and affordability elements will also be assessed for the preferred option against a NPD benchmark where this is practical.

E.6 Note: it is recognised that the quantitative benchmarks of the chosen procurement route may in some cases be made against the conventional procurement option (CPAM).

Process

E.7 Prior to the evaluation of the procurement route and detailed VfM assessment, an option appraisal using Green Book principles will have been undertaken on the long-listed options.

E.8 Authorities would then apply agreed criteria to rank options (e.g. benefits / flexibility etc) and create a shortlist of preferred options. It would be expected that the options identified, given the sector, cover large infrastructure procurements.

E.9 Then undertake a high level NPD consideration:-

- This will be at the project level (typically rail projects will be considered complex and therefore there should potential scope to explore use of NPD in whole or in part).
- On the assumption that the high level NPD assessment as detailed in Appendix A of the SFT VfM guidance indicates that NPD should be explored, then undertake more detailed VfM assessment, utilising SFT NPD VfM guidance as an appropriate comparator as described in the background above.
- Compare the preferred procurement route with a NPD option.

- Attempt to demonstrate, where possible, that the preferred procurement route provides similar or preferential benefits to those achieved through a NPD project e.g.
  - Detailed risk transfer including the effective management of risks associated with construction and delivery;
  - The private sector has the expertise to deliver and there is good reason to think it will offer value for money;
  - That the project allows outputs to be set by the public sector;
  - That the nature of the contract allows greater price certainty;
  - That the value of the project is sufficiently large to ensure that procurement costs are not disproportionate;
  - That the technology and other aspects of the sector are stable, and not susceptible to fast paced change;
  - That planning horizons are long term, with assets intended to be used over long periods into the future; and
  - There are robust incentives on the private sector to perform.

E.10.1 Provide an introduction and overview of the scope of the overall project, however funded e.g. it requires design, construction, operation, maintenance, revenues etc

E.10.2 Undertake a detailed review of the costs and revenues as part of the development of the business case and cost benefit ratio. The development of a business case and cost benefit ratio will demonstrate the project option represents VfM. This element requires full consideration of:-

- input costs (construction, lifecycle, maintenance, operation) – as well as phasing of these
- revenues
- bespoke risk / Optimism Bias / contingency elements
- price base and outturn delivery dates as well as economic and financial assumptions
- indication of potential sensitivities in respect of the above (particularly in respect of indexation)

- The next stage will be to select a procurement route that represents Best VfM.

E.10.3 Develop a detailed procurement strategy and VfM assessment of the preferred option(s)

- This assessment will compare the differing risk and cost impacts of each of the shortlisted procurement options in order to develop a robust audit trail to justify the selection of the preferred procurement option.
- This may include an assessment of the whole project or some of its component parts (for example, unlikely to include revenue risk transfer)
- Compare procurement route / methodology against SFT NPD VfM guidance assessment areas (Qualitative / Quantitative / Wider Factors), thereby using VfM guidance to justify indicative procurement route
- Factors to consider:
  - Detailed Qualitative Assessment
    - Viability – these considerations focus on whether there are issues that require that the infrastructure and services within the project to be provided by the public sector directly as opposed to private sector involvement, and, can the project requirements be captured in an output specification and /or contract based approach. Thus the procuring body must sure that an operable contract with built in flexibility can be constructed, and that any strategic and regulatory issues that impact on the public sector can be overcome
    - Desirability – these considerations focus on the relevant benefits of private sector delivery against cost / risk transfer. Thus the procuring body must be satisfied that private sector involvement brings sufficient benefits that would outweigh the expected higher cost of capital and potential higher cost of services associated with remunerating the private sector for taking a certain level of defined / undefined risk
    - Achievability – these considerations focus on the likely level of market interest to invest and does the public sector have the management expertise to manage the procurement and how costly will it be to procure (e.g. transaction costs of public and private sectors). Thus the procuring body must ensure that there is sufficient client side capability to deliver the project and that projects will be attractive to the market

  Tailor the SFT NPD VfM Assessment guidance pro-formas for specific assessment of NPD vs the selected procurement route and rank outcome

- Other wider option specific VfM factors to consider:
  - Risk identification / pricing / management (including interfaces between public and private, different contracts)
  - Costs
  - Economies of scale
  - Funding availability
  - Covenant / counter party issues
  - Affordability / phasing
  - Market issues (e.g. impact on competition, sole supplier)
  - Accounting treatment (of government / procuring bodies (if different))
  - Timetable impacts of different procurement routes
  - Long term certainty vs flexibility
  - Externalities
- Quantitative Assessment should also be undertaken. Note, this may be "high level" indicative quantitative elements
  - Inputs costs applied as described in 2 above
  - Use bespoke NPD models in comparison to financial model / cashflows of actual selected procurement route, or selected procurement route could be compared to conventional procurement (CPAM)
  - Different risk quantifications for different procurement routes would be expected (including differences in retained risks between options)
  - Potential not to undertake quantitative VfM testing if qualitative outputs of tested route are very persuasive
  - Outturn costs must be used

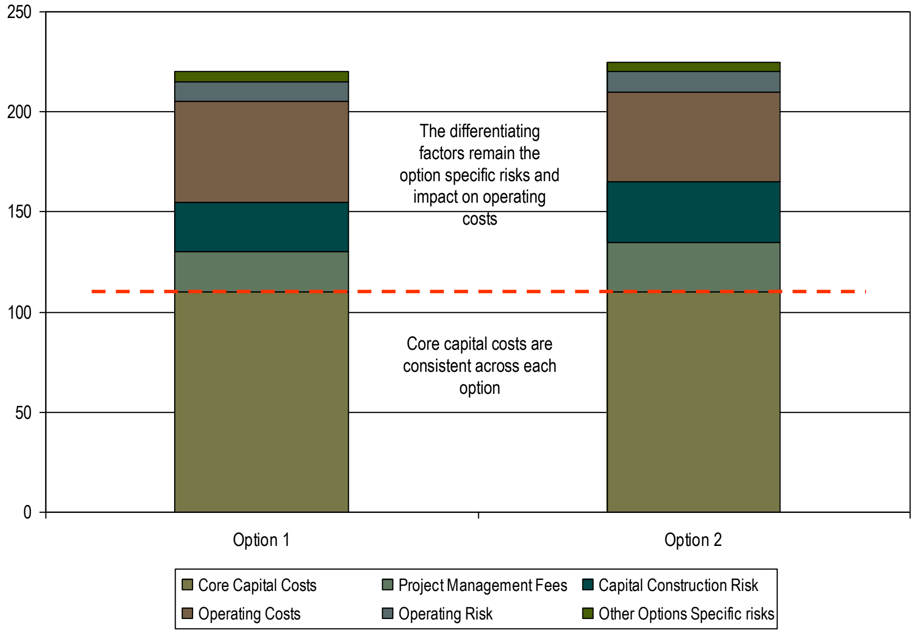
  The affordability implications of differing procurement routes are fundamental to decision making. Therefore appropriate affordability analysis must be demonstrated. Similarly, balance sheet issues must be reviewed.
- A review of the high level risk allocation matrix (and written summary) of alternative procurement options should be undertaken (for example chosen procurement route vs NPD).

- show how time / cost / delivery risk is treated and exposure to which parties under contractual structure
- how will performance / availability be measured
- also demonstrate contractual structure and how contract operation would work in practice
- demonstrate how interface risks will be managed

* There should be general consideration of the impact of any future increased size of project on the assessments undertaken and the procurement route selected.
* Weighting and scoring of elements between qualitative and quantitative elements and wider VfM factors are to be determined by the client
* Further analysis of how private finance can be levered into the procurement route strategy, through for example:-
    - construction financing
    - turn key payments
    - portion of availability payments
    - combination of above
    - partnering (contracting) / risk sharing approaches

  should be undertaken, as well as any subsequent impact on affordability and balance sheet outcomes.

The diagram below highlights that the emphasis when comparing the detailed procurement options must be based upon the differentiating factors, i.e option specific risks and price impacts.



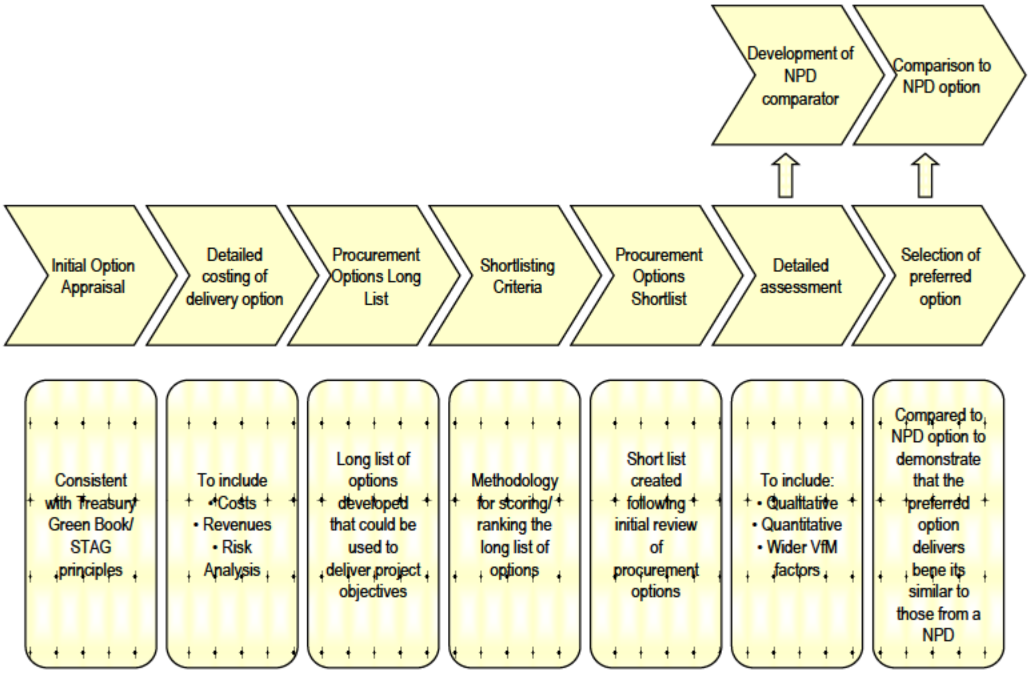
E.10.4 Apply any other Directorate guidance requirements, for example:

- Economic appraisal
- STAG
- Business case requirements

E.10.5 Procurement management and best practice should be considered in the assessment of procurement routes, for example:

- future VfM reviews (reapplying the processes detailed in this guidance at key procurement stages)
- Gateway Assessments
- ongoing internal risk management and ownership
- single point contract co-ordinating all delivery elements
- project management in private sector and public sector delivery
- robust tendering processes and private sector competition
- governance arrangements

The diagram below provides a summary of the process to be followed.



Example

E.11 It is likely that a rail procurement could be undertaken on the following basis (under an NPD structure):-

i. Design and Build

ii. Design, Build and Maintain

iii. Design, Build, Finance and Maintain

E.13 Under all scenarios private and public finance could be used wholly or in combination. There will also be different levels of handover that can be contracted for, for example post the D&B, the contractor could

- handover the infrastructure (tested against the specification)
- handover the infrastructure fully tested prior to commercial services
- handover the infrastructure fully tested post a period of initial services, dealing with interface issues (i.e. beyond “snagging”) of say vehicles for a defined period (e.g. 12 months), and being responsible for maintenance over this period

E.14 For i., ii. and iii. it will be important to assess these options for VfM against qualitative VFM and wider VfM factors in accord with the guidance above.

E.15 It will also be important to assess the options, against a situation where an organisation like Network Rail (for example where Network Rail can transact directly with Scottish Government to deliver some or all of the above options) where it could deliver the defined option.

E.16 Further, consideration of an organisation like Network Rail as a subcontractor to private sector bidders in options i., ii. and iii. must also be considered.

E.17 In all circumstances regulatory, statutory and vires issues must be considered of the promoter and the Scottish Government and fully evaluated as part of option appraisal (qualitative and quantitative).

Appendix F - Scottish Government - Soft FM Inclusion / Exclusion VfM Testing

This pro-forma will assist Procuring Authorities to address STUC Staffing Protocol requirements regarding testing inclusion / exclusion of Soft FM provision from a NPD project (either pre OJEU or in procurement).

This pro-forma does not specifically cover the processes required to be in place to undertake soft FM inclusion / exclusion testing in procurement. Separate guidance should be sought. In completing the relevant pro-forma, Procuring Authorities may require to seek appropriate advisory input (technical, legal and financial).

Note, in certain sectors because of regulatory and accountability reasons, certain soft FM services should not be contemplated for transfer. If Procuring Authorities think that this is the case, they should discuss directly with the Directorate.

Pro-forma 1 – Exclusion Checklist Pre Procurement

Ref	Review Element	Procuring Authority Response (supporting information, calculations and spreadsheets to be provided)
1	How was soft FM dealt with and what assumptions were applied at the option appraisal stage of the project (e.g. at OBC / prior to selection of the preferred option) Has external assistance been sought in relation to the soft FM inclusion / exclusion assessment (quantitative and risk issues) Please confirm that the ultimate decision to include / exclude soft FM services has been made by the Procuring Authority and that the Procuring Authority is accountable for any subsequent VFM and market attractiveness impact on the project.	
2	Detail the scope of soft FM services being considered – include a basic list Explain any soft FM service not considered for inclusion and detail why. Give details – including expiry date – of any current soft FM service contracts (e.g. outsourced contracts).	

3	1. Within the quantitative analysis undertaken, confirm the basis of pricing of the:- i. projected in house soft FM costs (e.g. Procuring Authority estimates / DLO etc) ii. projected NPD soft FM costs (e.g. are they based on NPD market benchmarks provided by technical advisers) In both cases state whether these are inclusive of risk iii. allocation of overhead for in house pricing (insurance, head office, finance etc) 2. Further to the above, are the in house soft FM costs and the NPD soft FM costs priced to deliver the exact same level of service (i.e. based on an NPD output specification and a proactive response and rectification criteria with a strict monitoring and deduction regime contractually enforced by a payment mechanism) 3. Has the full cost (i.e. direct cost and any related overhead) of in house management of soft FM delivery been costed and included in the assessment? Please provide details of the overhead allocation methodology. 4. How is the fact that in an NPD soft FM services can be benchmarked being treated in the financial assessment of: i. the NPD which includes soft FM ii. the in house bid 5. What implications were addressed in respect of the duration of the NPD (inclusive of Soft FM) being circa 30 years in duration vs a Service Level Agreement for in house provision which will be typically for a shorter period (i.e. detail Best Value review logistics etc). Note pricing implications of benchmarking and varying agreement periods should be included in the quantitative information below. 6. Please provide details of any anticipated difference in other NPD costs (outside Soft FM) arising from different Soft FM provision options. 7. How will / how have different pension arrangements and regimes been assessed	
4	Please provide the following financial details of base costs (including in house soft FM delivery and management):-	

	i. per annum cost of individual soft FM services costs (exclusive of risk) for in house provision and cost per square metre / unit etc of individual services ii. whole life cost of soft FM services costs (exclusive of risk) for in house provision iii. per annum cost of individual soft FM services costs (exclusive of risk) for NPD and cost per square metre of individual services iv. whole life cost of soft FM services costs (exclusive of risk) for NPD	
5	Please provide the following financial details of risk costs directly attributable to soft FM:- i. per annum risk cost of individual soft FM services costs for in house provision ii. whole life risk cost of soft FM services costs for in house provision iii. per annum risk cost of individual soft FM services costs for NPD iv. whole life risk cost of soft FM services for NPD	
6	What is the total cost of all transferred risk to the NPD operator: i. when soft FM is included in the NPD ii. when soft FM is not included in the NPD Both to be presented in NPV terms	
7	What is the total cost of Procuring Authority retained soft FM risk under i. the in house provision of soft FM services ii. the inclusion of soft FM services in the NPD Both to be presented in NPV terms	
8	What is the total cost of transferred risk to the NPD operator and what is the value of retained risk by the Procuring Authority under i. in-house provision of soft FM services ii. NPD provision of soft FM services Both to be presented in NPV terms Note – in relation to reference questions 4, 5 and 6, it is expected that the different cost bases between in house and NPD soft FM provision will drive different risk values (for example the NPD base cost will reflect that a stringent payment mechanism is in place).	
9	Detail the extent of consideration of risk pricing issues related to soft FM inclusion / exclusion:	

	- what issues were raised and what value is attached to interface risk (e.g. design and operational issues) of the NPD bid with soft FM included - what issues were raised and what value is attached to the interface risk (e.g. design and construction being distinct from operation) of the NPD bid when soft FM is excluded (therefore public sector operation of services in NPD operators facilities over the life of the contract) - did the external advisers to the project risk adjust in house bid prices	
10	What is the overall impact on VFM. Please detail: i. NPD NPV (inclusive of risk) – soft FM inclusion ii. CPAM NPV (inclusive of risk) – soft FM inclusion iii. NPD NPV (inclusive of risk) – in house soft FM provision iv. CPAM NPV (inclusive of risk) – assuming in house soft FM provision v. NPD NPV (inclusive of risk) – in house soft FM provision plus retained cost of soft FM and related retained risk (separately detailed) vi. CPAM NPV (inclusive of risk) – assuming in house soft FM provision plus retained cost of soft FM and related retained risk (separately detailed)	
11	Review of qualitative factors How will exclusion of soft FM impact: • Viability • Desirability • Achievability • Wider VfM factors - consideration of differential impact on programme from inclusion / exclusion - consideration of differential impact of single point accountability from inclusion / exclusion	
12	What is the view of the market? Provide evidence of the canvassing of bidders – specifically, views should be sought from active NPD consortia in the sector as to the attractiveness of the project (not withstanding any market capacity issues) with soft FM included or excluded and provided by the in house team	

Appendix G - Single Supplier – VfM arrangements

G.1 Where the required service and/or asset is of a particularly specialist nature there may only be one supplier in the market who is able to fulfil a procuring authority's requirements. These circumstances are likely to arise only rarely. Where this is the case and the authority is able to demonstrate this to the satisfaction of its own accounting officer and the Directorate / SFT, the Procuring Authority may wish to pursue a single source procurement.

G.2 If there is only one supplier this does not automatically mean that NPD is not an appropriate procurement route as the absence of competition may apply equally whatever the procurement route. As such the procuring authority should apply this guidance in the usual way to ascertain if NPD is likely to be VfM.

G.3 If the assessment suggests that NPD is VfM then the procuring authority should consider what other protections can be put in place to ensure VfM is achieved in a single bidder environment. These might include:

- Requiring the bidder to undertake transparent market testing of those parts of the supply chain where competition can be generated;
- Where market-testing is not possible, gathering data on comparable procurements so the prices, terms and conditions can be compared and benchmarked. Understanding the extent of the adherence to SoPC terms;
- Ensuring that specialist technical advice relevant to the particular service is available either in-house or through appointing external advisors; and
- Examining the case for increasing flexibility in the contract term by limiting the initial term of the contract and/or incorporating break points in the contract such that the Procuring Authority can retender the contract should new suppliers enter the market.

G.4 Although the decision as to whether to proceed or not rests with the Directorate Accounting Officer, there is a requirement to inform SFT where a project is proceeding as a single source NPD procurement.

G.5 The Procuring Authority should also refer to guidance published by Office of Government Commerce on dealing with single supplier procurements

Appendix H - References, Links & Guidance

The following should be referred to

1. HMT VFM Assessment Guidance – accessed at www.hm-treasury.gov.uk
2. HMT VFM Spreadsheet Model and Quantitative Assessment User Guide
3. HMT Green Book -accessed at: http://greenbook.treasury.gov.uk/
4. NPD Explanatory Note available at : http://www.scottishfuturestrust.org.uk/docs/439/Explanatory%20Note%20on%20the%20NPD%20Model.pdf
5. SG Construction Procurement Manual
6. SG VfM Refinancing Guidance
7. SG Funding Competition Guidance Note

Specific NHS Scotland/ Health Guidance

9. SGHD Scottish Capital Investment Manual available at: http://www.pfcu.scot.nhs.uk/
10. HDL (2002)87
11. DH Supplementary Guidance on Optimism Bias

Appendix I – Glossary

Competitive Dialogue	Competitive Dialogue is a process which enables the Procuring Authority to conduct discussions with bidders with the aim of identifying and defining the means best suited to meet the Procuring Authority's needs. The dialogue involves several stages during which the number of solutions discussed as well as the number of bidders is refined and reduced.
Conventional Procurement Assessment Model or CPAM	A Conventional Procurement Assessment Model is a risk adjusted financial model which estimates the cost of the public sector procuring a project directly.
DBFM	Design, Build Finance and Maintain
FBC	The Final Business Case explains how the preferred option would be implemented and how it can be best delivered.
FM	Facilities Management services – can be hard services relating to the maintenance of the maintaining the fabric of the actual building or soft services such as cleaning and catering.
Gateway Review	Mandatory reviews for publicly procured capital investments which exceed £5m and which are assessed as being high risk and / or mission critical.
Green Book	HM Treasury Green Book provides guidance on the techniques and issues that should be considered when assessing new policies, programmes and projects, whether revenue, capital or regulatory.
GEM	The Department of Health Generic Economic Model aims to assist the business case process of selecting the option that provides best value for money to the public sector for capital investment.
ITPD	The Invitation to Participate in Dialogue is a key milestone of the Competitive Dialogue process where pre qualified bidders are invited to take part in the dialogue stage.
JV	Joint Venture
KSR	Key Stage Review programme is a mandatory external review process for all privately financed procurements in Scotland.
NPD	The Non Profit Distributing model is a structure which has been developed in the Scottish market as a means of capping the returns earned by investors on public sector procurement at a level aligned with the corresponding risk transfer.
NPV	The Net Present Value represents a net cost figure for a

	project, i.e. all of the costs of the project to the client less the receipts associated with the project. The resulting cash flows are discounted at the appropriate cost of capital to an agreed base date.
OBC	An Outline Business Case prepared by the Procuring Authority to establish the need for the project, including an output specification.
OJEU	Official Journal of the European Union in which projects are advertised.
Optimism Bias / OB	Optimism Bias is the demonstrated systematic tendency for people to be over-optimistic about the outcome of planned actions. This includes over-estimating the benefits and under-estimating costs and delays.
PQQ	A Pre Qualification Questionnaire is designed to assess the competence of potential bidders from the expressions of interest submitted in response to the OJEU notice, with the aim of producing a list of potential bidders who qualify for the next stage in the procurement process.
SCIM	Scottish Capital Investment Manual
SFT	Scottish Futures Trust
Shadow Bid Model	A shadow bid model provides an indicative unitary charge which will be used as a proxy for the expected annual cost of a privately financed procurement
SG	Scottish Government
SGHD	Scottish Government Health Directorate
SGHD PFCU	Scottish Government Health Directorate Private Finance and Capital Unit
SoPC4	HM Treasury's Standardisation of PFI Contracts version 4 provides standard wording and guidance to be used by public sector bodies when drafting PFI contracts. This guidance is also applicable to NPD contracts.
SPFM	Scottish Public Finance Manual
STUC Staffing Protocol	Scotland's Trade Union Centre Protocol covers employment issues in Public Private Partnerships in protecting staff and eliminating the two-tier workforce.
Unitary Charge	The expected cost of a privately financed project, usually expressed in annual terms.
VfM	VfM is the optimum combination of whole-life costs and quality (or fitness for purpose) of the good or service to meet the users requirements. VfM is not the choice of goods and services based on the lowest cost bid.

Appendix J – Quantitative VfM Assessment

Quantitative VfM Assessment - how to construct a Conventional Procurement Assessment Model ("CPAM") and apply its use in Quantitative VfM Assessment vs Shadow Bid Model

1. Introduction and Scope

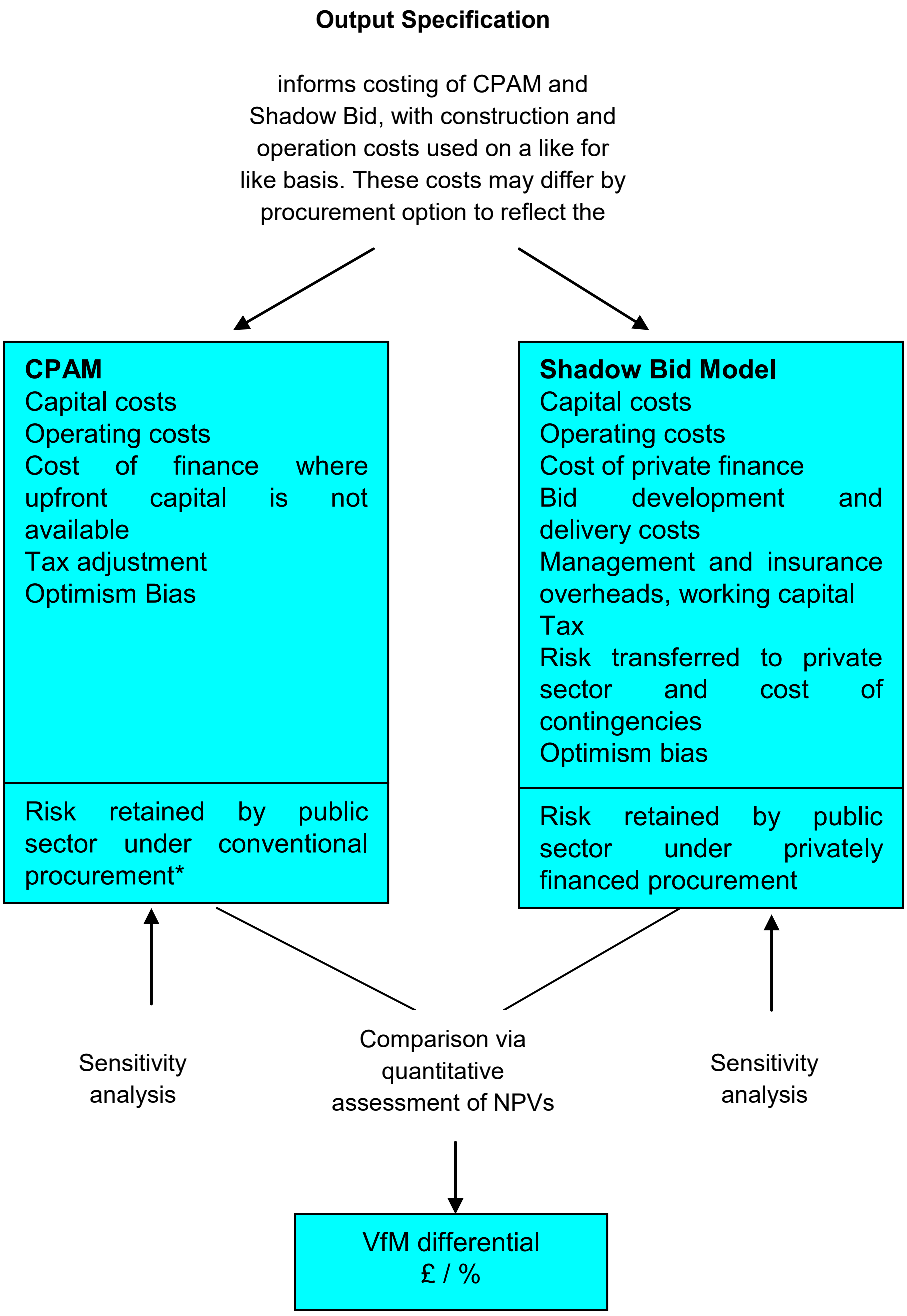
The Value for Money ("VfM") guidance requires the use of quantitative appraisal throughout the VfM assessment stages (the Programme Level, Project Level and Procurement Level). The quantitative assessment should compare the financial cost of the chosen procurement route with a suitable comparator. This requirement should apply regardless of the procurement route chosen as a comparative analysis will almost always be possible.

VfM guidance requires quantitative assessment, using a risk adjusted Conventional Procurement Assessment Model ("CPAM") as an economic comparator against a shadow bid financial model (a proxy private finance structure). The shadow bid model will typically be developed by Procuring Authorities in conjunction with their appointed financial advisers to facilitate both the VfM and affordability assessments. The shadow bid model will produce an indicative Unitary Charge. This Unitary Charge will be used as a proxy of the expected annual cost of a privately financed / NPD project. The discounted unitary charge over the life of the project will be compared to the discounted cost of the CPAM to provide an indication of the quantitative VfM assessment of the project.

At the Project and Procurement Levels, the purpose of the CPAM is to provide a benchmark against which to form a judgement on the likely quantitative Value for Money position of a privately financed / NPD procurement route which is a distinct task, separate from affordability analysis. There is no reason to presume that a good Value for Money project will be affordable or that an affordable project will represent good Value for Money. The issue of Affordability is not covered by this note.

The evaluation model will assist Procuring Authorities (Local Authorities, NHS Scotland Organisations, Scottish Government Agencies and Directorates) to help ensure that best value is achieved, and provide an audit trail of the VfM implications of a project throughout the procurement process. This exercise is intended to supplement the qualitative VfM elements and should be reviewed throughout the procurement process at the same stages.

Figure 1: Summary of Value for Money Quantitative Assessment



* Where the Authority proceeds with a conventional procurement, under which the programme / project risk is to be retained by the public sector, the Authority should refer to the Construction Advice and Policy Division's (CPAD's) Construction Procurement Manual:
http://www.scotland.gov.uk/Publications/2005/11/28100404/04045

Where the difference in the assessments of the conventional option and the privately financed option are marginal (small positive for or against) the outcome should not be interpreted as sufficient evidence for or against the use of private finance as a procurement route. In such cases more weight should be given to the qualitative rather than the quantitative assessment.

This note provides guidance on the quantitative VfM assessment and provides detail on the models which facilitate quantitative comparison for VfM purposes.

This note also discusses the inclusion of risk and Optimism Bias in the quantitative assessment, looking at how these areas are expected to be developed and valued.

Development of the Quantitative Analysis

The following flow chart provides details of the development of the CPAM and shadow bid model at each stage of the VfM assessment.

Figure 2: Development of the CPAM and Shadow Bid Model

Investment Programme

Stage 1: Programme Level Assessment

CPAM

- Analysis likely to be undertaken centrally by Scottish Government Agencies as part of an Investment Programme.
- CPAM is used for economic appraisal against a privately financed solution for indicative purposes.
- Programme level quantitative analysis of cost, benefits and outcomes.
- In some circumstances a project specific risk adjusted CPAM will be required.

Shadow Bid Model

- A shadow bid model should be constructed for a generic project within the programme to provide an indication of the programme cost and value for money under alternative procurement routes.
- In some circumstances a project specific risk adjusted shadow bid model will be required.

Feasibility Assessment and OBC Production to OBC Approval

Stage 2: Project Level Assessment

CPAM

- Procuring Authority should confirm the programme level VfM assessment by constructing a project specific CPAM to further assess quantitative VfM.
- The CPAM will be compared to the forecast unitary charge / tariff (from the shadow bid model) to indicate quantitative VfM.

Shadow Bid Model

- Procuring Authority should confirm the programme level VfM assessment by constructing a project specific risk adjusted shadow bid model to further assess quantitative VfM
- A purpose built shadow bid model should be used to assess the affordability implications of the project

Post OBC Approval through procurement to close and Full Business Case

Stage 3: Procurement Level Assessment

CPAM

- NPVs from CPAM should be compared to bidder model(s).
- Risk assumptions, timings and financial and economic assumptions should be comparable to the live bids.
- Input costs and assumptions per previous models will be adjusted to reflect:
  - Final project scope;
  - Agreed construction programme and delivery dates; and
  - Final risk position
- The CPAM is used as one of the key audit trail mechanisms for Procuring Authority to ensure that the private finance / NPD solution is, on a quantitative basis, a suitable form of procurement and that investment is delivered and negotiated in a robust and deliverable manner.

Shadow Bid Model

- The shadow bid and previous or relevant information from other privately financed projects can be used as a best value comparator in comparison to the live bids.

Who should apply this guidance?

This guidance is intended for Procuring Authorities who are following the Value for Money Assessment Guidance for Capital Programmes and Projects. Advisers to the Procuring Authority as well as private sector Contractors are also recommended to read this. It is recommended that Authorities refer to this guidance throughout the procurement period.

Scope of the Guidance

This guidance is intended to be generic in nature and to cover the general principles that should be followed by Procuring Authorities when performing quantitative Value for Money analysis and constructing the CPAM and shadow bid model. For health projects, procuring bodies should refer to the SCIM business case guide at:
http://www.pfcu.scot.nhs.uk/

2. Summary

The purpose of this guidance is to assist the Procuring Authority in carrying out quantitative analysis to determine whether the preferred procurement route will deliver best VfM.

The evaluation model will assist Procuring Authorities to ensure that best value is achieved, and provide an audit trail of the VfM implications of a project throughout the procurement process.

This guidance sets out the quantitative models used in the VfM assessment and provides advice on the contents of the CPAM and the shadow bid models.

CPAM

It is important that the CPAM reflects the full resource cost of the project in order to provide a deliverable benchmark against which to assess the preferred procurement route. The CPAM must be able to fully deliver to the intended output specification and must be based on realistic assumptions around the availability of capital funding.

The capital and operational costs used in the CPAM should reflect the full resource cost of the project under conventional procurement and must be capable of delivering the intended output specification.

In addition to these basic capital and operational costs, where upfront capital is not available the cost of public sector finance should also be included in the CPAM, most likely in the form of PWLB finance costs.

These costs should be included where they reflect the ultimate cash flow consequence for the Procuring Authority, even if these are not of a cash nature. Including these costs in the analysis facilitates a like-for-like comparison between private finance and the true cost of public sector procurement.

Shadow Bid Model

The shadow bid model will provide an indicative unitary charge which will be used as a proxy for the expected annual cost of a privately financed procurement. In addition to capital, lifecycle and FM costs, the shadow bid model should also reflect the market cost of finance, bid development and delivery costs, management and insurance overheads and market returns.

Any surpluses arising under an NPD option should be risk adjusted to reflect their likelihood of occurring and taken into account in the VfM assessment.

Both the CPAM and the shadow bid models should be updated and compared throughout the procurement process. The cash flows from these models are discounted to allow comparison on a NPV basis. The comparison of these results will allow the Procuring Authority to ensure that the preferred procurement route continues to offer Value for Money.

Risk & Optimism Bias

An element of risk and optimism bias should be included in both the CPAM and the shadow bid model in the VfM assessment.

By maintaining a risk matrix the Procuring Authority can identify and quantify the risks to which the procurement is exposed. These risks can then be allocated to the party best placed to manage them, whether that be the private sector, public sector, or shared by both. The risk premium charged for transferring risks should also be included in the cost of risk to the public sector.

An Optimism Bias adjustment to cover all the risks that cannot be quantified should also be applied to both the CPAM and the shadow bid model. Such an adjustment compensates for the overstatement of benefits and understatement of costs typically found in the procurement of large projects.

At the outset of a procurement it is expected that Optimism Bias will account for most of the risk attributed to the project. As the procurement progresses, detailed risk analysis is performed and the level of confidence in the capital / time assessments increases, thereby allowing some risks to transfer from the unquantified Optimism Bias category to quantified risk.

The quantified risk retained by the public sector will invariably differ across procurement options. The Procuring Authority is likely to retain more risk under a conventional procurement than under a privately financed option such as an NPD. Under an NPD solution significant risk will be passed to the private sector and therefore the cost of mitigation and the risk premium will be incorporated into the shadow bid model costs.

Sensitivity Analysis

Sensitivity analysis should be performed to determine the effect on Value for Money if the assumptions made are incorrect. It should be used to determine the tolerance of the preferred procurement option to cost shocks and increases in risk before the Value for Money differential is eroded.

Interpretation of Results

One of the key aspects of the approach to assessing VfM is the need to ensure that the quantitative VfM analysis is not considered in isolation – qualitative assessment, wider VfM factors and evidence based examples are central to decision making. It will be necessary to take account of previous delivery and experience of privately financed projects when Procuring Authorities are promoting the future procurement of infrastructure assets.
In respect of the **overall VfM judgement** the following should be noted

- **Marginal Results:** Where the difference in the assessments of the conventional option and the privately financed option are marginal (small positive for or against) the outcome should not be interpreted as sufficient evidence for or against the use of private finance as a procurement route. In such cases more weight should be given to the qualitative rather than the quantitative assessment.

- **Uncertainty and sensitivity analysis:** Where there is a high level of uncertainty around inputs, or outputs are highly sensitive to the input variables, it is appropriate to place greater weight on the qualitative assessment or to invest more time and money in establishing higher confidence in the most critical assumptions. Procuring Authorities should in any event undertake appropriate sensitivity analysis.

3. The Quantitative VfM Process

This guidance requires that VfM is quantitatively assessed by comparing a risk adjusted CPAM against a shadow bid financial model. This section describes the quantitative work streams throughout the various stages of the VfM process.

Stage 1: Programme Level Investment Quantitative Review

When undertaking the Programme Level Assessment, **a representative project (or projects) should be selected for the purposes of high level quantitative modeling** so supportable conclusions across the whole programme can be drawn. If an investment programme encompasses elements with significantly differing characteristics, then examples from each different class of project will need to be considered. This assessment is normally undertaken at SG or directorate level before the development of the business case.

For the quantitative VfM assessment appropriate technical support and advice should be sought to estimate applicable capital, lifecycle and revenue costs of a capital investment or capital investment programme. In addition benefits, risks (including Optimism Bias) and relevant transaction costs should be assessed. These inputs are factored into the CPAM and shadow bid models and the results of these models are compared either on an individual project or a programme basis.

For this assessment, all input assumptions should be based upon evidence from past experience and projections. Where there is limited evidence or in the case of Pathfinder Projects, public sector bodies should consult with the Scottish Futures Trust (NHS Scotland Bodies should consult with the Private Finance and Capital Unit) directly.

The quantitative assessment at the investment programme stage will inevitably be conducted using only high-level estimates supported by appropriate evidence and should be used only as an indicator of whether there is potential to achieve VfM through the use of private finance. Other quantitative data that should be considered on a programme basis include:

- Economies of scale and efficiency gains across a programme;
- Programme set up and transaction costs of public and private sector participants relevant to financial / non financial benefits of the programme;
- Continuous improvement and related cost savings; and
- Transfer of risk through standardised contracts.

All quantitative assessment should be undertaken at a consistent evaluation point which will be the forecast projected “financial close” date. This will be more applicable for Stage 2 and Stage 3. The Procuring Authority should note that innovation is difficult to model at the investment programme stage – until the market has proposed innovative solutions, their costs and benefits are unknown. However, this is not designed to prevent Authorities from procuring large and / or unique projects. The ideal at Stage 1 is to uncover the scope and potential value of innovation.

At this initial stage a shadow bid affordability model would produce outputs which should be used to assess the VfM between an indicative private finance / NPD option and conventional procurement (either applying the models individually to a Project or as part of a Programme).

The following section discusses the contents of the quantitative models while further details on the application of Optimism Bias and Risk in respect of the quantitative assessment are detailed at Section 6 and Annex B.

Results of the Stage 1 Quantitative Analysis

At the completion of Stage 1, the results of the qualitative and quantitative assessments will need to be combined to identify which procurement approach may be suitable to deliver a programme of capital investment. This should provide justification for the preferred procurement route, on an individual project or programme basis, and recognise any limitations of the component parts of the assessment.

It should be noted that the quantitative assessment must be viewed in light of the results of the qualitative assessment. Care must be taken in evaluating the relative weighting of the qualitative and quantitative assessments. Where possible, reference should be made to previous experience and evidence bases.

Guidance on the qualitative VfM requirements is contained in the remainder of this document.

Stage 2: Project Level Quantitative Assessment

At Stage 2, the quantitative evaluation should be updated to reflect the specific project and cost environment. The project level assessment covers the period from business case development and approval to advertising the project.

This should be completed in accordance with the Green Book (and SCIM guidance for health projects). It should be collated and reviewed by the Procuring Authority. The variables should be verified by appropriate technical support.

It is desirable that the quantitative VfM assessment of different procurement options is undertaken at a consistent evaluation point, for example typically the forecast projected "contract award" date as the base date. This base date evaluation can continue to be a reference point at Stage 2 and Stage 3 even when the actual contract award date is moved. In assessing VfM at different procurement stages and at different base dates, there is no requirement to undertake and report reconciliations of movements in VfM. Rather, VfM will be assessed between procurement options at a consistent point in time and over an equivalent appraisal period.

As with the Stage 1 discussed above, the quantitative assessment relies upon a sound evidence base, wherever possible built up from past procurement experience in relation to both conventional procurement (e.g. Design & Build contracts, traditional Management Contracts etc) and non conventional (e.g. NPD, JVs).

Where applicable (for projects assessed at the Programme Level), the shadow bid model inputs from Stage 1 will be refined to reflect any project specific changes from the previous review at the Programme Level Stage. Given the high level nature of the Stage 1 assessment, complete new quantitative information may be required for bespoke project appraisal and any assumptions carried forward should be tested. The Procuring Authority should try to understand the drivers behind any significant change in cost estimates between stages 1 and 2.

Sensitivity Analysis

A range of sensitivities should be tested in respect of different input and economic assumptions to assess their impact on VfM. These should identify the key variables which will impact upon VfM and the pivotal points where changes in assumptions alter the overall

VfM outcome. In circumstances where conventional funding (e.g. via prudential regime) are part of a potential privately financed solution, the quantitative assessment models used should adopt the same assumptions.

Risk Analysis

Procuring Authorities will need to develop and implement thorough project-specific risk management and risk analysis procedures. In examining projects Audit Scotland and other auditors may wish to examine project appraisals. They might reasonably criticise public bodies that have placed undue reliance on subjective or poorly researched assessments of Optimism Bias and risk as the basis for selecting private finance as the procurement route, or accepting an NPD contract as offering VfM. Authorities will need to ensure that there is effective risk analysis with good evidence to support any adjustments to costings within the VfM assessments.

Conclusions drawn from the quantitative VfM analysis must be based upon detailed sensitivity analysis as point estimates of conventional procurement and non conventional procurement (CPAM / NPD) costs should not be considered in isolation. Likewise, there may be some limitations in some of the qualitative / quantitative assessments that need to be recognised (for example at this Stage, only limited account can be taken of innovation).

Therefore at Stage 2, adjustment to risk quantification and Optimism Bias figures should only reflect evidence based on past experience. **In Scotland it is recommended that a bespoke risk workshop is held at this stage to facilitate the pricing of Risk and Optimism Bias.** Refer to Section 5 and Annex B. Health projects should also refer to SCIM guidance at: http://www.pfcu.scot.nhs.uk/

Results of the Stage 2 Quantitative Analysis

The quantitative assessments, sensitivity testing and the qualitative analysis will confirm the deliverability of the preferred project scope and procurement route. The quantitative VfM factor is likely to differ by sector.

The qualitative assessment should help the Authority to gauge the level of confidence that can be placed on the quantitative assessment, for example if the qualitative assessment identifies gaps in programme information the Authority may wish to place less reliance on the results of quantitative analysis until this has been addressed.

Procuring Authorities must calculate and confirm their own affordability envelope and compare this with the results of the quantitative analysis. If a project is deemed unaffordable, it should not be pursued.

If Stage 2 analysis shows that privately financed or NPD procurement route no longer represents VfM, the reasons should be reviewed as well as the appropriateness of the procurement route. This may involve re-examination of the project, its scope and allocation of risk. Assessors should consider the following:-

- identify why and whether the issue is specific to the proposed procurement route or to procurement of the project in general;
- consider the case for a delay to the start of the procurement, if this can address the concern;
- review the scope of the project and determine whether there is a better way to deliver the business requirement (e.g. rebuild versus refurbish); and
- reconsider the procurement route and the possibility of switching to other forms of procurement.

When considering the VfM assessment, **Procuring Authorities must accord proper weight to the respective parts of VfM analysis - qualitative and quantitative.** Providing that the indicative VfM is positive and is based on a balance of combined qualitative and quantitative VfM elements, the project can proceed - there is no necessity to prove quantitative VfM above a particular percentage. The weighting between the qualitative and quantitative elements is a key consideration and should refer to previous evidence bases and qualitative and quantitative assessments.

Stage 3: Procurement Level Quantitative Assessment

In Scotland within procurement (post OBC) it is a requirement that Procuring Authorities demonstrate and review the VfM of privately financed / NPD bids against public sector procurement on both a **qualitative and quantitative basis**. They should therefore:

- continue to confirm that the Project in procurement is Viable, Desirable and Achievable as required by the qualitative guidance;

- Update the CPAM, forecasting relevant input costs, and assessing the timing, specification and risk allocation as priced by the bidder but assuming delivery by conventional means;

- the shadow bid model should also be updated as a VfM comparison against actual bids (to ensure the bids reflect current market conditions and structures etc); and

- where applicable market information regarding other private finance / NPD outturns should be used to compare and assist with VfM calculations and benchmarks.

At Stage 3, the CPAM will be inclusive of Risk, Tax Adjustment and Optimism Bias. .During procurement (for example Preferred Bidder selection), the NPV of the CPAM can be compared to the NPV of the shadow bid unitary payment profile over an equivalent appraisal period to provide a procurement VfM test. It is expected that the outcome of this test is positive VfM. The shadow bid model will be used to facilitate bid evaluation and to enable suitable audit trail and investment approval sign off at Preferred Bidder selection, FBC and Financial Close stages. Note, like all quantitative assessment, this should not be viewed in isolation. **After taking account of supporting qualitative factors, should this assessment suggest that the bids do not offer VfM, then the NPD procurement process should be halted and further analysis undertaken**. The Procuring Authority should assess the underlying reasons for the shift in VfM and should consider alternative options which address these issues, such as rescoping the project and putting it to the market at a later date, or procuring conventionally (in this circumstance if conventional procurement offered better VfM than the NPD). The Procuring Authority and its advisers should consider the financial and wider implications of the alternative options put forward at this stage. It is important that the assessment be as realistic as possible and not simply a theoretical exercise. The full consequences of rescoping the project or changing procurement route should be considered, taking into account factors such as:

- Impact on timetable;
- Impact of delay on cost;
- Sunk costs already invested;
- The ability to maintain market confidence; and
- Availability of alternative sources of finance

Procuring Authorities, Agencies and Directorates must consult with the SFT, SGHD Private Finance and Capital Unit as appropriate when making these decisions.

4. Quantitative Models

This section describes the contents of the CPAM and the shadow bid model and discusses some of the wider VfM issues to be considered in making a comparison.

Contents of the CPAM

When compiling the CPAM all cost estimates should reflect the full resource costs of the project under conventional procurement and must be able to fully deliver to the intended output specification. The CPAM should reflect the same specification and timing which as the shadow bid model, while it is possible that cost bases may differ under different procurement options, the output delivered by the options should be the same. The CPAM should be updated during procurement for changes in timetable and specification to ensure that the comparison remains valid.

The key priority is that the analysis should be comparable, and as such should account for the opportunity cost or any assets already owned as well as any residual value accruing to the public sector under the option.

All costs and assumptions must be explicitly signed off by the procuring authority and should reflect empirical evidence and current market conditions.
Basic Capital Costs

Capital Cost Inputs in the CPAM will include:

- Basic cost of capital assets, such as buildings, required for the project, including any fit-out costs required to convert an existing property to the required use. Enabling, works and decanting costs may be included to the extent that the private sector partner will be required to undertake these
- Full lifecycle costs of maintaining the assets in the condition required to deliver the output specification over the agreed concession period, including the costs of meeting hand back requirements
- Specific RPI / indexation on the above
- Specific risk uplifts and Optimism Bias (see section 5)
- Any capital receipts or capital contributions if included directly in a project will offset these amounts. In these circumstances, refer to separate guidance at: http://www.scotland.gov.uk/Topics/Government/Finance/18232/capinject

Other Costs

- Professional and Adviser fees, including internal design development costs and other such costs which would normally be capitalised
- Procurement administration costs
- Training and commissioning costs
- Centrally purchased supplies
- Opportunity costs (see below)

Cost estimates should reflect the full resource costs of the project. In particular, they should include the opportunity cost of any assets already owned by the client and which are to be used in the project. If the asset could be sold or used for another purpose, then the use of that asset in the project has an opportunity cost.

All assumptions and sources of information should be listed, in particular in relation to the costing and timing of expenditure. If there is any doubt regarding the availability of public capital, in addition to considering other public sector sources of capital, sensitivity analysis should be undertaken to quantify the effect of delayed construction work or more likely, a longer construction programme due to lack of capital availability.

Assumptions about the start, completion and if applicable, the phasing of construction works should reflect what could be realistic to expect in the public sector and will not necessarily correspond to the bidders' proposals.

Assumptions around capital cost inflation should be explicitly stated. It is usual that construction costs will fluctuate and, where they are inflationary, they have in the past sometimes risen faster than official government measures such as PRI and CPI. Advice should be sought from technical advisers to ascertain the real rate of growth in these costs. Also assumptions regarding the capital cost base dates should be made clear and the costs involved in the analysis should be adjusted as necessary to ensure they are comparable on a like for like basis.

Basic Operating Costs

This section should include estimates of the costs of the public sector providing the services specified in the procurement, over the concession period to the specification being tendered. The exact nature of the costs will vary according to the service element; hence a universal checklist would be impractical. Items which must be covered here include:

- Full staff costs, including accruing pension liabilities and any expected redundancy costs
- Raw materials and consumables
- Repairs and maintenance (where these items have not been capitalised)
- Administration and management overheads associated with managing the project and operating the asset over the lifetime of the project.
- Insurance premiums or equivalent
- Specific risk uplifts and Optimism Bias (see section 5)

As a private finance / NPD procurement normally involves a long term contract, the effect of inflation on operating costs during the contract may be significant. The costs included in the CPAM should be expressed in a way that is readily comparable with the shadow bid model, therefore costs should be expressed in a consistent manner (i.e. adjusted for inflation) and the base dates for the NPV calculation should be the same. Whilst often the prescribed long term inflation rate will be applied, allowance should be made for expected changes in relative or real prices of certain cost inputs, i.e. where the price of particular input is expected to rise faster than the average price level.

Where applicable, the cost bases will reflect third party income and related costs if these would be applicable to Conventional Procurement.

Cost of Finance

The CPAM should reflect a deliverable public sector procurement route and as such should be based on realistic assumptions around capital funding availability. **Where public funds are available within existing budgets to allow the construction of the project, no additional finance costs need be included. However where this is not the case, the cost of sourcing alternative capital, e.g. through PWLB borrowing, should be taken into account**.

Financing costs in the CPAM will include, as applicable:

- Public Works Loan Board finance costs incurred directly related to a project where applicable, (which can be factored in via the discount rate);
- Any other finance costs associated with sources of capital available to the Procuring Authority.

The inclusion of these costs is appropriate when they reflect the ultimate cash flow consequences of the Procuring Authority, even if some costs are non cash in nature. By including these costs, a more like for like comparison is achieved and the true cost of public sector procurement is identified.

Tax Adjustment

Where the difference in tax treatment between options are material, they must be stripped out to ensure a like-for-like comparison of resource costs.

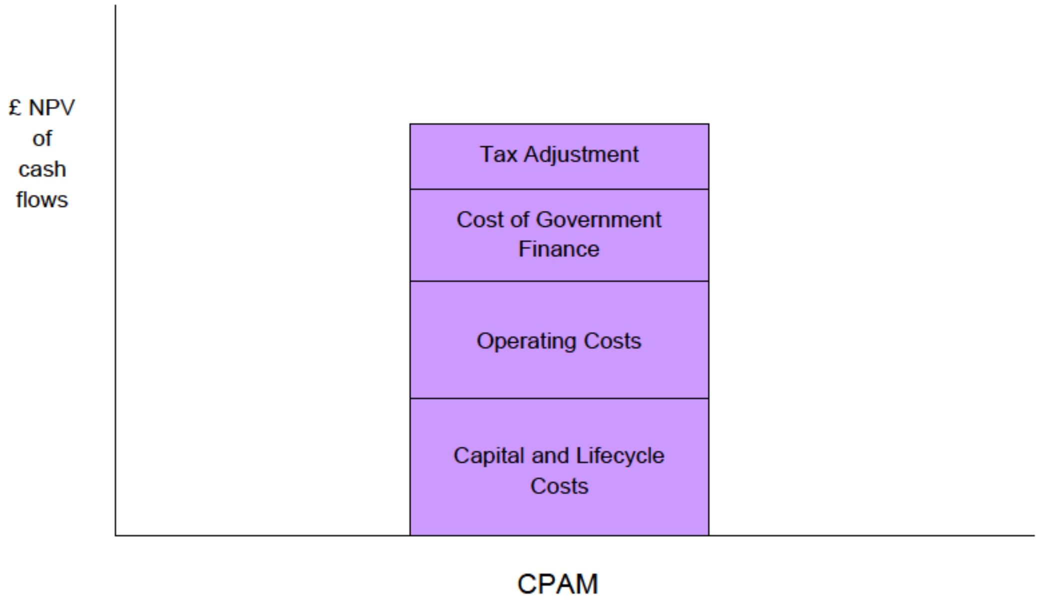
HMT Green Book guidance provides information on the approach which should be taken to develop the necessary adjustments.

The main objective of the guidance is to:

- Estimate the difference in tax liabilities between the CPAM and the private finance / DBFO (via NPD) procurement route for the same project; and therefore to
- Provide a better estimate of the net present cost of the CPAM.

The Procuring Authority should use the HM Treasury Green Book Guidance to determine the percentage adjustment to be made to the net present cost of the CPAM. Further details regarding the application of this guidance are available online.

Figure 3: CPAM step 1: quantify project costs



Contents of the Shadow Bid Model

The shadow bid model will typically be developed by Procuring Authorities in conjunction with their appointed financial advisers to inform both the VfM and affordability assessments. The shadow bid model will produce an indicative unitary charge. This unitary charge will be used as a proxy of the expected annual cost of the NPD project. The discounted unitary charge over the life of the project will be compared to the discounted cost of the CPAM to provide an indication of the VfM implications of the project. Both models will use the discount rate specified within the HMT Green Book (health projects should refer to SCIM guidance at http://www.pfcu.scot.nhs.uk/)

The costs in the shadow bid model will:

- Include input costs for capital, lifecycle and FM costs. These may reflect the costs included within the CPAM but adjusted to reflect likely private sector delivery out-turns, any efficiencies and the likely private sector view of risk and return.
- reflect market based financing and taxation assumptions as well as encompass bid development and delivery costs, management & insurance overheads and private sector returns. Procuring Authorities who wish to benchmark financing assumptions against previous NPD projects should contact the SFT to discuss banked rates and interest rate buffers in commercial confidence.

- an element of risk quantification and Optimism Bias would be applied to the shadow bid, especially at the earlier stages of project development (particularly if CPAM costs are included within it). See section 5 for further information.

The inputs of the NPD shadow bid model should not seek to forecast refinancing gains. It is not essential that NPD bids are refinanceable and given the lack of certainty around the timing and amounts involved in refinancing it is not appropriate to evaluate this issue in quantitative terms for affordability or VfM assessments (unlike the evaluation of surpluses as discussed later). If the ability to refinance is a key consideration for the Procuring Authority it should be evaluated in qualitative terms only.

At Stage 3 Procurement Level, the inputs to the shadow bid model can be used to benchmark and evaluate the actual bid submissions (e.g. financing approach, private sector returns etc).

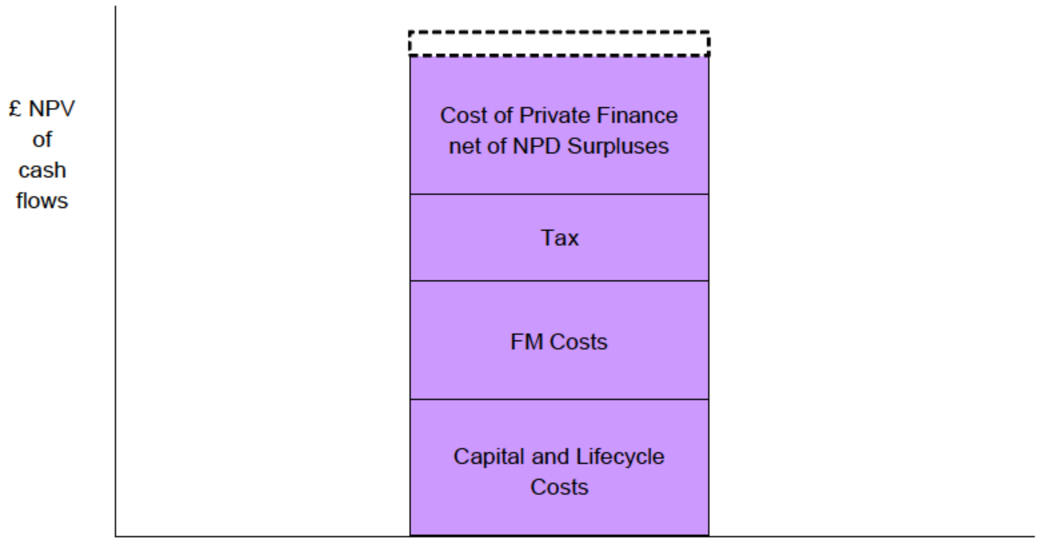
NPD Surpluses

Under a NPD structure, surpluses are distributed for the benefit of the public sector or wider community. Where surpluses are available for distribution within the shadow bid model, this cash flow should be taken into account in carrying out the Value for Money assessment. The cash flow from surpluses should be risk-adjusted to reflect the likelihood that it will occur and discounted back using the discount rate specified within the Treasury's Green Book, consistent with the Unitary Charge cash flow. Further information on the NPD structure is available online at:
http://www.scotland.gov.uk/Topics/Government/Finance/18232/NPDExpNote

Where the Value for Money margin of an NPD procurement relies on the receipt of the surpluses defined in the shadow bid model, the Procuring Authority should ensure that the Project will also deliver Value for Money on qualitative grounds in accordance with the VfM guidance.

The preference of the Procuring Authority for receiving a defined level of surpluses should be considered alongside the efficiency of generating the level of surpluses required. If the level of surplus required from the NPD model is artificially high, the Unitary Charge will increase to reflect this and the model is likely to become inefficient.

Figure 4: Shadow bid model step 1: quantify project costs



Shadow Bid Model

General Points to Note

When utilising bespoke models there is no requirement to reconcile different VfM quantitative outturns between Stages 1, 2 and 3.

In circumstances where public funding (for example, via the prudential regime) is part of a potential NPD solution, the quantitative assessment models utilised to test VfM of an NPD funding solution and Conventional Procurement should reflect the applicable terms of the public funding.

The assumptions included in both the CPAM and the shadow bid model should be based on the current market rates within the relevant sector, incorporating project specific adjustments if necessary. Further information on banked rates can be obtained from SFT.

Other areas to consider

Residual asset values

Residual asset values and where applicable receipts must be treated consistently across both the CPAM and the shadow bid model.

Expiry of the Contract

If, at the conclusion of a NPD contract, the public sector retains or accepts the asset or pays an agreed consideration (e.g. open market value), then the public sector is left with an asset with a remaining useful economic life. The treatment envisaged in the contract, and therefore reflected in the shadow bid affordability model, should also be reflected in the CPAM adjusted for public sector management of this transfer.

In practice, there is unlikely to be a material difference between the treatment in the Shadow Bid and the CPAM and it is usually legitimate to exclude the residual value on the grounds that it will not affect the comparison. The key point is to achieve consistency of approach, i.e. include or exclude the deduction in both calculations. However, it is best practice to include the figures as this demonstrates that the matter has been addressed.

Wider VfM factors

Procuring Authorities should take account of any differentials in the benefits or risks arising from alternative procurement options, for example in terms of the timing of or the quality of service delivered (see Annex C). Specialist assistance maybe required here. Where the relevant risks and benefits of different procurement strategies are noted, reference should be made to the Scottish Government Construction Procurement Manual that refers to alternative procurement options.

5. Discounted Cash Flow

The discounting process is central to the quantitative VfM analysis. It evaluates the cashflows including the effect of any risk adjustments, generated by the procurement, and calculates the overall Net Present Value ("NPV") of the project.

The effect of discounting is to bring a variety of different values and ranges of future cash flows back to today's values so that they can be compared. That is, to produce the NPV of a stream of future cash flows. In the case of the CPAM the NPV is a net cost figure, i.e. all of the costs of the project to the client less the receipts associated with the project. Discounting is particularly important because the cash flow profiles of the CPAM and the private finance / NPD option are very different. An example of a discounted cash flow and NPV calculation is provided at Annex A.

It is important that the discounting assumptions used are consistent to facilitate a valid comparison of NPVs across options. As such, annual cash flows should be assumed to arise mid-period.

The recommended discount rate, in accordance with the HMT Green Book, section 5 "Appraising the Options" is currently 3.5% (real) for the first 30 years of the appraisal period and 3.0% for years 31 – 60. Calculating the present value of the differences between the streams of costs and if applicable benefits provides the net present value (NPV) of an option. If necessary, the effect of expected future inflation in the general price level should be removed by deflating future cash flows by forecast levels of the relevant deflator. Over a long-term period, the Bank of England's annual inflation target is the appropriate measure of prices to use as a general deflator.

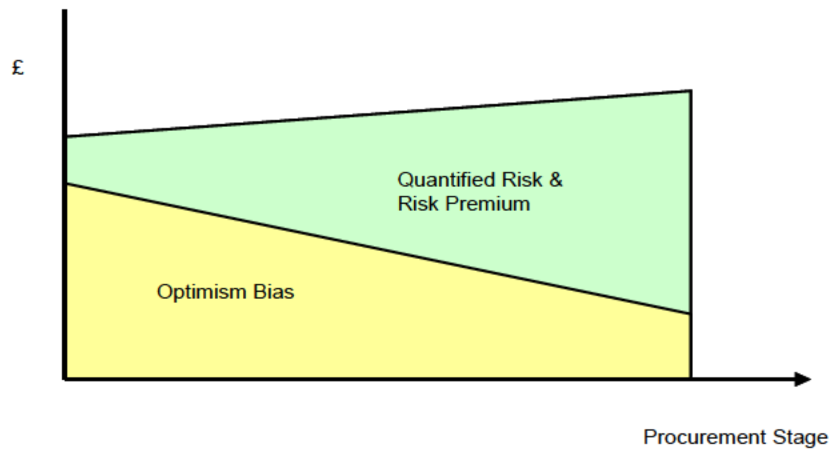
6. Risk and Optimism Bias

The cost of procuring an infrastructure project cannot be calculated with certainty during the procurement process, as such risk should be considered and analysed to provide realistic estimates for both the CPAM and the shadow bid model. There are three types of risk to be considered:

- Quantified Risk – risks which can be identified and valued;
- Risk Premium – the cost associated with transferring risk to the private sector; and
- Optimism Bias – covers all risks that cannot be quantified.

All project risks should be captured by the risk management process in place and considered under one of these headings. At the outset of a procurement it is expected that Optimism Bias will account for most of the risk attributed to the project. As the procurement progresses, detailed risk analysis is performed and the level of confidence in the capital / time assessments increases, thereby allowing some risks to transfer from the unquantified Optimism Bias category to Quantified Risk.

Figure 5: Development of risk analysis



The following section describes how these three categories of risk should be identified through a robust risk management process and incorporated into the quantitative value for money assessment.

Quantified Risk

Quantified risks are those which can be identified and valued at any one time. As explained above, this is an iterative process whereby the amount of quantified risk will increase throughout the procurement process.

The Risk Matrix is a useful management tool in the identification and quantification of project risk. This is described in detail in the following section.

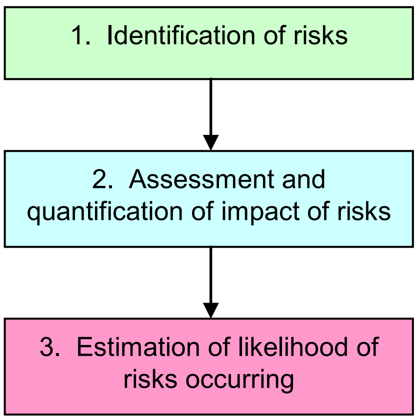
Quantified risk should be incorporated into both the CPAM and the shadow bid model for evaluation purposes. The amount included in these models will vary depending on the amount of risk retained by the public sector and the amount transferred to the private sector. A risk allocation exercise should be undertaken to assess which party is best able to manage quantified risk and to determine which risks each model should incorporate. This process is discussed further later in this section.

Risk Matrix

The construction of a risk matrix is a fundamental part of the procurement process and is key to quantifying risk.

The construction of the risk matrix usually comprises the following broad steps:

Figure 6: Risk Matrix Development



1. Identification of risks

The first step is to compile a list of all the risks that may be relevant to the project. This will provide a means for monitoring the evaluation and allocation of risk throughout the procurement exercise and will eventually build up into the risk matrix.

The development of the risk register is an iterative process and must be revisited throughout the project.

The risk register must be as comprehensive as possible. For large projects, this process is likely to be a complex exercise as the number of separate risks and the scope of inter-relationships involved may be substantial. Workshop sessions incorporating both public and private sector experience will help to achieve a comprehensive coverage of all risk areas.

2. Assessment and quantification of impact of risks

Having identified all of the relevant risks to be included in the risk matrix, it is necessary to quantify and assess the timing of the possible consequences.

The best approach is to use empirical evidence whenever it is available, when it is not, commonsense approximations should be used.

Quantifying the impact of project risks can be made easier by banding the risks together into a smaller number of categories according to their impact. According to the HMT Orange Book Guidance on the Management of Risk, a categorisation of high / medium / low may be sufficient. Alternatively a more detailed analytical scale such as “insignificant / minor / moderate / major / catastrophic” may be preferable. The amount of time and resources that are devoted to quantifying risks should relate to their likely materiality.

Even when it appears that costing a risk is impossible at first, it should be listed in the matrix, to be revisited and refined when information becomes available. Risks should not be ignored.

When assessing the consequences of any risk, thinking should not be restricted to the direct effects. Consideration should be given to the wider knock-on effects, particularly when the event causes delay and is on the critical path. This requires care as there will be interaction between different risk events.

The ultimate objective is to be able to add up the consequences of all risk elements to obtain the net present value of the risk adjusted costs and benefits of the project. It is important to make a sensible assessment of when the consequence of each risk will arise as this will affect the NPV of that consequence.

Care must be taken to avoid double counting the same risk, e.g. incorrectly counting the cost of insurance products available to cover a particular risk (whether taken up or not) as well as counting the impact of the risk covered by such insurance.

3. Estimation of likelihood of risks occurring

A key practical issue is how to arrive at the relevant probabilities, in a manner that is reasonable, consistent and transparent. Out-turn costs from previous similar procurements (and comparisons with original estimates) is an ideal source of information, if available. Otherwise, predictions should be based on experience of past events together with any foreseeable changes or developments which would deliver improvement.

Estimating probabilities will inevitably require the use of assumptions – it is important to ensure that such assumptions are reasonable and fully documented, as they may be open to challenge later on in the procurement process.

The Treasury Orange Book Guidance on the Management of Risks also provides examples of the categorisation of the likelihood of risk realisation. A simple categorisation of high / medium / low may be sufficient, otherwise a more detailed scale such as “rare / unlikely / possible / likely / almost certain” may be more appropriate. There is no absolute standard for the scale of the risk matrix – the Authority should make a judgement about the level of analysis that it finds most practical for its circumstances. The probability of the risk occurring is multiplied by the quantification of the impact to give the expected value of the risk.

Table 1 below shows how probabilities can be used to derive the expected value for the cost of a risk.

Table 1: Likelihood of Risks and Expected Costs

Probability of risk event occurring			**Outcome £m**		**Total £m**
High	0.8	*	10	=	8.0
Low	0.2	*	48	=	9.6
Expected Cost					**17.6**

The objective is to follow reasonable procedures at all times, to be as systematic as possible and to record the decision making process to facilitate subsequent audit.

Insurance

Insurance can help cost and allocate risk.

Much of the public sector historically does not use commercial insurers, rather they self insure. This is because commercial insurance would not provide value for money for the government because the size and range of its business is so large that is does not need to spread its risk, while the value of claims is unlikely to exceed its premium payments.

The CPAM should include an estimate of the value of each uninsured risk, taking into account the likelihood of such costs arising. Where the government does use commercial insurance, the cost of premiums should be included in the CPAM analysis but care should be taken not to double count the risk insured.

Allocation of Risks

Comprehensive risk analysis allows the Procuring Authority to consider whether responsibility for the financial consequences of any of the risks should be allocated to the private sector. The objective is to obtain an optimal balance by transferring risk, whenever the benefit to the Procuring Authority is greater than the cost of transfer. It is only following detailed negotiations between parties that the final balance is achieved.

Initially, all relevant and material risks should be identified and assigned to the CPAM, as all of these risks will be held by the public sector client under a conventional procurement. However, the procurement process, whether as a NPD, design & build or a hybrid model, will seek to transfer some of these risks and as such the risk profile for the Procuring Authority will differ under a conventional procurement and a NPD procurement scenario. While a large proportion of risks are retained by the public sector in a conventional procurement model, the purpose of an NPD procurement is to achieve an optimal level of risk transfer to the private sector. Therefore it is useful to distinguish between:

- Risks which are transferrable from the public sector to the supplier (e.g. design risk)
- Risks which are retainable in the public sector (e.g. policy risk)
- Risks which are shared by both parties by contractual agreement.

By distinguishing between these risks for each procurement route option, the Procuring Authority can quantify the amounts to be incorporated into the CPAM and the alternative options in respect of quantified risk.

Risk transfer is likely to be the subject of much negotiation and therefore the preliminary allocation may differ from the final negotiated position. Therefore it is important to revisit the risk assessment and its impact on the quantitative value for money assessment throughout the procurement process.

Risk Premium

A risk premium will be included in the cost of risk transferred to private sector, effectively representing the value of the risk to the contractor.

Risks should be transferred when the cost of transfer is lower than the cost of the Procuring Authority retaining and mitigating the risk.

Cost of risk transfer includes the one-off cost of specifying the risk to a level suitable for inclusion in a legal contract.

Optimism Bias

Optimism Bias is the demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters – appraisers tend to over-state benefits and understate timings and costs. The HMT Green Book recommends that a quantitative adjustment is applied to project costs to compensate for this tendency. Optimism Bias effectively represents all risks which cannot be quantified and should reduce as costs become more certain and risks are identified and quantified.

The application of Optimism Bias throughout the procurement process allows the Procuring Authority to make a more reliable estimate of the total cost of the project. As such, it is anticipated that the overall cost level (including risk and Optimism Bias) will not increase materially throughout the procurement.

Adjustments should be made to both capital and operational costs to compensate for such bias. This will have the effect of increasing cost estimates and decreasing and delaying the receipt of benefits.

Adjustments should be based on empirical evidence from past similar projects, taking project specific factors into account.

The HMT Green Book provides recommended adjustment ranges for various project types and detailed guidance on the application of these adjustments. This guidance can be found both in the main body of the Green Book and at:
http://www.hm-treasury.gov.uk/media/D/B/GreenBook_optimism_bias.pdf

Annex B of this guidance note provides a summary of the Green Book Optimism Bias section. Please note, NHS organisations should apply SCIM guidance and templates at:
http://www.pfcu.scot.nhs.uk/

Incorporating Risk into the Quantitative Value for Money Assessment

It is appropriate to add in an element of risk and Optimism Bias to both the CPAM and privately financed options.

Quantified Risk and Risk Premium

The Procuring Authority is likely to retain more risk under a conventional procurement than under a privately financed option such as an NPD. The risks retained by the Procuring Authority under the conventional procurement option should be assessed by reference to the likely cash flows estimated to occur (per example in Table 1). By making informed assumptions about the timing of these risk events, the estimated resulting cash flows can be discounted on the same basis as the other costs (as illustrated in Annex A) and included in the calculation of the total CPAM.

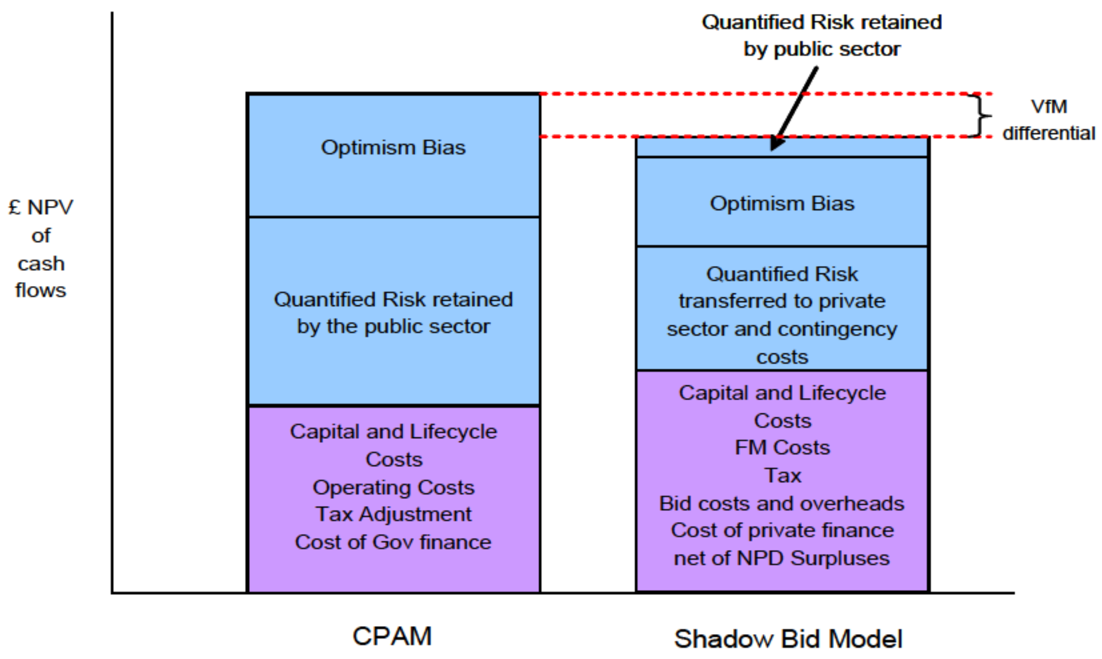
Under an NPD solution significant risk will be passed to the private sector and therefore the cost of mitigation and the risk premium will be incorporated into the shadow bid model costs. It is likely that the shadow bid model cost inputs provided by advisers will be appropriately risk adjusted by including insurance costs, appropriate adjustments to cost inputs and the pricing of debt to reflect the cost of risk transferred to the private sector.

Details of project delivery risk and the project risks retained by the public sector under the preferred route should be formally reported to the Project Board to confirm the acceptability of the exposure to the public sector.

Optimism Bias

Quantitative assessments throughout the procurement of the project will often use similar capital costs for both the CPAM and the NPD assessment. Since the key area which Optimism Bias assessed (the systematic tendency of evaluators to underestimate time and costs and overstate benefits) will affect both investment routes if similar cost inputs are used. It is generally expected that at the Stage 3 Procurement Level assessment, Optimism Bias will be higher for the CPAM option. However, it is recognised that contractual arrangements can be put in place under conventional procurement that provides NPD type protections to mitigate some time and cost overruns (e.g. Design and Build contracts). However, generally Procurement Level Optimism Bias should be significantly greater for the Conventionally Procured option due to the contractual structure of the NPD.

Figure 7: CPAM and shadow bid model step 2: Incorporation of risk and Optimism Bias into quantitative assessment



Retained Risks and Risk Mitigation

Even after risks have been identified, costed, examined for sensitivity and significance, and allocated to one or other party, Authorities still cannot ignore the issue of risk. They must manage retained risks to ensure that they are minimised and mitigated. This is an important part of the process of minimising procurement costs.

Many procurement risks have traditionally been borne by the public sector with the intention that they should be minimised through the development of a risk management strategy. However, even without NPD, some risks may be transferred by, for example, using an exemption clause on a contract, or by taking out insurance. Remaining risks should be monitored and minimised through the lifetime of the risk, generally that of the project or its particular phases (e.g., construction).

Risk mitigation involves taking actions which control risks in practice. Mitigation can control either or both impact and likelihood. Note that some mitigation practices can produce new risks, or can affect others, and can be costly. Generally, obtaining information and therefore reducing uncertainty is an important means of lowering risk.

7. Sensitivity Analysis

Sensitivity analysis involves the consideration of the effect on the project's net present value if the assumptions made turn out to be incorrect.

Where practical (after the final bids have been received) the analysis should be used to identify the changes in assumptions which would result in bids exceeding the CPAM.

Another key objective of sensitivity analysis is to establish the relative degree of firmness that should be attached to the central estimate of the net present value that has been produced. (It is not the objective of sensitivity analysis to produce a forecast of how likely it is for the outturn to be within a certain range.)

There are a number of more sophisticated techniques which can be employed to carry out further assessment of the combined project risk, such as Monte Carlo Simulation. These techniques can be costly whether carried out by an Authority's own economists, accountants or statisticians or by external consultants. There must be good reason for undertaking sophisticated analysis – it will not be necessary for every project.

Annex A Discounted Cash Flow Example

The following table provides an example of a discounted cash flow forecast used to calculate a NPV. Note that The GEM model is available to assist NHS organisations performing these calculations.

Table 2: Discounted Cash Flow Example

Year	Project Year	Cashflow	Discount factor (3.5%)	Discounted cashflow
2008/09	0	1,000	$1/(1.035^0)$ =1.000	1,000
2009/10	1	1,000	$1/(1.035^1)$ = 0.9662	966
2010/11	2	1,000	$1/(1.035^2)$ = 0.9335	934
2011/12	3	1,000	$1/(1.035^3)$ = 0.9019	902
2012/13	4	1,000	$1/(1.035^4)$ = 0.8714	871
2013/14	5	1,000	$1/(1.035^5)$ =0.8420	842
2014/15	6	1,000	$1/(1.035^6)$ =0.8135	814
2015/16	7	1,000	$1/(1.035^7)$ = 0.7860	786
2016/17	8	1,000	$1/(1.035^8)$ = 0.7594	759
2017/18	9	1,000	$1/(1.035^9)$ = 0.7337	734
2018/19	10	(500)	$1/(1.035^{10})$ = 0.7089	(355)
			Net Present Value	**8,253**

Annex B Optimism Bias and Risk

The HMT Green Book requires risk to be accounted for at all stages of project appraisal, and therefore this will be applicable at Stages 1 to 3 of the VfM guidance. This will be quantified generally in the form of an uplift for risk and or Optimism Bias. Optimism Bias and risk analysis are closely linked. A key concept is that risk analysis operates to eliminate the effect of Optimism Bias.

In accordance with the Green Book, where a full project risk analysis would not be feasible for the range of options being assessed at the various stages, an indicative adjustment for Optimism Bias should be used to account for the fact that the initial estimates of costs, timescales and benefits are likely to be over-optimistic.

In respect of capital costs and time overruns, Procuring Authorities may use their own historic evidence of how much outturn costs have diverged from initial estimates, or they may refer to the Optimism Bias paper provided as supplementary guidance to the Green Book or other relevant studies (e.g. Bent Flyvbjerg BDT study). The HMT guidance on Optimism Bias provides useful comparative data and also a framework for assessing a project's and procurement option's susceptibility to these risks. Any sector specific evidence or studies should be applied (e.g. recognised assessment models and OB parameters in Health, Transport etc). Objective data and evidence should, wherever possible, support adjustments to costings within VfM assessments.

For calculating capital cost and time overruns, the HMT Green Book framework first enables the project itself to be categorised into risky or less risky bands according to the type of construction involved. Secondly, the guidance provides a set of "contributory factors" to risk, each of which is weighted. By reviewing the project in the light of these, its susceptibility to risk can be further assessed. The data can then be adjusted according to the project's own inherent riskiness.

As well as capital related time and cost overruns elements, Optimism Bias should also be assessed in respect of shortfalls and increases in operating costs (including lifecycle costs).

In general "Optimism Bias" refers to the under-estimating of costs both pre and post FBC. However, whilst most elements of pre FBC Optimism Bias (eg., due to changes in scope or a project) are likely to apply equally to all procurement options, post FBC Optimism Bias (e.g. due to unexpected construction cost overruns) will vary between procurement options. The concept of Optimism Bias has therefore been further developed in the HMT VfM Guidance and in the application of the HMT VfM model.

Application of Optimism Bias and risk to VfM Guidance

Over the period of the chosen procurement route, Optimism Bias adjustments should be reviewed. The reason for this is two fold:-

- as appraisers of projects are uncertain about the future, objectives, requirements and risks that cannot originally be envisaged are often ignored, and

- experience shows new objectives, requirements and risks emerge during the course of a project and therefore should be planned for.

Certainty will therefore be less at the Programme Level Stage as opposed to the Procurement Level Stage. Thus it is expected that over the course of a procurement Optimism Bias will be reduced to the extent that there is increasing confidence in the capital cost/time assessments and project-specific risk analysis has been undertaken relative to the type of procurement (NPD or Conventional) and the technical solution envisaged.

It is expected that conventional and NPD procurement are affected similarly in respect of changes to scope and service requirements, however, under NPD procurement it is expected that once awarded, uncertainties that remain inherent in a project will not impact on a Procuring Authority to the same extent and exposure as conventional procurement. The greater development of an NPD project and greater associated risk transfer at FBC stage will also provide more certainty of costing.

A key element in relation to the outcome of the VfM assessment between different procurement routes (for example NPD and non NPD) is how Optimism Bias is applied to the cost inputs of different options. The following general guidance should be applied:-

- it is appropriate to add in an element of OB and risk to both the CPAM and NPD options. The application of OB to the shadow bid enables a more realistic affordability test and VfM test at Stage 2 (and Stage 1 if applicable).

- the quantitative economic test at the Stage 2 Project Level Assessment will often use similar capital costs for both the CPAM and NPD assessment. Hence the key area that Optimism Bias is addressing (being the systematic tendency of evaluators to underestimate time and costs and overstate benefits) will affect both investment options if similar cost inputs are used. Note, in reality it is likely that the private sector would have different base costs given the perceived risk profile of an NPD, as opposed to the public sector pricing a publicly procured solution. Technical advisers should be consulted in respect of this. Adding an uplift for OB but mitigated as appropriate to the shadow bid affordability model (if one is being utilised) addresses this potential systematic tendency to under-price costs.

- the HMT spreadsheets differentiate between Optimism Bias Pre FBC (from OBC to FBC) and Optimism Bias Post FBC. These assessments look at actual costs vs. estimates at these stages for both CPAM and NPD procurement options. The Pre FBC Optimism Bias factor represents the increase in the estimated costs or shortfall in the income or benefits of a project between OBC and FBC. The post FBC Optimism Bias Factor represents the increase in addition costs or income shortfalls between the details provided in the FBC and the completion of the associated asset.

- it is generally expected that for the post FBC assessment, Optimism Bias will be higher for the non NPD option. However, it is recognised that contractual arrangements can be put in place under conventional procurement that provides NPD type protections to mitigate some time and cost overruns (e.g. Design and Build Contracts). However, generally Post FBC Optimism Bias should be significantly greater for the Conventionally Procured option due to the contractual structure of the NPD.

- Additionally, in order to ensure comparability, Optimism Bias post the construction phase of a conventionally procured scheme should also be assessed. This reflects that under traditional or conventional procurement as well as time and cost overruns, there may be additional costs which will not be the case under NPD (for example once the service or asset is in operation under NPD, costs of repair from design fault etc cannot be passed onto the public sector whereas often they will be under conventional procurement).

- the levels of Pre and Post FBC Optimism Bias Factors will invariably vary from sector to sector and from project to project. Going forward public sector bodies should retain and share data bases. Guidance to Procuring Authorities will be produced in respect of this.

- in calculating OB under the Mott MacDonald study template (HMT Green Book), it is anticipated that the same classification of "building type" will be used for different investment options, but the NPD option will be significantly more mitigated because of the NPD commercial and contractual structure and procurement methodology that will be in place for that type of procurement

- Optimism Bias and any bespoke project risk uplift on the CPAM will typically reduce as the procurement develops (typically base costs of the CPAM would be adjusted as additional information becomes available). When allowing for this, it must be considered in the context that the CPAM will often be a hypothetical public sector solution

- generally in a CPAM, a cost premium should be added to operating and lifecycle expenditure to reflect Optimism Bias that is inherent in the Procuring Authority’s estimate of costs incurred and / or service performance achieved. It is expected that these risks are priced in an NPD model or shadow bid model

- a unique or unusual project, (therefore not covered by the Optimism Bias guidance), should be adjusted for using data from the nearest equivalent project type.

For further details, refer from paragraph A55 of the HMT Quantitative Assessment User Guide.

Relationship with Risk Assessment

In assessing risk and Optimism Bias, it should be ensured that there are no elements of double counting (for example construction cost over-runs) from separate calculation of Optimism Bias and a full risk assessment. Under NPD procurement, once a full risk analysis has been carried out, and figures have been firmed up in the light of prices and completion dates committed to by bidders, there should be little or none of the Optimism Bias adjustment left. Any contingency element that is not part of base costings should be considered as part of the risk pricing.

The pricing of OB does not remove the requirement to undertake a bespoke project risk uplift when assessing VfM. The bespoke project risk uplift in the CPAM will assess certain unfavourable events happening and their cost, on a probability basis linked to the base value of the scheme (typically by an expected value approach). In addition, contingency allowances should be applied to cover any remaining unanticipated risks. By the time that bids have been received, generic assessments of Optimism Bias should be replaced by specific risk assessments in the CPAM at Stage 3. Note, it is acknowledged that in many cases the CPAM is a hypothetical project and therefore will not be developed to the same degree as the NPD. Given it will not be tested in the market, there will be little project-specific risk, therefore, a large element of OB may remain.

Utilising the HMT model and addressing pre and post FBC Optimism Bias may negate or remove the requirement to undertake a bottom up bespoke risk adjustment to the CPAM (via workshops and risk a pricing exercise etc) at Stages 1 and 2 if it is demonstrated that all relevant risks are assessed and priced within the Optimism Bias assessments. However, in Scotland it is recommended that as a minimum, Procuring Authorities should complete a risk analysis and risk pricing exercise. This methodology will be applied to develop the risk adjustment to the CPAM in Stage 3.

As well as risk pricing, Procuring Authorities must undertake an internal risk identification and risk management strategy on a project by project basis.

At all stages, Procuring Authorities should refer to previous evidence, previous procurements and risk workshops to support levels of Optimism Bias and risk.

VfM Assessment Stage	**Risk Assessment Details**	**Comments**
Programme Level	Optimism Bias uplift (use Green Book OB study or sector specific models) or other information to inform level	If bespoke risk figures are available through historical evidence or via a risk workshop, reduce OB accordingly. Risk would be added to both NPD and conventional procurement methodologies (but different levels, mitigation etc) Pre FBC Optimism Bias added to NPD and Conventional procurement

VfM Assessment Stage	Risk Assessment Details	Comments
		assessments Post FBC Optimism Bias added to conventional procurement
Project Level	Run bespoke risk workshop / Optimism Bias assessment .	As above Contingency Allowances can cover any unanticipated risks Need to refine Optimism Bias up to the point of procurement to inform affordability estimates
Procurement Level	Use Optimism Bias studies, bespoke risk workshop outputs and any contingency elements noted by technical advisers Refine Optimism Bias against live bids Assess Optimism Bias impact post construction phase for each procurement method (it will be different under each methodology)	As above Differentiate between different levels of pre and post FBC Optimism Bias for NPD and Conventional procurement (taking into account contractual risk responsibilities) Reduce Optimism Bias as confidence in capitals costs etc increases – greater the development of the project, the greater the confidence in risk information Ensure no double counting of risk / Optimism Bias

Annex C Wider VfM Factors and Valuation of Financial / Non Financial Benefits

In assessing the overall value for money of different procurement options, consideration should be given to the possibility that different procurement routes may lead to wider (non-financial) benefits and costs. If there is good evidence to suggest that different procurement routes would lead to differential benefits (or costs), then this should be taken into account in the VfM assessment.

Factors that should be considered are those that have a differential impact on NPD versus conventional procurement. These may include (although not in every case) factors such as the quality of the design, environmental considerations or innovations that can be adopted for wider use by the Authority (where there are not intellectual property right issues). These factors can have a significant impact on the quality of service delivery and should not be down played.

Quantitative Assessment

The quantitative assessment relies upon a sound evidence base, wherever possible built up from past procurement experience in relation both to NPD and conventional procurement routes. This evidence base needs to be continually refreshed by the incorporation of new information from projects at all stages of procurement and operation, particularly where there is a differential due to the procurement method. If the current evidence base is inadequate, then other information should be sought to justify the inputs into the model and steps taken to remedy this gap for future procurements.

Factors that are common in nature and economic effect to both procurement methods should be ignored.

If a value is imputed to any of these wider VfM factors, then that value must be explained and substantiated by the Procuring Authority. In all circumstances, a “base case” Conventional Procurement Assessment Model should be established which assumes like for like timing and equivalent specification and assumptions to that being delivered in the private sector bids. This will help to ensure that the impact of the assumptions about wider VfM factors is wholly transparent. Sensitivity testing of the assumptions about wider VfM factors should then be undertaken.

Qualitative Assessment

In practice, it may not be feasible to quantify and value all wider VfM factors in the assessment. In such circumstances it may be more transparent to describe these factors in qualitative terms.

Examples of Wider VfM factors

Wider VfM factors include externalities and non-market impacts. These result when a project produces benefits or costs, either to the Procuring Authority or to the public sector as a whole, that are not directly included in the price of that particular project. Externalities can be positive and negative in economic effect. Examples of project externalities might include:

- changes in operating practices achieved by involving the private sector in the delivery of services, which are then used as an exemplar to inform and influence operating practices where similar services are being provided under conventional arrangements;

- on the one hand, developing or, on the other hand, eroding specialist project and/or procurement management skills through over-reliance on one or other procurement methodologies;

- cultural barriers in an organisation being eroded by introducing a mixed economy of providers with different standards of corporate and individual behaviour.

Innovation can also be an important factor. Where, for example, the scope for innovation in the provision of the required service or project is judged by the Procuring Authority to be high, a case could be made for ascribing a value to innovation for the private finance / NPD Option. Although difficult to quantify, valuing innovation may be particularly relevant where:

- the asset and/or associated service modelled for the purposes of determining the CPAM Option is acknowledged to be based on practices that are conservative;

- good evidence exists that approaches to the delivery of an asset and/or service that differ to those assumed for the CPAM Option are in common use in related sectors, in other parts of the country or perhaps even, in other countries;

- the asset and/or associated service modelled for the purposes of determining the CPAM Option is subject to obvious physical or service constraints that would not be imposed in the same way on NPD partners (for example, where an NPD partner might be able to offer a significantly different balance between new and refurbished buildings to that in the CPAM Option).

Timing of delivery may also be a factor. In general, NPD deals take longer to negotiate than conventional procurement options. However, once procured evidence suggests that the construction phase of projects is quicker, and less subject to time overruns. If good evidence exists to support assumptions about the likely overall timing of projects, then this may be factored into VfM assessments. This is likely to involve bringing forward both the benefits and the costs of the project (e.g. where payments for a new road are likely to begin more quickly than might have been assumed in the base case). Such arguments should not, however, be based solely on assumptions about likely capital budget constraints. Decisions about procurement routes should be based solely on VfM – not accounting treatment.

As a sensitivity in procurement, an assessment of the impact and value of the differential benefits reflecting a switch back to Conventional Procurement (from NPD Procurement) can be undertaken. This would reflect the delay that a “switch” would cause.

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012

1	**Links between the RHSC/DCN and the existing Royal Infirmary**
	
	A detailed specification of the requirements of the linking buildings between the new build and the existing RIE should be prepared, outlining the number and types of patient and staff journeys that will take place, both on first opening the building and as can be foreseen in the future. The termination points of the corridors in RIE and the routes to lifts and stairs should be identified and the design should avoid routes transiting clinical areas which are not served by the link or which are sensitive patient management areas. Other physical links such as pneumatic tube and IT links should also be carefully specified.
		Linking Buildings
		
		• Design Brief / Output specification to be prepared detailing:
		  ○ No Pt Journeys
		  ○ No Staff Journeys
		Expected on opening and 5 years post commissioning
		
		• 1:200 Drawings to show termination points of the corridors in the RIE
		• 1:200 Drawings to show routes to lifts and stairs in RIE, avoiding transiting clinical areas
		• PTS physical links to RIE to be shown
			March 2012
			
			Feb 2012
			
			Feb 2012
				SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
2	**Planning for Future Change** Any elements of the building that are likely to require adaptation or expansion in the future should be detailed within the output specifications.	Areas that may require adaptation or expansion in the future include: • Radiology • Theatres	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
3	**Clinical Planning** The functional units for out-patients and therapies require to be under-written by a capacity-modelling exercise similar to the Bed Modelling Exercise to provide certainty that the departments are sized correctly.	To undertake an OPD/Therapies capacity modelling exercise for both DCN and RHSC to determine the size of planned departments are correct.	Jan 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
				addressed
4	**Clinical Planning** Add detail to specifications in the Departmental Design Briefs indicating what output activities are required to be delivered from all parts of the facilities.	Patient/Staff/Carers/Family average numbers/activities to be added to design briefs that are missing this information to ensure the appropriate space is provided All design briefs to be reviewed and updated prior to procurement process commencing to ensure information provided is current and clear in relation to required outputs .	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
5	**Space Planning – In-Patient Beds and Ward Planning**	Review of single room		SFT to review the Authority's Construction Requirements at the Pre ITPD KSR

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	Review the current out-turn percentage of single rooms within the SoA as it is less than the stated target. Record the rationale for the proportion of single rooms within the design brief to assist bidding teams in understanding the derogation from guidance.	accommodation within the RHSCE has been undertaken in tandem with the recent Bed Modelling review. The ratio of single bed provision remains. The rationale for the proportion of single rooms to be included within the design brief.	Complete	and obtain confirmation from the Board that this issue has been satisfactorily addressed Note; It would be helpful if the rationale could also be explained for the purposes of the OBC
6	**Space Planning – Bedrooms and en-suite areas** Test the feasibility of the briefed areas for bedrooms/ensuites at 1:50 scale in the context of a typical ward plan to ensure the designed areas do not exceed the assumptions in the schedule of accommodation and that they provide adequate functionality.	Following further discussion with the Technical Advisors and Capita Health Care Planner the 'single room' has been increased to 17 sqm. Generic and Key Rooms being tested at the 1:50 scale design to ensure functionality.	Complete	Noted SFT to review the position at the Pre ITPD KSR and obtain confirmation from the Board that

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
		Information has been obtained from Glasgow, Yorkhill, Project with regard to their single room accommodation mock up study. This is being further tested in Edinburgh.	March 2012	this issue has been satisfactorily addressed
7	**Ward Planning** Test the distribution of support accommodation within a run of flexible beds on a ward floor plan at 1:200 to ensure the bed distribution is sufficiently flexible to deliver the utilisation assumptions and that the support accommodation is not over-specified	Distribution of support accommodation within a run of flexible beds on a ward plan at 1:200 being assessed at the 1:200 Scheme Design stage.	Feb 2012	SFT to review the position at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
8	**Emergency Department** 1. Consider modelling projected activity beyond	• RHSCE Emergency Department activity to be projected beyond		SFT to review the position on these issues at the Pre ITPD KSR and obtain confirmation from the Board that

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	2013	2013 to ensure overall space allowance is correct. RHSC ED Activity Modelled up to 2017. Average annual activity expected to be 50,000.00 and should plateau. Further activity scoping up to 2021 currently being undertaken	Jan 2012	this issue has been satisfactorily addressed
	2. Provide more detail within the brief on intended operational policies and patient flows within the department.	• More detail to be added to brief on the intended operational procedures and patient flows within the department (the 1:200 Scheme Design is currently determining the patient and staff flow). • Clinical Output Based Specification will provide detail and assist the bidding teams.	March 2012	
	3. Review the brief for the Emergency Department in terms of staff rest rooms, offices, size of staff changing, storage, waiting, staff seminar/study areas and indicate within the design brief where these are to be provided elsewhere in **RIE** to assist bidding teams in understanding the requirements.	• The issue surrounding the OPD not being adjacent to the ED with regard to Major Incident	March 2012	

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	4. Resolve the issue of the Paediatric outpatient department not being adjacent to the Emergency department for use in a Major Incident as currently described in the design brief.	planning has been resolved. An area identified in the adjacent Paediatric Acute Receiving Ward has been identified.	Complete	
9	**Out Patients Department** 1. Provide more detail within the design brief on the operational policies for the out-patient areas. 2. Consider standardised consulting/exam and	• Detail of procedures to be carried out within the OPD's to be included in design briefs. • Consultant Examination and Treatment Rooms all a	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	treatment rooms to provide maximum opportunity for the introduction of new methods of treatments and specialist clinical staff.	standardised size.	Complete	addressed Noted
10	**Therapies** Provide more information on how the Therapy departments are to operate, for example, how patients are to be received, logged into the system and how the therapist is alerted to their arrival. Also detail what the intended purpose of each clinical room is and what large items of equipment each will contain.	• Design brief to be updated to include operational policies. Function of each room to be detailed and items of large equipment within.	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
11	**Clinical Space Planning Generally**	• Generic (29 Rooms) and Key Rooms (75 Rooms) being drawing at the 1:50 scale	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	Identify key clinical rooms – likely to be 15-20 different types of room in total and provide an indicative 1:50 layout (straight from ADB or even in sketch form) in order to under-write the proposed square metre area for each room. Utilise these standard areas throughout the schedule of accommodation	design.		and obtain confirmation from the Board that this issue has been satisfactorily addressed
12	**Support Services Planning** Undertake an option appraisal to determine the optimum catering methodology for patient and non-patient catering to deliver best value for money.	Catering Strategy being prepared by the Facilities Management Directorate.	Jan 2012	As the end date is Jan 20102 for the catering strategy, is the option appraisal now available? SFT to review as part of Pre OJEU KSR
13	**Support Services Planning** To ensure that best value for money will be	Facilities Management Work Stream operational and developing out put	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	delivered, the Board may wish to review the derivation of the scheduled areas and to record more detail on the proposed operation of the various areas. This will assist the design teams in understanding how the detailed design should be approached.	specifications. 1:200 Scheme Design meetings progressing and determining functional operational layouts to service building.		confirmation from the Board that this issue has been satisfactorily addressed
14	**Departmental Circulation Allowance** The Board may wish to review this element with its technical advisors and healthcare planners to be confident the departments can be designed within the target areas.	Circulation allowance continually being reviewed with Technical Advisors i.e. 1:200 Scheme Design and 1:50 Key Rooms/Generic Rooms, to ensure operational functionality and to meet infection control guidance.	On-going March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
15 (16 in Project	**Reference Design**			SFT to review the Authority's Construction Requirements at

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
Review)	1. Provide clinical planning diagrams now to determine the communication and circulation strategy as well as department adjacencies. 2. Resolve the circulation strategy within the Reference Design. 3. Match the adjacency matrix to the developed plan	• 1:200 Scheme Design drawings now available for each department within building • Circulation Strategy as action point 14 • Adjacency matrix to be updated to reflect 'signed off' 1:200 drawings	March 2012 See above Jan 2012	the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
16 (17 in Project Review)	**Reference Design** To provide as much detail as possible on the site diagram including the definition of the following elements:- pedestrian access to both services; public transport routes made clear, detailed ramps and turning circles for the basement; vehicle traffic routes to be well-segregated from pedestrian walkways and entrances.	• Much detail provided in the projects CEC Planning in Principle application. • Site Traffic Transport Strategy • 1:200 Scheme Design Drawings ○ Hospital Main Entrances detailing pedestrian access to both services ○ Basement – detailing turning circles and ramps	Complete	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
17 (18 in Project Review)	**Reference Design** The departmental planning at 1:200 scale to be well-resolved prior to issue within tender documentation.	• 1:200 Scheme Design to be signed off mid December 2011	March 2012	
18 (19 in Project Review)	**Design Quality and Design Output Specifications** Provide within the brief an indication of the Board's aspirations towards the required quality of the design. This may be by a Design Statement similar to that recommended by Architecture and Design Scotland including an indication of "What success looks like" and detailing of the non-negotiables for patients, staff and relatives.	• Overarching design brief to include design statement	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
19 (**15 in Project Review)**	Net to Gross Areas . NHSL should continue to target reduction in the figure for main corridor communication, lifts and stairs and plant by value engineering of the developing design. 2. NHSL to check whether Glasgow Southern General has a separate energy centre or whether the plant rooms are integrated into the building which could explain the higher 38.3%.	The Board produced its comments schedule on the basis of an earlier draft before the final Project Review containing this recommendation was included	Comment to be provided	It would be helpful if the Board could provide comment on this recommendation. SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and throughout the competitive dialogue period and obtain confirmation from the Board that this issue has been satisfactorily addressed
20	Capital Costs NHSL to review the following:- 1. Post Financial Close NPD Co design development fees included at 10% by NHSL	The Board produced its comments schedule on the basis of an earlier draft before the final Project Review containing this recommendation was included	Comment to be provided	It would be helpful if the Board could provide comment on this recommendation. SFT to review the

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	which are considered higher than other projects benchmarked 2. Review the Risk Register as design develops and reduce accordingly as risks mitigated and costs become more certain 3. Review design shape, specification and elemental cost plan against overall cost per square metre the design develops during the next stage 4. Gross to Net floor area – target communication and plant area reduction and measure against South Glasgow Hospital with regard to the energy centre			position at the Pre ITPD KSR and, as appropriate, throughout the competitive dialogue period and obtain confirmation from the Board that this issue has been satisfactorily addressed

SCOTTISH GOVERNMENT GOVERNANCE ARRANGEMENTS FOR ROYAL HOSPITAL FOR SICK CHILDREN/DEPARTMENT OF CLINICAL NEUROSCIENCES (RHSC/DCN) - OUTLINE BUSINESS CASE

INTRODUCTION

1. This report sets out the arrangements within Scottish Government for the consideration of the OBC currently being prepared for the RHSC/DCN project. The report will also set out the interface with other organisations including Scottish Futures Trust (SFT) in that process.

BACKGROUND

2. Within the Health Sector in Scotland there are long standing arrangements for the consideration of business cases through the Scottish Government Health Directorates Capital Investment Group. These arrangements are set out in the Scottish Capital Investment Manual (SCIM) which were last reviewed in April 2009.

3. Following the announcement of the NPD pipeline by Scottish Ministers in November 2010, guidance on the funding conditions for the NPD pipeline was issued by Scottish Government Health Directorates on 22 March 2011. This letter set out the governance arrangements for approval of the NDP pipeline, the key conditions and other requirements on Boards in order to obtain central Government funding support for their projects. The letter of 22 March 2011 also provides guidance on five key elements relating to the conditions of funding. It also says that the programme is supported by SFT and provides an annex setting out SFT's role.

4. One aspect of those arrangements was a defined role for SFT in undertaking a Value for Money (VFM) review on the design of projects with a view to informing a view on the reasonableness of the level of capital expenditure which would be supported by central Government funding. Subsequent to the issue of that letter to NHS Boards a considerable amount of work has been undertaken in defining this review process. This review has recently been undertaken on the RHSC/DCN project and a report will be provided and shared with NHS Lothian shortly..

PROPOSED TIMING

5. In taking forward the OBC for the RHSC/DCN project, NHS Lothian has recently reviewed the timing of its internal approvals for both the F&PR Committee and NHS Board. In order to support the approval process Scottish Government has agreed to use expedited procedures to consider the OBC in order to reach a position as quickly as possible.

6. The latest timetable provided by NHS Lothian indicates that an update on the OBC will be provided to the NHS Lothian Board at an extraordinary private meeting on 26 October 2011. The OBC will be considered at the NHS Board on 23rd November 2011. That decision will be subject to successful completion of Supplementary Agreement 6, and a satisfactory basis for dealing with the requirement to obtain consent for enabling works, with approval remitted to a meeting of F&PR on 14th December 2011.

7. Scottish Government consideration of the OBC will be taken forward concurrently with the above process with the OBC expected to be received by SGHD on 11 November 2011. CIG will consider the business case once received with a view to having a decision by 14th December 2011, subject to the requirements of the business case process being met.

PROCESS WITHIN SCOTTISH GOVERNMENT

8. Once the OBC is received from NHS Lothian it is circulated to CIG members for comment. That circulation will include SFT. Clearly the findings of the design review process would feed into the response made by SFT to the business case. SFT's response will also cover the areas within SFT's remit within the context of the March Letter, which was followed up by a letter of 1 June 2011 from SFT to NHSL with specific reference to the RHSC/DCN project.

9. In order that there is transparency it would be helpful if, so far as is possible within the timescales, the OBC included appropriate references to the findings of that review and any actions taken/ being taken in response to any recommendations made. This approach would be consistent with the approach previously taken by NHS Boards to both Gateway and Key Stage Review findings on other projects. As with all other comments any response will be fed back to the Board for consideration and for response prior to consideration of the business case by CIG. This process will be co-ordinated by SGHD Capital and Facilities.

10. The process within Scottish Government for consideration of the OBC is unchanged from that which NHS Lothian colleagues would be familiar with. At present a number of other bodies including Architecture and Design Scotland (A&DS) and Health Facilities Scotland (HFS) feed into the overall approval process. It is expected that the SFT consideration of VFM, and other issues referred to in the 22 March letter, will form part of the overall CIG assessment process. In that regard there is therefore no separate Board approval within SFT for approval of the RHSC/DCN project and that this will be part of the Scottish Government's consideration as normal.

11. Following consideration of the business case a recommendation will be made to Ministers with regard to the approval of the business case. Scottish Government has already agreed to work flexibly around the timetable for consideration of the business case with a view to ensuring that Ministerial consideration can take place concurrently with that undertaken within the Board.

12. It is therefore expected that with power delegated to F&PR Committee on 14 December that a decision could be made by Scottish Government following confirmation of approval by F&PR (subject of course to all issues on the OBC being satisfactorily resolved).

13. As part of the notification of approval of the OBC, a paper will be issued by the Scottish Government to NHS Lothian, based on the guidance contained in the 22 March letter, setting out the funding conditions with particular reference to the RHCS/DCN project and including issues and actions which are required to be resolved before procurement commences.

14. A Key Stage Review will take place following approval of the OBC. This KSR will include an assessment of any issues which have been identified as part of the OBC approval as requiring to be satisfactorily resolved prior the publication of the OJEU for the Project by NHSL. SFT is will seek to avoid duplication between its input pre OBC and that within the pre OJEU KSR.

RECOMMENDATION

15. The Project Board is asked to note the arrangements for OBC consideration within Scottish Government

Mike Baxter
Deputy Director
Scottish Government
07 October 2011

From: Donna Stevenson [redacted]>
Sent: 28 December 2011 09:19
To: Baxter M (Mike) (Health)
Subject: RHSC /DCN Project SFT Design Review : A&DS
Attachments: NPD Project Review Report RHSC DCN 20111222.docx; NPD RHSC DCN Project Report 5 0 Final_ SFT_RHSCDCN issued 20111215.docx

Follow Up Flag: Follow up
Flag Status: Flagged

Mike

In August Colin, Viv and I met with Bettina and Heather of A&DS and Peter Henderson of HFS to discuss the relationship between the SFT design review and the input of A&DS and HFS to the project review. At the meeting we agreed that we would send A&DS and HFS the independent design review report once it was completed and they will consider the gaps which still need to be covered. At the time we sent on the remit of the review to Heather.

In view of the time which has elapsed since then (as the costing information became available) I do not know whether matters have developed. Perhaps when you are back after the festive season you could let me know whether you wish me to send on the report or whether you wish to do so in the context of any other discussions which may have taken place.
Regards

Donna

Associate Director
Scottish Futures Trust

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Address 11-15 Thistle Street, Edinburgh, EH2 1DF. Main [redacted] Fax [redacted]
www.scottishfuturestrust.org.uk -----Original Message-----
From: Donna Stevenson
Sent: 22 December 2011 15:53
To: 'Sansbury, Jackie'
Cc: Currie, Brian; Andrew Bruce; [redacted] Cosens, Sorrel; Graham, Iain; Goldsmith, Susan; McBain, Eileen; Peter Reekie; Colin Proctor
Subject: RE: RHSC /DCN Project SFT Design Review

Jackie

Further to earlier correspondence I am pleased to enclose our report on the Project Review together with a final version of the report from Atkins.

I would be happy to clarify any issue and I look forward to receiving your response in due course.

Regards

Donna

Associate Director
Scottish Futures Trust

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Direct [redacted]
Email [redacted]
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Address 11-15 Thistle Street, Edinburgh, EH2 1DF. Main [redacted] Fax [redacted]
www.scottishfuturestrust.org.uk -----Original Message-----
From: Sansbury, Jackie [mailto:[redacted]
Sent: 29 November 2011 18:40
To: Donna Stevenson
Cc: Currie, Brian; Andrew Bruce; [redacted] Cosens, Sorrel; Graham, Iain; Goldsmith, Susan; McBain, Eileen
Subject: RE: RHSC /DCN Project SFT Design Review

Thanks very much for the update.
Regards
JACKIE

-----Original Message-----
From: Donna Stevenson [mailto:[redacted]
Sent: 29 November 2011 14:59
To: Sansbury, Jackie
Cc: Currie, Brian; Andrew Bruce; [redacted]Cosens, Sorrel; Graham, Iain; Goldsmith, Susan
Subject: RE: RHSC /DCN Project SFT Design Review

Jackie

As I mentioned to Brian when I spoke with him earlier today, Gordon Wilkinson of Faithful & Gould has now had the opportunity to consider the final clarifications on Technical Cost 4 which Brian provided to us. I will shortly be able to let you have SFT's report following the Design Review to which we will attach a copy of Atkins' final report.

You have already seen an earlier draft of Atkins' report which contains a number of recommendations. The final report will also contain some recommendations as to costs, for example we remain of the view that the design fees element is higher than has been seen in similar projects.

I appreciate that you are finalising your draft OBC and using TCS4 as the basis of it. I therefore wanted to let you know that we will be able to agree that overall NHSL's capital cost of the works to be included within the NPD contract of £154.9m is reasonable at the OBC stage.

The capitally funded cost (such as the enabling works) have not been reviewed by Atkins and I understand that Peter commented on the level of optimism bias at the Project meeting last week.

Regards

Donna

Associate Director
Scottish Futures Trust

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Address 11-15 Thistle Street, Edinburgh, EH2 1DF. Main [redacted] Fax [redacted]
www.scottishfuturestrust.org.uk -----Original Message-----
From: Donna Stevenson
Sent: 20 October 2011 10:22
To: Sansbury, Jackie
Cc: Currie, Brian; Walker, Aileen E; Andrew Bruce; [redacted] Cosens, Sorrel; Graham, Iain
Subject: RE: RHSC /DCN Project SFT Design Review

Dear Jackie

As I reported to the Project Board, we have raised number of issues on Technical Cost 4, which was provided towards the end of last week in the context of the cost benchmarking element of the Design Review which SFT has been undertaking. I have arranged to meet with Brian next Tuesday, along with advisers with a view to bringing the cost benchmarking exercise to a conclusion as soon as possible.

Thereafter, SFT will provide a report to NHS Lothian to set out the conclusions and recommendations of the review as a whole. We will attach to that report the report to be provided to SFT, which we receive form Atkins, who as you are aware are our technical advisers for the purposes of the review.

I appreciate that work is proceeding apace in preparation of the Outline Business Case and I thought that it would be helpful to share with you a draft of the Atkins' report to SFT as it currently stands, for information. This is enclosed.

As you will appreciate the draft report reflects the information which was provided at the time that the review and workshop was undertaken and I appreciated that you have been working on a number of issues which were highlighted in the issues list issued after the workshop. The draft will be updated to reflect the conclusions of the cost benchmarking exercise. The draft report draws out areas where good practice has been followed as well as providing recommendations designed to improve values for money and to derisk the specification and reference design as the OBC is finalised and the tender documentation developed.

As previously discussed, the report reflects those issues which were discussed at the Design Review Workshop and in the note which I circulated shortly at it , as set out below.

I hope that this is helpful and I would be happy to discuss the draft report with you.

Regards

Donna

From: Donna Stevenson
Sent: 25 August 2011 15:50
To: Cosens, Sorrel
Cc: Currie, Brian; Walker, Aileen E; Andrew Bruce; Sansbury, Jackie
Subject: RE: RHSC + DCN | SFT Design Review Workshop

Sorrel

Further to the Workshop, as we said we will be working with Aileen on the report which will set out the issues which were covered and the conclusions and recommendations reached as soon as possible.

Meanwhile, I thought it might be helpful if I let you have a note of some of the key actions points which we agreed as a number related to further information to be provided or to work streams upon which the Project team is already pursuing.

1. Theatre Activity: further information to be provided by Capita.
2. Outpatients activity and space provision: separate discussion to take place between Aileen Walker, Fiona Halcrow and Graham Cumming,
3. Therapies: more information to be provided: to be taken along with Outpatients' action.
4. Provision of independent energy centre and fm servicing yard to the RHSC/DCN : report to be prepared by NHSL for the Project Board on the qualative analysis underpinning this agreed way forward.
5. Kitchen provision: option appraisal to be carried out by NHSL.
6. Non patient catering: NHSL to consider the options and identified a preferred route for provision.
7. Single rooms : percentage of beds within children's hospital to be considered.
8. Single rooms (and relative en suites and circulation space) : NHSL to develop 1:50 scale drawings with ergonomic spaces included (hoist turning circle etc.) to consider how the single rooms will operate clinically and within the context of a ward configuration.
9. Support space in the context of the sizes of wards now developed: NHSL to consider potential to reduce support areas in the light of flexible ward configurations.
10. Circulation flows: NHSL clinical requirements to be determined and proposals to be illustrated on Reference Design
11. Departmental Relationship: matrix to be checked against reference design.
12. Benchmarking of Costs (including benchmarking of communication and plant area) : to be carried out separately.
13. NHSL are intending to prepare Design Quality Statement including requirement for evidence-based design for inclusion in bid documents.
14. Functional requirements of links to RIE to be detailed.

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

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Royal Hospital for Sick Children/Department of Clinical Neurosciences

Project Review Report

22 December 2011

SCOTTISH FUTURES TRUST

1. Introduction

1.1. The combined Royal Sick Children's Hospital and Department of Clinical Neurosciences Project ('the Project'), to be developed at Little France in Edinburgh, is one of the health projects which was included in the NPD programme which was announced in the Scottish Budget in November 2010.

1.2. The letter from Scottish Government Health Directorates ('SGHD') sent to all NHS Board Chief Executives on 22nd March 2011, regarding funding conditions for delivering projects through the NPD model, made it clear that a project scope needed to be agreed with SGHD and SFT. The process of independent project review and subsequent approval of the outline business case is how SFT has agreed with the SGHD that the scope of the construction of the Project, and the other acute health projects within the NPD programme, will be settled.

1.3. SFT wrote to NHS Lothian ('NHSL') in July 2011 with a paper to set out the process for the review: to comprise a document review, structured interviews and a workshop with the key personnel within NHSL who are involved in the development of the Project. The paper stated that the principal aims of the workshop were to:

- understand at a high level the proposed solution to meet the activities and volumes identified as the strategic need, to look at the space efficiency and the specification and cost efficiency and to seek to understand how these relate back to the staffing and services approach for the new hospital;
- understand how the Project will integrate with the existing RIE – both physically and from a service delivery perspective; and
- explore what benchmarks NHSL has used in developing the design and how the Project compares against these.

1.4. SFT engaged Atkins Consultants Limited to act as its consultants in relation to the review. Following the review by Atkins of a significant number of background documents and three structured interviews with members of NHSL's project team and its advisers, the workshop was held on 24 August 2011. A note of the key action points was provided to NHSL the following day. At that time, NHSL was still developing its cost plan for OBC purposes and requested that the cost benchmarking exercise, forming part of the review, be delayed until updated costing information became available. The cost benchmarking part of the review has now been concluded and Atkins has produced its final report (the 'Atkins Report') which is attached at Appendix 1.

1.5. The report is based on the information which was available around the time of the workshop except for the cost benchmarking element of the report which is based on the updated information which was subsequently provided for that purpose, particularly Technical Cost Summary 4 ('TCS 4') produced by NHSL's cost consultants. Accordingly, and given that that headline findings of the review were earlier provided to NHSL, it is recognised that NHSL has already further developed its thinking in relation to some of the issues raised in the report, for example, the size of single bedrooms within the RHSC. NHSL has confirmed that it proposes to use TCS 4 as the basis for the costing for the OBC.

2. Review Recommendations

2.1. The Atkins Report contains 20 principal recommendations which SFT endorses.

2.2. The recommendations are set out in the executive summary of the Atkins Report and are reproduced in tabular form in Appendix 2 to assist NHSL in providing responses and the monitoring by SFT of the implementation of the recommendations as the Project is further developed.

2.3. A number of the recommendations raise issues for NHSL to consider when further developing its Reference Design and Authority's requirements for the purposes of the ITPD documentation which will be finalised and issued before competitive dialogue commences. In this regard, the delineation of negotiable and non negotiable elements will be of importance, so that, where appropriate, bidders will be free to propose their own solutions to issues raised in the report. SFT will expect to have further dialogue with NHSL as to that issue as the procurement documentation is further developed.

2.4. A key quantitative parameter in relation to the scoping of the Project is the level of total construction costs for the NPD element of the Project. SFT has been requested by SGHD as part of its role in commenting on the OBC for the Project to recommend the level of cap on those costs which is to be set at this stage. On the basis of the findings of the Atkins Report SFT proposes that NHSL's overall NPD capital construction costs of £154.9m (excluding VAT) be used as an appropriate overall cap on construction costs. This will be subject to the ongoing requirement contained in the Letter of 22 March 2011 for NHSL to seek to minimise construction costs and operating costs.

2.5. As noted in Recommendation 20 and in more detail in Sections 5.5 and 6 of the Atkins Report there are a number of elements within the overall cost which are considered too high, for example the allowance for post financial close design costs, and yet others which seem relatively low for example, the external wall elements. It is expected that NHSL will work through the various issues raised in the 20 Recommendations to develop further the Project within the overall construction cost cap.

2.6. The NPD element of the construction cost of £154.9m includes inflation based on BCIS projections to the assumed mid point of construction being Q1 2015. As part of its response to the OBC, SFT will propose that the construction cap will be set on the basis that inflation allowance is reassessed and recast periodically up to financial close by reference to any difference (positive or negative) between (a) the cost inflation from the pricing base date that is implied by NHSL's forecast and (b) the cost inflation from the pricing base date implied by the forecast (or reasonable extrapolation) of the same index at the time (assuming financial close is not delayed beyond an agreed date). NHSL is expected to limit project scope or design creep to ensure that any apparent surplus inflation allowance is not utilised.

2.7. The Atkins Report does not comment on the non NPD elements of the Project which are to be the subject of a related bid for capital funding as part of the OBC. It is noted that the enabling works element of these costs is the subject of ongoing discussions with Consort Healthcare, the provider at the RIE facilities on the Little France site, which should enable those costs to be refined. SFT will comment as appropriate on the non NPD elements of the Project costs as part of its response to SGHD on the OBC.

3. Implementation of Recommendations

3.1. SFT would welcome a written response from NHSL to each of the Recommendations.

3.2. SFT will provide this report to SGHD as part of its comments on the OBC which NHSL is to submit.

3.3. Subject to approval of the OBC, SFT will then carry out a pre OJEU Key Stage Review at which time SFT will consider progress which NHSL has made in addressing the 20 Recommendations. As with other KSRs we intend to make use of information with which we have been provided by NHSL as part of our ongoing support of the project to ease the completion of the KSR process.

3.4. It is expected that all of the Recommendations will be capable of been addressed by the time the ITPD documentation has been finalised by NHSL. SFT will therefore consider at the Pre ITPD KSR whether the Recommendations have been satisfactorily addressed by the development of the Reference Design and Authority's requirements and as reflected in the ITPD documentation.

Appendix 1 : Atkins Report

Separately attached.

Appendix 2 : Recommendations contained in the Atkins Report

No.	Issue	Recommendation	NHSL's Response
1	**Links between the RHSC/DCN and the existing Royal Infirmary**	A detailed specification of the requirements of the linking buildings between the new build and the existing RIE should be prepared, outlining the number and types of patient and staff journeys that will take place, both on first opening the building and as can be foreseen in the future. The termination points of the corridors in RIE and the routes to lifts and stairs should be identified and the design should avoid routes transiting clinical areas which are not served by the link or which are sensitive patient management areas. Other physical links such as pneumatic tube and IT links should also be carefully specified.	
2	**Planning for Future Change**	Any elements of the building that are likely to require adaption or expansion in the future should be detailed within the output specifications	

3	**Clinical Planning**	The functional units for out-patients and therapies require to be under-written by a capacity-modelling exercise similar to the Bed Modelling Exercise to provide certainty that the departments are sized correctly.
4	**Clinical Planning**	Add detail to specifications in the Departmental Design Briefs indicating what output activities are required to be delivered from all parts of the facilities
5	**Single Rooms**	Review the current out-turn percentage of single rooms within the SoA as it is less than the stated target. Record the rationale for the proportion of single rooms within the design brief to assist bidding teams in understanding the derogation from guidance.
6	**Bedrooms and en-suite areas**	Test the feasibility of the briefed areas for bedrooms/ensuites at 1:50 scale in the context of a typical ward plan to ensure the designed areas do not exceed the assumptions in the schedule of accommodation and that they provide adequate functionality.

7	**Ward planning**	Test the distribution of support accommodation within a run of flexible beds on a ward floor plan at 1:200 to ensure the bed distribution is sufficiently flexible to deliver the utilisation assumptions and that the support accommodation is not over-specified.
8	**Emergency Department**	1 Consider modelling projected activity beyond 2013 2 Provide more detail within the brief on intended operational policies and patient flows within the department. 3 Review the brief for the Emergency Department in terms of staff rest rooms, offices, size of staff changing, storage, waiting, staff seminar/study areas and indicate within the design brief where these are to be provided elsewhere in RIE to assist bidding teams in understanding the requirements. 4 Resolve the issue of the Paediatric outpatient department not being adjacent to the Emergency department for use in a Major Incident as currently described in the design brief

9	**Outpatients**	1 Provide more detail within the design brief on the operational policies for the out-patient areas. 2 Consider standardised consulting/exam and treatment rooms to provide maximum opportunity for the introduction of new methods of treatments and specialist clinical staff.
10	**Therapies**	Provide more information on how the Therapy departments are to operate, for example, how patients are to be received, logged into the system and how the therapist is alerted to their arrival. Also detail what the intended purpose of each clinical room is and what large items of equipment each will contain.
11	**Clinical space planning generally**	Identify key clinical rooms – likely to be 15-20 different types of room in total and provide an indicative 1:50 layout (straight from ADB or even in sketch form) in order to under-write the proposed square metre area for each room. Utilise these standard areas throughout the schedule of accommodation.
12	**Support Services Planning**	Undertake an option appraisal to determine the optimum catering methodology for patient and non-patient catering to deliver best value for money.

13	**Support Services Planning**	To ensure that best value for money will be delivered, the Board may wish to review the derivation of the scheduled areas and to record more detail on the proposed operation of the various areas. This will assist the design teams in understanding how the detailed design should be approached.
14	**Departmental Circulation Allowance**	The Board may wish to review this element with its technical advisors and healthcare planners to be confident the departments can be designed within the target areas.
15	**Net to Gross Areas**	1. NHSL should continue to target reduction in the figure for main corridor communication, lifts and stairs and plant by value engineering of the developing design. 2. NHSL to check whether Glasgow Southern General has a separate energy centre or whether the plant rooms are integrated into the building which could explain the higher 38.3%.

16	**Reference Design**	1. Provide clinical planning diagrams now to determine the communication and circulation strategy as well as department adjacencies. 2. Resolve the circulation strategy within the Reference Design. 3. Match the adjacency matrix to the developed plan.
17	**Reference Design**	To provide as much detail as possible on the site diagram including the definition of the following elements:- pedestrian access to both services; public transport routes made clear, detailed ramps and turning circles for the basement; vehicle traffic routes to be well-segregated from pedestrian walkways and entrances
18	**Reference Design**	The departmental planning at 1:200 scale to be well-resolved prior to issue within tender documentation
19	**Design Quality and Design Output Specifications**	Provide within the brief an indication of the Board's aspirations towards the required quality of the design. This may be by a Design Statement similar to that recommended by Architecture and Design Scotland including an indication of "What success looks like" and detailing of the non-negotiables for patients, staff and relatives.

20	**Capital Costs**	NHSL to review the following:- 1. Post Financial Close NPD Co design development fees included at 10% by NHSL which are considered higher than other projects benchmarked 2. Review the Risk Register as design develops and reduce accordingly as risks mitigated and costs become more certain 3. Review design shape, specification and elemental cost plan against overall cost per square metre the design develops during the next stage 4. Gross to Net floor area – target communication and plant area reduction and measure against South Glasgow Hospital with regard to the energy centre

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NHS Lothian
RHSC/DCN Project
Outline Business Case
Comments and Issues for Clarification

1. Introduction

1.1. This short paper raises comments and issues for clarification by NHS Lothian (the Board) on the Outline Business Case (OBC) for development the Royal Hospital for Sick Children and Department of Clinical Neurosciences (RHSC/DCN) as a joint project (the Project) which was submitted by the Board to Scottish Government Health Directorates (SGHD) on 22 December 2011.

1.2. The Project was announced as a revenue funded project in the draft budget of the Scottish Government in November 2010. In March 2011, SGHD issued a letter to all health boards to set out the governance and other requirements on boards to obtain central Government funding support for their projects. The March Letter also provides guidance on five key elements relating to the conditions of funding and provides an annex setting out SFT's role, in the context of our responsibilities which extent to the management of the affordability of the NPD programme as a whole.

1.3. SFT will provide to SGHD a set of draft conditions (the Funding Conditions), reflecting the March Letter, which are to set out the funding conditions which relate specifically to the Project, which would be attached to an approval of the OBC.

2. Negotiations with Consort

2.1. As the Board notes in its Executive Summary, "the interface with Consort Healthcare poses the greatest risk to commencing the delivery of the project".

2.2. We have been in close touch with the Board in the course of their negotiations on Supplementary Agreement 6 (SA6) which deals with the transfer of Consort's land interest for the Project and some other related issues. We are aware that the draft of SA6 has very recently been agreed between the Board and Consort and has been sent to the banks' lawyers to seek approval from Consort's banks.

2.3. The Board agrees with SFT's view, shared by SGHD that SA6 must be contractually effective, having been approved by Consort's shareholders and all of Consort's banks, whose security is to be partially released to enable the land to be handed back, before the OJEU is advertised.

2.4. It would be helpful if the Board could now provide Appendix 1, which is to summarise the current position.

2.5. We are aware that there have been recent technical discussions in relation to the servicing of the site for utilities purposes in the context of the finalisation of the draft of SA6. It would be helpful if the Board could confirm:

2.5.1. that all of the technical discussions which have recently been taking place with Consort and utilities undertakers as regards substation and utilities connections have now been resolved to the Board's satisfaction and that SA6 now accommodates all of the Board's requirements in relation to the changes to the PA and the leases to enable the Project to be developed, including connections to the substation, subject the agreement to carry out the Enabling Works; and

2.5.2. whether contracts have been concluded with University of Edinburgh and Careshare (the current occupier of the crèche) for the amendment or renunciation of their leases required as part of the arrangements, or if not yet concluded the programmed date for completion.

2.6. In relation to the six packages comprising the external enabling works (Enabling Works) to be carried out by Consort, we understand that there discussions are ongoing with Consort and that the scoping and pricing is expected to be achieved by the end of January for all of the Enabling Works except the flood prevention works due by the end of February.

2.7. Can the Board please provide an updated programme showing the expected dates for finalisation of the agreement of scoping and pricing of the Enabling Works, agreement of the terms of a supplemental agreement and approval from all of Consort's banks and how these dates correlate with the programmed dates for issue of OJEU and commencement of competitive dialogue.

2.8. Consistent with the recommendation of the IIB, and as we have previously explained to the Board, appropriate risk mitigation measures in relation to the approval of the Enabling Works need to be put in place before the OJEU is issued. We will comment in more detail on our recommendations in this regard in our written response on the OBC.

3. Project Review

3.1. SFT have carried out a Project Review, having engaged Atkins as consultants for the review and a report was issued to the Board on 22 December 2011. The Board had been provided with an earlier draft of the report from Atkins and have helpfully provided an action list responding to the recommendations in the draft report as Appendix 2 to the OBC. Our comments on Appendix 2 are set out in the attached table. The Project Review will form the basis of a number of our comments in the written response to the OBC, including such matters as the construction cost cap and lifecycle costs.

3.2. In relation to the Board's response to recommendations in Appendix 2:

3.2.1. on recommendation 5 the Board says that "Review of single room accommodation within the RHSCE has been undertaken in tandem with the recent Bed Modelling review. The ratio of single bed provision remains. The rationale for the proportion of single rooms to be included within the design brief”.

It would be helpful if the rationale could also be explained for the purposes of the consideration of the OBC;

3.2.2. on recommendation 12, which recommended that the Board undertake an option appraisal to determine the optimum catering methodology for patient and non-patient catering to deliver best value for money the Board, says that a Catering Strategy is being prepared by the Facilities Management Directorate with an end date of January. Can the Board please provide a copy of the option appraisal underpinning the strategy or advise when it will be available?; and

3.2.3. since the Board response was collated in November 2011, the final form of the Project Review was issued and it contains recommendations in connection with cost benchmarking covering Net to Gross Areas (Recommendation 15) and Capital Costs (Recommendation 20). It would be helpful if the Board could provide its response to those two recommendations.

3.3. The Project Review was based on the information which was available around the time of the workshop except for the cost benchmarking element of the report which is based on the updated information which was subsequently provided for that purpose, particularly Technical Cost Summary 4 ('TCS 4') produced by NHSL's cost consultants. Accordingly, and given that that headline findings of the review were earlier provided to NHSL, it is recognised that NHSL has already further developed its thinking in relation to some of the issues raised in the report, for example, the size of single bedrooms within the RHSC. We understand that TCS 4 has been used as the basis for the costing for the OBC. Can the Board please advise of any changes to the scope from that reflected in TC4?

3.4. The Project Report does not comment on the projected costs of the non NPD elements of the Project in respect of which the Board is seeking capital funding, as these are outwith the SG revenue support of the NPD element of the Project. We note that the Enabling Works element of these costs is the subject of ongoing discussions with Consort and the Board has advised that it expects to obtain fixed costs, representing a maximum price, subject to subsequent adjustment as the design is refined, by the end of February. This process should allow the significant levels of optimism bias which are included within the OBC relating to these works to be reconsidered.

4. Governance

In response to recommendation 5.4 of the PricewaterhouseCoopers report, the action plan for which forms Appendix 3 of the OBC, the Board state that it has been agreed that there will be a delegation of authority to the Project Board to simplify decision making. Paragraph 6.4 of the OBC lists a limited number of issues for which the Project Board has delegated authority at this stage. We would expect that the extent of delegation would be greater as the Project moves to the procurement stage. Could the Board please clarify the issues to be covered by the delegation scheme referred to in the action plan and the timescale for that being put in place.

5. Resourcing

We have had a number of discussions with the Board regarding resourcing of the Project with particular reference to the level of commercial PPP experience. At the most recent meeting between the respective Chief Executives of the Board and SFT, there was a clear commitment to augment the team with someone with PPP experience and SFT agreed to provide some suggestions in this regard.

Could the Board please provide its proposals for augmenting its team with someone with suitable commercial PPP expertise.

6. Unitary Charge

We have reviewed the financial case in the OBC and the discrepancy between our expectation of UC (and the projected contribution by the Scottish Government (SG)) and the calculations in the OBC, which we had highlighted to the Board in previous discussions remains.

We have used the main cost input the assumptions as stated in the OBC of construction cost (£154.9m), FM cost (£1.4m pa) and lifecycle (£1.3m pa), in our affordability model, and our calculation of UC is significantly less than that of the Board. In addition there is a difference between the senior debt margin sub debt coupon assumptions which we had provided to the Board in our most recent update of these assumptions and those used by the Board. The net effect of these issues is that our estimate is about £2m per annum less than that of the Board.

We would be happy to meet with the Board to agree a financial model that translates these inputs into UC and SG revenue support – both with the shadow bid model and bidders' financial models- on a basis upon which we both agree.

7. Letters of Support

Paragraph 1.74 says that letters of support from regional NHS boards which utilise RHSC and DCN services (and separately the University of Edinburgh) have been requested to be included as appendices.

It would be helpful if these could be provided in advance of the CIG meeting.

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8. Planning Permission in Principle

The OBC says that planning permission in principle was approved by City of Edinburgh Council on 8 December 2011, subject to a Section 75 legal agreement being completed. We understand from the Project Director that the decision notice will not be issued for perhaps a month, after the legal agreement is in place. It would be helpful if the Board could confirm that it is satisfied that it will be able to comply with any conditions which have been or are to be attached to the consent and that none is unusual or requires third party consents, other than the known requirement for Consort to approve and carry out the Enabling Works.

9. Market Interest

Given its importance to the value for money case, could the Board please advise as to the level of interest which has been expressed from potential bidders and the proportion of whom have previously bid successfully for UK acute hospital PPP projects. There is also no need to name the parties concerned. It is suggested in the Board's response to the PricewaterhouseCoopers report that SFT has carried out soft market testing : this is not the case.

Issues to be covered in SFT's comments on health OBCs for NPD Projects.

SFTs comments on draft OBCs which have been submitted by health boards should cover the following issues, to enable

- the draft OBC to be updated so as to be capable of approval, assuming the CIG and the Minister are so minded; and
- the funding conditions section of the OBC consent letter to be completed; and
- issues which have been highlighted as to be dealt with at future stages of the procurement especially pre OJEU and during the competitive dialogue process to be monitored and satisfied.

Key issues are:

1. **Project Scope**: this will have been assessed as part of the Project Review and the OBC should be checked for conformity with that scope;
2. **Capital Construction Cost**: again this will have been benchmarked as part of the Project Review and a cap should be recommended to CIG, taking account of the inflation adjustment mechanism (see paper circulated on 5 January 2012);
3. **Lifecycle Cost and Hard FM costs** : these are to be benchmarked rather than capped but will have been assessed against benchmarks as part of the Project Review and a comment as to whether the costs are consider high medium or relatively low by benchmarked standards should be included;
4. **Funding and Affordability:** comment should be made on the estimated unitary charge (albeit not being committed to at this stage) and whether the estimates of various NPD costs are within the construction caps and benchmarks at this stage; Comment might also be included as to the assumptions as to capitally funded costs and the affordability of ongoing capital and revenue costs though these are essentially for SGHD.
5. **Project Review**: issues arising from the Project Review and its recommendations should be referenced;
6. **Governance**: comment should be included as to whether the arrangements satisfy the tests in the March letter and recommendations made as appropriate;
7. **Resourcing** : comment should be included as to whether the arrangements satisfy the tests in the March letter and recommendations made as appropriate;
8. **Value for Money** : comment should be included as to compliance with SG and SFT's guidance on VfM
9. **Project Programme**: comment on the whether the programme is realistic should be included;
10. **Asset Management** implications including the potential for disposals and the strategy for the site should be included.

11. **ESA 95:** comment should be included, referring to the standard contract.

12. **Issues to be resolved prior to OJEU being advertised**: a list of these issues, including recommended actions should be included.

13. **Other OBC issues**: comment should be made on any issues within the OBC which SFT considers should be clarified prior to approval, taking account of SFT's remit eg confirming that the procurement of utilities is included;

14. **Other Project Specific Issues** : should be included.

To: [redacted]
Cc: [redacted]
From: [redacted]
Sent: Mon 16/01/2012 11:53:33 PM (UTC)
Clarification Issues.docx
NPD RHSC DCN Project Review actions response to OBC 20120112.doc

Mike

I attach a short paper containing comments and requests for clarifications in relation to the OBC which has been submitted from NHS Lothian for the RHSC/DCN Project.

I also attach for reference an updated version of the action plan relating to SFT's Project Review which NHS Lothian provided as Appendix 2 of the OBC to show SFT's responses to it.

In addition, SFT will provide in advance of the CIG meeting a written response commenting on the OBC with particular reference to the draft Funding Conditions in relation to the provision of revenue support for health NPD projects. Donna will be in touch to discuss.

Regards

Colin

To: Graham, Iain [redacted]
From: Donna Stevenson [redacted]
Sent: Mon 30/01/2012 5:40:26 PM (UTC)
Subject: RE: NRIE - SA6

Iain

Thanks for your response by email and the further update on the phone this afternoon.

Thank you for clarifying that the that the route of the electric cable from the sub station is to go in the service ducts alongside Little France Drive, You said that this is within the curtilidge of the BioQuarter and confirmed that the Board is satisfied that the issues which MacRoberts had raised regarding the adequacy of the Board's rights has been satisfactorily resolved.

I look forward to receiving further updates as to the funders' position in early course.

I will see you on Thursday.

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

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From: Graham, Iain [redacted]
Sent: 27 January 2012 17:57
To: Donna Stevenson
Subject: FW: NRIE - SA6

Donna,

With apologies for having overlooked replying to your note, I have annotated your questions with Board answers. MacRoberts have assisted in completion of this.

I am sure you will also be aware of the approval of our Board to the Outline Business Case for submission to CIG (subject to SA6 etc) has been agreed at this week's Board Meeting (in Private Session).

We would be happy to pick up any issues arising or at the next working group meeting.

Iain

Iain F Graham
Director of Capital Planning and Projects
NHS Lothian

Sent: 11 January 2012 11:27
To: Graham, Iain
Cc: Andrew Orr; Currie, Brian; Goldsmith, Susan
Subject: RE: NRIE - SA6

Iain

Andy Orr sent through to me the latest draft of SA6, which I have had the opportunity to consider and the following points arise.

1. I was pleased to hear from Andy that the drafting of SA6 is now almost completed. More concerning, he said that there was still not clarity regarding the process being adopted by McGrigors and the timing and basis of submission of the document to the bank. Andy said that there was a conference call yesterday evening and I would welcome an update as soon as possible. As I said I would be very happy to become involved if you think that would assist. As you are aware, SA6 has now been sent to McGrigors and they issued their report to the Agent Bank at the start of this week. They expect a period of 20 working days to turn it around. On Tuesday we had assurances from Consort Board members including John Cavill of Barclays that they were bringing all possible pressure / angles to the lenders to obtain early sign off. We have been advised today that they and McGrigors have a session next Friday with all lenders to take them through the SA6. In that call it was mentioned that SFT had been directly in touch with McGrigors on this matter. Could you please advise what contact has been made and what was the outcome in order that we can ascertain the veracity of Consort's statement?

2. On the new drafting, my only comments are that

· consistent with cl 7.3 referring to cl 30.4A of the PA, I think that the definition of the RHSC Cause should refer to the date from the Handover Date until the end of the Contract Period; The new clause 28A.1 (clause 7.5) applies from the Handover Date. If there is an opportunity for the amendment, we could also make this change to the definition of RHSC Cause if that helps.

· in Clause 8.2.5, “Board” has not been capitalised; Thanks - done now.

· in the Partial Renunciation of the Head Lease, in paragraph 1.5 of the Additional Reservations, I think that the reference should be to cl 3.6.1.6: is the intention therefore that the works to form the access road to the new substation is carried out by NPD Contractor? The clause references are consistent in the version sent to McGrigors. SA6 envisages that the works will be carried out by the Board and in practice we envisage that the Board will have the works carried out by the NPD contractor.

· the reference to the PTS system still refers to the laboratories in square brackets: you advised some time ago that the Board’s intention is to construct laboratories outwith the RIE: in which case what would the PTS be used for? This definition now just refers to a system installed within NRIE and connecting RHSC to NRIE.

· Finally to what does the licence in the car park F lease to CEC refer? The Board (with Consort's consent) previously granted City of Edinburgh Council a licence to carry out works to the Niddrie Burn within the NRIE site and Car Park F. The works form part of the Niddrie Burn Restoration Works being managed by the Council. In return the Board were granted a licence by the Council to construct the bifurcation channel and attenuation pond on Council land that were required in terms of the Car Park F planning permission. Those features, upgraded in terms of the works the Council are carrying out, form part of the final works solution. The two yellow areas are part of the land covered by the Licence granted to the Council. The Niddrie Burn works are still currently underway but will be well clear by any NPD start.

3. Can you please confirm that all of the technical discussions have now been resolved? All technical issues relevant to SA6 have, we believe, now been raised. Technical discussions will require to continue for certain aspects of the design and interface and SA6 allows a procedure for this.

4. Is the Board now satisfied that SA6 now accommodates all of the Board's requirements in relation to the changes to the PA and crucially the leases? As previously stated, we believe that SA6 accommodates the Board's requirements to the extent possible at this stage.

5. In my previous email I raised the issue that Graham had explained that the gas main is to be diverted outside the RHSC/DCN site (as part of the 6 TAWOs) and hence clause 3.10.1 which restricts the positioning of trees, service media etc would not apply in practice. Nonetheless, Consort will need to agree any conditions which are to apply as part of the TAWO and any concerns of Consort as to maintenance or other constraints are likely to be raised at that point. Is the Board satisfied that all statutory and HSE requirements will be able to be met within the constraints of the proposed development and that Consort will be able to be satisfied at that stage? The Board is satisfied on this point.

6. I also raised in my previous email relevant third party interests when I raised the following issues :

6.1 I understand that a commercial agreement has now been reached with Careshare and I would endorse an approach to contractualise that arrangement as soon as possible : this had previously been identified as a pre OJEU issue; We met with the Board, Careshare and Dickson Minto (Careshare's advisors) on 18/1. Heads of Terms have been agreed and drafts will be issued to Dickson Minto this week. The parties agreed to tie up the contract by the end of this week and subject to a VAT recovery question terms are agreed. This remains a confidential element for commercial reasons.

6.2 Likewise I would recommend that a contractual arrangement is put in place now with the University: Graham advised that there are amendments to its lease required; and The Board are aware of the requirement to vary the University leases although MacRoberts are not instructed to document the variations at this stage the Board has agreed the principles with the University leads. The ARRNC Supplemental Agreement will be completed shortly and we expect that the Board will then press the University regarding the variation of the Leases.

6.3 In relation to the potential routing of the electricity cables from the substation to the RHSC/DCN, given potential property considerations which Graham explained, I would recommend that SA6 includes the right to lay the cable within the RIE boundary even if other options continue to be explored. The Board have opted not to pursue rights to install the cables within NRIE. MacRoberts had a meeting with CLO earlier this week to discuss the Car Park F title position. Comments on a number of points raised and will report further on this issue shortly. The Board do not believe that the route is deliverable.

Perhaps you could let me know how these issues have been resolved.

I would be happy to discuss any of the above points on the phone.

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

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[cid:021414109@19012012-260A]
From: Graham, Iain [redacted]
Sent: 22 December 2011 18:53
To: Donna Stevenson
Cc: [redacted]
Subject: Re: NRIE - SA6 (C01239)

I referred the technical matters re infrastructure questions to colleagues on the project team.

Iain
Iain F Graham, Director of Capital Planning & Projects, NHS Lothian.
Tel:0131 465 5516 Mob:07950 204 466

From: Donna Stevenson [redacted]
To: Graham, Iain
Cc: Andrew Orr [redacted]
Sent: Thu Dec 22 17:06:10 2011
Subject: RE: NRIE - SA6 (C01239)
Iain

I refer to our brief conversation earlier in the week when I said that I had some comments on the updated draft of SA6 which Andy had sent through to me.

You said that you were happy to for me to meet with Andy and I did so yesterday morning.

I have provided some further suggestions, mostly on the technical drafting issues to Andy and Graham, who clarified a number of the property issues.

Andy said that Tods Murray were meeting with McGrigors to obtain further feed back both on any issues and on process and Andy and I discussed the importance of the Board obtaining clarity on the approach which McGrigors propose to take.

I understand that there are still ongoing technical discussions and you said on the phone that you hoped that the technical issues could be resolved in the next few days. I know that we are all very conscious that SA6 needs to accommodate all of the Board's requirements in relation to the changes to the PA and crucially the leases.

Graham explained that the gas main is to be diverted outside the RHSC/DCN site (as part of the 6 TAWOs) and hence clause 3.10.1 which restricts the positioning of trees, service media etc would not apply in practice. Nonetheless, Consort will need to agree any conditions which are to apply as part of the TAWO and any concerns of Consort as to maintenance or other constraints are likely to be raised at that point. Is the Board satisfied that all statutory and HSE requirements will be able to be met within the constraints of the proposed development and that Consort will be able to be satisfied at that stage?

I also discussed with Andy and Graham relevant third party interests:

1. I understand that a commercial agreement has now been reached with Careshare and I would endorse an approach to contractualise that arrangement as soon as possible : this had previously been identified as a pre OJEU issue;

2. Likewise I would recommend that a contractual arrangement is put in place now with the University: Graham advised that there are amendments to its lease required; and

3. In relation to the potential routing of the electricity cables from the substation to the RHSC/DCN, given potential property considerations which Graham explained, I would recommend that SA6 includes the right to lay the cable within the RIE boundary even if other options continue to be explored.

I will be in the office tomorrow if there is anything which you wish to discuss.

I hope that you have a good Christmas.

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

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[cid:021414109@19012012-260A]
From: Andrew Orr [redacted]
Sent: 18 December 2011 15:10

To: Donna Stevenson
Subject: Fw: NRIE - SA6 (C01239)
Importance: High

Hope you had a good week.

Andy

Andrew Orr
Partner
MacRoberts LLP

mobile: [redacted]

From: Margaret Kinnes
Sent: Friday, December 16, 2011 07:25 PM
To: 'Graham, Iain' [redacted]
'Goldsmith, Susan' [redacted] 'Curley, George' [redacted] 'Currie, Brian' [redacted] 'MacDonald, Andrew' [redacted]
Cc: Andrew Orr; Graeme Clubley; Mike Barlow
Subject: FW: NRIE - SA6 (C01239)

All

revised draft SA6 issued to Tods Murray as per email below.

Regards

Margaret Kinnes
Senior Associate
MacRoberts LLP

direct dial: [redacted]
switchboard: [redacted]
fax: [redacted]

30 Semple Street, Edinburgh EH3 8BL

From: Margaret Kinnes
Sent: 16 December 2011 19:23
To: 'Nigel Sievwright'; Andrew Orr
Cc: Graeme Clubley; Elaine Todd; Alistair Kennedy; Ashworth, Jennifer
Subject: RE: NRIE - SA6 (C01239)
Importance: High
Nigel,

Please find attached mark up of SA6 clean and comparison against the draft attached below. This now includes the property drafting and insurance drafting discussed today.

I understand that costs for Car Park B/F services have still to be agreed.

Can you confirm if this is now being issued to funders. Thanks.

Attached SA6 document 1490633 version 29
comparison v28 against 29

Regards

Margaret Kinnes
Senior Associate
MacRoberts LLP

direct dial: [redacted]
switchboard: [redacted]
fax: [redacted]

30 Semple Street, Edinburgh EH3 8BL

From: Nigel Sievwright
[redacted]
Sent: 16 December 2011 12:28
To: Andrew Orr
Cc: Margaret Kinnes; Graeme Clubley; Elaine Todd; Alistair Kennedy; Ashworth, Jennifer
Subject: NRIE - SA6 (C01239)

Andy

Please find attached minor mark-up of the "working draft" of SA6 in track changes. Perhaps worth noting:

1. Phased hand-over of Car Parking - we marked up the definition of "Car Park Handover Date" previously (which has been accepted) and this was our proposed solution.

2. Car Park F Planning Permission - Consort do not seem to have a copy of this and so we would be grateful if you could provide a copy.

3. Schedule Part 2 Parts A and B para 1.10 - please see proposed mark-up re patent rights.

4. Schedule 11 Part 1 Part A ("Project Facilities" and "Trust Party") - I mentioned to Maggie last night that it did not seem appropriate to include Car Park F in the definition of "Project Facilities" as this is not an area constructed by Consort or on which it takes the usual risks. We will, of course, need to assess where it would be appropriate to refer to Car Park F on a case by case basis. Also, I think the proposed amendment to "Trust Party" needs to go in although, on further reflection this should cover not just the RHSC Facilties but the RHSC Facilties or the RHSC Site or any other development on the RHSC Site. Statutory Undertakes and Utilities would ordinarily be carved out of the definition of Trust Party but Consort would receive an Excusing Cause in respect of statutory undertakers or providers of utilities to the Project Facilities or the Site. The change would put Consort back in this position in connection with the RHSC Site/facilities.

Generally, there is still a bit of sorting as to how the Car Park F Service is dealt with. I wonder (and mentioned this to Maggie last night) whether we could say that, where there is a reference to the Facilities Service, this means, in relation to Car Park F, the Car Park F Service. Just a thought.

Regards

Nigel

Nigel Sievwright
Partner
For Tods Murray LLP
Phone: [redacted]
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<<Draft Supplemental Agreement No 6 - TM mark-up 15-12-11.DOC>>

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[AutoDate]

Mike Baxter
Chair
Capital Investment Group
Scottish Government Health Directorates
St Andrew's House
Regent Road
Edinburgh
EH1 3DG

Dear Mike

NHS Lothian
RHSC/DCN Project
Outline Business Case

We have reviewed the Outline Business Case (OBC) for development the Royal Hospital for Sick Children and Department of Clinical Neurosciences (RHSC/DCN) as a joint project (the Project) which was submitted by NHS Lothian (the Board) to you on 22 December 2011.

We have provided a short paper raising comments and issues for clarification by the Board which was previously sent to you for circulation to the members of the Capital Investment Group (CIG) and the Board.

The Project was announced as a revenue funded project in the draft budget of the Scottish Government in November 2010. In March 2011, SGHD issued a letter to all health boards to set out the governance and other requirements on boards to obtain central Government funding support for their projects. The March Letter also provides guidance on five key elements relating to the conditions of funding and provides an annex setting out SFT's role, in the context of our responsibilities which extent to the management of the affordability of the NPD programme as a whole.

We have agreed with you the scope of our remit in relation to our review of the OBC, in the context of the letter of 22 March and the support which we have been providing to the Project in close conjunction with you since late 2010. We have also provided a set of draft conditions (the Funding Conditions), reflecting the March Letter, which are to set out the funding conditions which relate specifically to the Project, which would be attached to an approval of the OBC. A number of our comments on the OBC provide recommendations as to how these draft conditions might be completed.

SFT have also carried out a Project Review, having engaged Atkins as consultants for the review and SFT's report (to which the report from Atkins (the Atkins Report) to SFT is appended) was issued to the Board and copied to you on 22 December 2011. Annex A to this letter comprises a list of the recommendations of the Project Review with comments

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from SFT on the Board's responses to them. The recommendations of the Project Review form the basis of a number of comments in this response to the OBC.

Finally, by way of introduction, SFT has not been involved in setting the strategic context which was covered in the Addendum to an earlier outline business case which the submitted in March 2011 and in response to which SGHD approved the development of the OBC.

In the light of the above our comments and recommendations on the OBC are set out below.

1. **Negotiations with Consort Healthcare (ERI) Limited (Consort)**
   1.1. As the Board notes in its Executive Summary, "the interface with Consort Healthcare poses the greatest risk to commencing the delivery of the project".
   1.2. Appendix 1 which is to detail the current position with Consort is awaited.
   1.3. We have been in close touch with the Board in the course of their negotiations on Supplementary Agreement 6 (SA6) which deals with the transfer of Consort's land interest in the main site of buildings to be constructed for the project, enabling works which have now been completed and some other matters. The Board advises that SA6 has been agreed between the Board and Consort and is expected to be sent to Consort's banks for approval by all of them during January.
   1.4. As the OBC notes there are external and clinical enabling works which are required for the Project to proceed and the intention is that these will be carried out by Consort as works orders under the existing RIE Project Agreement. The works so far as currently identified by the Board have been incorporated within 6 proposed packages (collectively the Enabling Works) which are currently being negotiated with Consort. After agreeing scope and price (albeit subject to further adjustment as the specification is refined) these require to be documented in a further Supplementary Agreement (the Enabling Works SA) which will require to be agreed between the Board and Consort and then approved by all of Consort's funders.
   1.5. In relation to SA6 we await confirmation from the Board :
      1.5.1. that all of the technical discussions which have recently been taking place with Consort and utilities undertakers as regards substation and utilities connections have now been resolved to the Board's satisfaction and that SA6 now accommodates all of the Board's requirements in relation to the changes to the PA and the leases to enable the Project to be developed, including connections to the substation, subject the agreement to carry out the Enabling Works;

      1.5.2. whether contracts have been concluded with University of Edinburgh and Careshare (the current occupier of the crèche) for the amendment or renunciation of their leases required as part of the arrangements.

      1.5.3. The Board agrees with SFT's view, shared by SGHD that SA6 must be contractually effective, having been approved by Consort's shareholders and all of Consort's banks, whose security is to be partially released to enable the land to be handed back before the OJEU is advertised.

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1.6. In relation to the approval of the Enabling Works:
   1.6.1. our view, as previously explained to the Board, and consistent with the recommendation of the IIB, is that appropriate risk mitigation measures put in place is that before the OJEU is issued;
   1.6.2. the risk mitigation as previously discussed with the Board is aimed at the Board having in place an achievable programme which demonstrates that there is significant confidence that approval by Consort's banks will be achieved prior to the programmed commencement of competitive dialogue: agreement between the Board and Consort on scope and price is expected by the end of February;
   1.6.3. we await an updated programme from the Board and we understand that the scoping and pricing is expected to be achieved by the end of January for all of the Enabling Works except the flood prevention works due by the end of February : this should enable Consort to agree to the scoping and pricing of the Enabling Works prior to the OJEU being issued;
   1.6.4. thereafter, the terms of the Enabling Works SA needs to be agreed (though we would expect that most of the form of the document and all but the final commercial terms should be capable of being agreed in advance), before being sent to Consort's banks for approval; and
   1.6.5. we would suggest that the timescale of all banks consenting to SA6 would be a reasonable proxy for estimating the timescale for achieving consent to the Enabling Works SA; and
   1.6.6. we await further advice from the Board as to progress with Consort in this respect so that the conditions to be satisfied prior to issue of OJEU can be finalised.

1.7. The Board have previously advised that the clinical enabling works will be subject to separate works order requests, and hence further supplementary agreements, as the design for these develops. We understand from the Board that these relate only to internal works. It will be important that the project programme going forward builds in sufficient buffer to cover the potential for delay in achieving the necessary consent for these works to be carried out.

1.8. It remains the case that there could be additional works required for the Project which are not currently been foreseen by the Board and hence would need to be the subject of a separate application for consent under the RIE project documentation and the Board has acknowledged that this is a risk which it will need to manage as the procurement progresses.

Recommendation: That the Funding Conditions include provisions to reflect the above, including conditions which require to be satisfied prior to issue of OJEU, as further discussed with us.

2. **Project Review**

The Project Review considered the scope of the Project in the context of value for money considerations. Its principal aim was to

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- understand at a high level the proposed solution to meet the activities and volumes identified as the strategic need, to look at the space efficiency and the specification and cost efficiency and to seek to understand how these relate back to the staffing and services approach for the new hospital;
- understand how the Project will integrate with the existing RIE – both physically and from a service delivery perspective; and
- explore what benchmarks NHSL has used in developing the design and how the Project compares against these.

The review was based on the information which was available around the time of the workshop in August 2011, except for the cost benchmarking element of the report which is based on the updated information which was subsequently provided for that purpose, particularly Technical Cost Summary 4 ('TCS 4') produced by NHSL's cost consultants. TCS4 has been used for the purposes of the OBC.

The Project Review produced 20 principal recommendations and Appendix 2 of the OBC sets out these recommendations, drawn from an earlier versions of the report produced by Atkins but which are substantially the same with the omission of the recommendation relating to costs which was produced subsequently on the basis of updated information provided by the Board.

We have noted on Annex 1 the Board's responses to the recommendations and our comments on those, together with a request for clarification on four of the recommendations, which have been included in the clarification issue paper.

Recommendation: That the Funding Conditions include a provision that all of the Recommendations are to be implemented by the Board, to the extent not already dealt with, and that SFT at the pre OJEU KSR, consider the progress which the Board has made to that time and at the Pre ITPD KSR consider whether the Recommendations have been satisfactorily addressed by the development of the Reference Design and Authority's requirements and as reflected in the ITPD documentation

3. **Reference Design**

A number of the recommendations raise issues for NHSL to consider when further developing its Reference Design and Authority's requirements for the purposes of the ITPD documentation which will be finalised and issued before competitive dialogue commences. In this regard, the delineation of negotiable and non negotiable elements will be of importance, so that, where appropriate, bidders will be free to propose their own solutions to issues raised in the report. SFT will expect to have further dialogue with NHSL as to that issue as the procurement documentation is further developed.

Recommendation: That the Board has further dialogue with SFT as to the extent of negotiable and non negotiable elements as the procurement documentation is further developed and that the final position is confirmed as part of the Pre ITPD KSR.

4. **Capital Construction Cost: NPD Element**

The OBC contains an NPD capital construction costs of £154.9m (excluding VAT).

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Recommendation That the sum of £154.9m (excluding VAT) be used as an appropriate overall cap on construction costs for the NPD element and that this be reflected in the Funding Conditions. This will be subject to the ongoing requirement for NHSL to seek to minimise construction costs and operating costs.

As noted in Recommendation 20 of the Project Review, there are a number of elements within the overall cost which are considered too high, for example the allowance for post financial close design costs, and yet others which seem relatively low for example, the external wall elements. It is expected that NHSL will work through the various issues raised in the 20 Recommendations to develop further the Project within the overall construction cost cap.

5. **Capital Construction Cost: NPD Element : Inflation**

The NPD element of the construction cost of £154.9m includes inflation based on BCIS projections to the assumed mid point of construction being Q1 2015.

Recommendation : That the construction cap will be set on the basis that inflation allowance is reassessed and recast periodically up to financial close by reference to any difference (positive or negative) between (a) the cost inflation from the pricing base date that is implied by NHSL's forecast and (b) the cost inflation from the pricing base date implied by the forecast (or reasonable extrapolation) of the same index at the time (assuming financial close is not delayed beyond an agreed date). NHSL is expected to limit project scope or design creep to ensure that any apparent surplus inflation allowance is not utilised. The Funding Conditions will reflect these arrangements.

6. **Capital Construction Cost: Capitally Funded Element**

The Project Report does not comment on the projected costs of the non NPD elements of the Project in respect of which the Board is seeking capital funding, as these are outwith the SG revenue support of the NPD element of the Project.

We note that the Enabling Works element of these costs is the subject of ongoing discussions with Consort and the Board has advised that it expects to obtain fixed costs, representing a maximum price, subject to subsequent adjustment as the design is refined, by the end of February. This process should allow the significant levels of optimism bias which are included within the OBC to be reconsidered.

7. **Lifecycle Cost and Hard FM costs**

7.1. The Atkins Report states that :

7.1.1. "based on a range of benchmark information the Life Cycle Cost per square metre per annum of £27/m2, at 3Q 2011 prices, sits within the acceptable range of benchmarks"; and

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7.1.2. "based on a range of benchmark information, the FM allowance of £29/m2/yr sits within the expected range of benchmarks, albeit slightly below the £34/m2/yr midway point."

The lifecycle costs which form part of the NPD Project will continue to be monitored against benchmarks in the context of the ongoing requirement for the Board to seek to minimise construction costs and operating costs, as more fully set out in the Funding Conditions.

Recommendation: That the lifecycle estimate of £27/m2 be used as the estimate for the time being on the basis that it is monitored as the procurement progresses as outlined above.

8. **Affordability: Level of the Unitary Charge**

The basis of the Scottish Government's contribution to the Unitary Charge (UC) was contained in the March Letter and will be more fully set out in the Funding Conditions

We have reviewed the financial case in the OBC and the discrepancy between our expectation of UC (and the projected contribution by the Scottish Government (SG)) and the calculations in the OBC, which we had highlighted to the Board in previous discussions remains.

We have used the main cost input the assumptions as stated in the OBC of construction cost (£154.9m), FM cost (£1.4m pa) and lifecycle (£1.3m pa), in our affordability model, and our calculation of UC is significantly less than that of the Board. In addition there is a difference between the senior debt margin sub debt coupon assumptions which we had provided to the Board in our most recent update of these assumptions and those used by the Board. The net effect of these issues is that our estimate is about £2m per annum less than that of the Board.

We have raised this issue with the Board and we shall work with NHSL to agree a financial model that translates these inputs into UC and SG revenue support – both with the shadow bid model and bidders' financial models- on a basis upon which we both agree.

Recommendation: That, if this discrepancy is not resolved prior to approval of the OBC, the Funding Conditions make it clear that the there is not at this stage a commitment for SG support at the level indicated on page 49 and 50 of the OBC. Rather there is SG support to their share of the input costs, subject to the conditions of the approval, and that the discrepancy should be resolved before the OJEU is advertised. As with other pre OJEU issues, this would checked as part of the Key Stage Review process.

The OBC states that the contribution of the University of Edinburgh will be confirmed at FBC stage and that details of contributions from charities will be further developed at FBC stage.

We would suggest that the Funding Letter sets out how this contributions will feed into the calculation of Scottish Government revenue support for the Project.

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9. **Affordability: Net Revenue Impact**

The OBC sets out a net revenue impact of £8.326m (indicative at 2017/18) to be managed across all NHS partners and a proposed percentage split is set out in Figure 39. Paragraph 1.74 says that letters of support from regional NHS boards which utilise RHSC and DCN services (and separately the University of Edinburgh) have been requested to be included as appendices.

We would expect that these should be forthcoming in a form acceptable to SGHD prior to the approval of the OBC.

The OBC says, at paragraph 1.49, that the financial consequences will ultimately be managed as part of the Board's financial and capital plan process: with support from the Scottish Government NHS Boards and charity partners. It goes on to state that this will be fully explored as part of the Full Business Case. ***[We note that there is no further discussion of affordability of the revenue consequences of the Project for the Board and this is an issue for SGHD to consider. Note: Colin discussing with Mike Baxter]***

10. **Governance**

We have had a number of discussions in relation to the governance arrangements for the Project and we have received a copy of the report from PricewaterhouseCoopers, the action plan for which are set out in Appendix 3 of the OBC.

We note the membership of the Project Board has been extended and that our Director of Finance and structures is now a member.

In response to recommendation 5.4 of the pwc report, the Board state that it has been agreed that there will be a delegation of authority to the Project Board to simplify decision making. As we note below we consider that this is also necessary to ensure that the project programme dates at key stages can be met. Paragraph 6.4 lists a limited number of issues for which the Project Board has delegated authority at this stage. We would expect that the extent of delegation would be greater as the Project moves to the procurement stage.

Recommendation: That a comprehensive delegation scheme be put in place before the issue of the OJEU.

11. **Resourcing** :

We have had a number of discussions with the Board regarding resourcing of the Project with particular reference to the level of PPP experience, as required by the March Letter. At the most recent meeting between the respective Chief Executives of the Board and SFT, there was a clear commitment to augment the team with someone with PPP commercial experience and SFT agreed to provide some suggestions in the regard.

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Recommendation: That an appropriate additional resource to provide commercial PPP experience as part of the project team should be in place before the commencement of competitive dialogue. *[Note: it would be preferable if this were pre OJEU but that might not be realistic.]*

It will also be important moving forward that the Board ensures that it has sufficient resources to deal with the finalisation of approval of and then implementation of the Enabling Works in tandem with the detailed development of the procurement documentation and the conduct of the dialogue phase.

12. **Value for Money** :

SFT's Supplementary Guidance on Value for Money (VfM) issued on October 2011 at Paragraph 4.1 lists the steps to be taken in considering VfM at OBC stage.
The Board has assessed the scope and procurement options in the OBC Update and the OBC itself and taken account of the issues listed in 2.2 of the Supplementary Guidance.

The Project Review, which is commented upon above is the means by which SFT have challenged the scope and specification selection of the Project.

Appendix 17 of the OBC contains VfM checklist, forming Annex 1 of the Guidance and does not raise any additional issues which have not been covered by our recommendations elsewhere in this letter. **[*Note: the checklist asks about affordability as to which see above].***

The list at 2.2 of the Supplementary Guidance lists factors which are to be considered as part of Effective Delivery (SCIM Step 7) which is the management case section of the OBC.

We have considered and provided recommendations on a number of these issues elsewhere in this letter in relation to :

- Negotiations with Consort (land issues and establishing a level playing field to encourage competition);
- Governance
- Resources
- Affordability
- Reference Design
- Planning

all of which are important in establishing a Project which represents VfM.

In addition, given its importance to the VfM case, we have asked in our clarification paper the Board to advise as to the level of interest which has been expressed from potential bidders and the proportion of whom have previously bid successfully for UK acute hospital PPP project. The Board's response is awaited.

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[Overall, taking all aspects of the submission together and subject to our recommendations in this letter, we believe that the Board has reasonably addressed VfM at this stage of the Project.]

Going forward it will be important that the Board continues to address the drivers for achieving a VfM outcome.

13. **Project Programme**

We have commented on the project programme in the past as part of our membership of the Project Board. In relation to the programme going forward:

- The date of the OJEU will depend on the issues at paragraph 1 above and this will impact on the remainder of the programme;
- The timescales for approval by Board at key stages will depend on an appropriate delegations being in place (see 12 above);
- The interfaces with the enabling works will need to be carefully managed (see 1 above).

14. **Other Comments**

14.1. **OJEU Notice :** we have been discussing the content of the OJEU with the Board and a number of amendments have been agreed to the draft which is attached as Appendix 19 to the OBC. The draft OJEU , as amended should now be in its final form, subject to the updating of any factual issues such as dates, and it would be helpful if that were annexed to the final form of the OBC.

14.2. **Planning Permission in Principle :** the OBC says that planning permission in principle was approved by Edinburgh City on 8 December 2011, subject to a Section 75 legal agreement being completed. We have asked the Board to confirm that it is satisfied that it will be able to comply with any conditions which have been or are to be attached to the consent and that none is unusual or requires third party consents, other than the known requirement for Consort to approve and carry out the Enabling Works.

14.3. **SFT's Role :** the action plan flowing from the pwc report makes a number of comments regarding SFT's role. We would confirm that SFT has been performing a "sounding board" type role in relation to the Negotiations with Consort (Items 2.1(a) and (b) of the action plan. . It is suggested in the Board's response to the pwc report that SFT has carried out soft market testing, This is not the case. Instead as we have has some discussions on a reactive basis with potential bidders expressing interest in the NPD programme including this Project. In all cases, we have recommended that any interested parties approach the Board directly and we are aware that the Board have met with a number of potential bidders.

*14.4. **[Utilities :** the OBC states at Figure 32 that the Utilities will be provided via NPD Co: the final form of OBC might usefully expand on these proposed arrangements. Note: is that passing reference sufficient: the OJEU now refers to utilities procurement]*

15. **Conclusion**

Considerable progress has been made by the Board in relation to the Project since the announcement of the revenue funding procurement route in November 2010.

The arrangements with Consort has been and remain a key issue in relation to the procurement and the approval by its banks of SA6 remains an important prerequisite of the launch of the procurement. The arrangements for the approval and implementation of the Enabling Works and the ongoing interfaces represent a unique [challenge/feature] of this Project and will need to be carefully managed, including the matters to be put in place prior to issue of the OJEU.

[This remains a challenging Project and its adequate resourcing is an important element of its success and the achievement of value for money as the procurement progresses.

The Project Review contains a number of positive comments on the development of the Project as well as some constructive suggestions and recommendations which we hope that the Board have found to be helpful and of assistance in the development of its requirements for the procurement.

[Subject to the comments and recommendations in this letter and to its consideration by CIG members, overall we would support the approval of the OBC.]

We would be happy to discuss with you any of the foregoing in further details if that would be helpful to yourself or any of the members of CIG prior to the meeting at which the OBC will be discussed. Colin Proctor will be attending the meeting itself as a member of CIG.

Yours sincerely

Peter Reekie
Director of Finance and Structure

Annex A : Recommendations of the Project Review

NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
1	**Links between the RHSC/DCN and the existing Royal Infirmary** A detailed specification of the requirements of the linking buildings between the new build and the existing RIE should be prepared, outlining the number and types of patient and staff journeys that will take place, both on first opening the building and as can be foreseen in the future. The termination points of the corridors in RIE and the routes to lifts and stairs should be identified and the design should avoid routes transiting clinical areas which are not served by the link or which are sensitive patient management areas. Other physical links such as pneumatic tube and IT links should also be carefully specified.	**Linking Buildings** • Design Brief / Output specification to be prepared detailing: o No Pt Journeys o No Staff Journeys Expected on opening and 5 years post commissioning • 1:200 Drawings to show termination points of the corridors in the RIE • 1:200 Drawings to show routes to lifts and stairs in RIE, avoiding transiting clinical areas • PTS physical links to RIE to be shown	March 2012 Feb 2012 Feb 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

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NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
2	**Planning for Future Change** Any elements of the building that are likely to require adaptation or expansion in the future should be detailed within the output specifications.	Areas that may require adaptation or expansion in the future include: • Radiology • Theatres	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
3	**Clinical Planning** The functional units for out-patients and therapies require to be under-written by a capacity-modelling exercise similar to the Bed Modelling Exercise to provide certainty that the departments are sized correctly.	To undertake an OPD/Therapies capacity modelling exercise for both DCN and RHSC to determine the size of planned departments are correct.	Jan 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
4	**Clinical Planning**			SFT to review the Authority's Construction Requirements at

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NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	Add detail to specifications in the Departmental Design Briefs indicating what output activities are required to be delivered from all parts of the facilities.	Patient/Staff/Carers/Family average numbers/activities to be added to design briefs that are missing this information to ensure the appropriate space is provided All design briefs to be reviewed and updated prior to procurement process commencing to ensure information provided is current and clear in relation to required outputs .	March 2012	the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
5	**Space Planning – In-Patient Beds and Ward Planning** Review the current out-turn percentage of single rooms within the SoA as it is less than the stated target. Record the rationale for the proportion of single rooms within the design brief to assist bidding teams in understanding the derogation from guidance.	Review of single room accommodation within the RHSCE has been undertaken in tandem with the recent Bed Modelling review. The ratio of single bed provision remains. The rationale for the proportion of single rooms to be included within the design brief.		SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed Note; It would be helpful if the rationale could also be explained for the

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NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
			Complete	purposes of the OBC
6	**Space Planning – Bedrooms and en-suite areas** Test the feasibility of the briefed areas for bedrooms/ensuites at 1:50 scale in the context of a typical ward plan to ensure the designed areas do not exceed the assumptions in the schedule of accommodation and that they provide adequate functionality.	Following further discussion with the Technical Advisors and Capita Health Care Planner the 'single room' has been increased to 17 sqm. Generic and Key Rooms being tested at the 1:50 scale design to ensure functionality. Information has been obtained from Glasgow, Yorkhill, Project with regard to their single room accommodation mock up study. This is being further tested in Edinburgh.	Complete March 2012	Noted SFT to review the position at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
7	**Ward Planning** Test the distribution of support accommodation within a run of flexible beds on a ward floor plan	Distribution of support accommodation within a run of flexible beds on a ward plan at	Feb 2012	SFT to review the position at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily

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NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
	at 1:200 to ensure the bed distribution is sufficiently flexible to deliver the utilisation assumptions and that the support accommodation is not over-specified	1:200 being assessed at the 1:200 Scheme Design stage.		addressed
8	**Emergency Department**			SFT to review the position on these issues at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
	1. Consider modelling projected activity beyond 2013	• RHSCE Emergency Department activity to be projected beyond 2013 to ensure overall space allowance is correct. RHSC ED Activity Modelled up to 2017. Average annual activity expected to be 50,000.00 and should plateau. Further activity scoping up to 2021 currently being undertaken	Jan 2012	
	2. Provide more detail within the brief on intended operational policies and patient flows within the department.	• More detail to be added to brief on the intended operational procedures and patient flows within the department (the 1:200 Scheme Design is currently determining the patient and staff flow).	March 2012	
	3. Review the brief for the Emergency Department in terms of staff rest rooms,	• Clinical Output Based Specification will provide detail and assist the bidding teams.		

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	offices, size of staff changing, storage, waiting, staff seminar/study areas and indicate within the design brief where these are to be provided elsewhere in **RIE** to assist bidding teams in understanding the requirements.			
	4. Resolve the issue of the Paediatric outpatient department not being adjacent to the Emergency department for use in a Major Incident as currently described in the design brief.	• The issue surrounding the OPD not being adjacent to the ED with regard to Major Incident planning has been resolved. An area identified in the adjacent Paediatric Acute Receiving Ward has been identified.	March 2012 Complete	
9	**Out Patients Department**			SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from
	1. Provide more detail within the design brief on the operational policies for the out-patient	• Detail of procedures to be carried out within the OPD's to	March 2012	

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	areas. 2. Consider standardised consulting/exam and treatment rooms to provide maximum opportunity for the introduction of new methods of treatments and specialist clinical staff.	be included in design briefs. • Consultant Examination and Treatment Rooms all a standardised size.	Complete	the Board that this issue has been satisfactorily addressed Noted
10	**Therapies** Provide more information on how the Therapy departments are to operate, for example, how patients are to be received, logged into the system and how the therapist is alerted to their arrival. Also detail what the intended purpose of each clinical room is and what large items of equipment each will contain.	• Design brief to be updated to include operational policies. Function of each room to be detailed and items of large equipment within.	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
11	**Clinical Space Planning Generally** Identify key clinical rooms – likely to be 15-20 different types of room in total and provide an	• Generic (29 Rooms) and Key Rooms (75 Rooms) being drawing at the 1:50 scale design.	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from

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	indicative 1:50 layout (straight from ADB or even in sketch form) in order to under-write the proposed square metre area for each room. Utilise these standard areas throughout the schedule of accommodation			the Board that this issue has been satisfactorily addressed
12	**Support Services Planning** Undertake an option appraisal to determine the optimum catering methodology for patient and non-patient catering to deliver best value for money.	Catering Strategy being prepared by the Facilities Management Directorate.	Jan 2012	As the end date is Jan 20102 for the catering strategy, is the option appraisal now available? SFT to review as part of Pre OJEU KSR
13	**Support Services Planning** To ensure that best value for money will be delivered, the Board may wish to review the derivation of the scheduled areas and to record more detail on the proposed operation of the various areas. This will assist the design teams in understanding how the detailed design should be approached.	Facilities Management Work Stream operational and developing out put specifications. 1:200 Scheme Design meetings progressing and determining functional operational layouts to service building.	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

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14	**Departmental Circulation Allowance** The Board may wish to review this element with its technical advisors and healthcare planners to be confident the departments can be designed within the target areas.	Circulation allowance continually being reviewed with Technical Advisors i.e. 1:200 Scheme Design and 1:50 Key Rooms/Generic Rooms, to ensure operational functionality and to meet infection control guidance.	On-going March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed
15 (16 in Project Review)	**Reference Design** 1. Provide clinical planning diagrams now to determine the communication and circulation strategy as well as department adjacencies. 2. Resolve the circulation strategy within the Reference Design. 3. Match the adjacency matrix to the developed plan	• 1:200 Scheme Design drawings now available for each department within building • Circulation Strategy as action point 14 • Adjacency matrix to be updated to reflect 'signed off' 1:200 drawings	March 2012 See above Jan 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

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16 (17 in Project Review)	**Reference Design**
	
	To provide as much detail as possible on the site diagram including the definition of the following elements:- pedestrian access to both services; public transport routes made clear, detailed ramps and turning circles for the basement; vehicle traffic routes to be well-segregated from pedestrian walkways and entrances.
		• Much detail provided in the projects CEC Planning in Principle application.
		• Site Traffic Transport Strategy
		• 1:200 Scheme Design Drawings
		  ○ Hospital Main Entrances detailing pedestrian access to both services
		  ○ Basement – detailing turning circles and ramps
			Complete	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed

17 (18 in Project Review)	**Reference Design** The departmental planning at 1:200 scale to be well-resolved prior to issue within tender documentation.	• 1:200 Scheme Design to be signed off mid December 2011	March 2012	
18 (19 in Project	**Design Quality and Design Output Specifications**	• Overarching design brief to include design statement	March 2012	SFT to review the Authority's Construction Requirements at the Pre ITPD KSR

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NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
Review)	Provide within the brief an indication of the Board's aspirations towards the required quality of the design. This may be by a Design Statement similar to that recommended by Architecture and Design Scotland including an indication of "What success looks like" and detailing of the non-negotiables for patients, staff and relatives.			and obtain confirmation from the Board that this issue has been satisfactorily addressed
19 **(15 in Project Review)**	Net to Gross Areas . NHSL should continue to target reduction in the figure for main corridor communication, lifts and stairs and plant by value engineering of the developing design. 2. NHSL to check whether Glasgow Southern General has a separate energy centre or whether the plant rooms are integrated into the building which could explain the higher 38.3%.	The Board produced its comments schedule on the basis of an earlier draft before the final Project Review containing this recommendation was included	Comment to be provided	It would be helpful if the Board could provide comment on this recommendation. SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and throughout the competitive dialogue period and obtain confirmation from the Board that this issue has been satisfactorily addressed

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NO	Recommendation	NHS Lothian's OBC comment on Action/Current Situation	NHS Lothian's proposed date for completion	SFT Comment at 12 January 2012
20	Capital Costs NHSL to review the following:- 1. Post Financial Close NPD Co design development fees included at 10% by NHSL which are considered higher than other projects benchmarked 2. Review the Risk Register as design develops and reduce accordingly as risks mitigated and costs become more certain 3. Review design shape, specification and elemental cost plan against overall cost per square metre the design develops during the next stage 4. Gross to Net floor area – target communication and plant area reduction and measure against South Glasgow Hospital with regard to the energy centre	The Board produced its comments schedule on the basis of an earlier draft before the final Project Review containing this recommendation was included	Comment to be provided	It would be helpful if the Board could provide comment on this recommendation. SFT to review the position at the Pre ITPD KSR and, as appropriate, throughout the competitive dialogue period and obtain confirmation from the Board that this issue has been satisfactorily addressed

Date: Thursday, February 9 2012 12:25 PM
Subject: RE: Royal Hospital for Sick Children/Department for Clinical Neurosciences - Outline Business Case
From: Donna Stevenson
To: [redacted]
CC: Colin Proctor [redacted] Andrew Bruce [redacted]
Attachments: RE: NRIE - SA6.msg; OBC queries from SGHD 300112 responses sent 030212 with SFT comments 9 Feb.doc

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Mike

In advance of our meeting next week to discuss the RHSC/DCN OBC, I attach the paper containing the responses from NHS Lothian upon which I have marked my comments for the purposes for discussion when we meet.

I have also reviewed Appendix 1 of the OBC which sets out MacRoberts' summary of the Consort negotiations. These contains a significant number of risk factors and it would be useful to go through these with you both in the context of some aspects where I have received updates from Iain Graham directly (see attached email) and the IIB issues which we touched on when we spoke earlier.

It would also be useful if we can talk through the remaining issues on the Funding Conditions and KSR points in the context of this project.

I look forward to seeing you next week.

Regards

Donna

Associate Director
Scottish Futures Trust

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-----Original Message-----
From: Donna Stevenson
Sent: 06 February 2012 15:07
To: [redacted]
Cc: Colin Proctor; Andrew Bruce
Subject: FW: Royal Hospital for Sick Children/Department for Clinical Neurosciences - Outline Business Case
Importance: High

Mike

I refer to our telephone conversation on Thursday when you said that you would be convening a meeting on the RHSC/DCN project after the clarification questions had been received from NHS Lothian. Colin has passed to me the comments which Phyllis circulated on Friday.

On the SFT questions the responses do not fully answer all of the issues and, for example, I am not aware that there has been any capital cost impact information provided in relation to the catering option and the list of potential bidders was not attached. There is also the issue as to how matters to be resolved post OBC are to be reflected in the Funding Conditions (assuming all issues are resolved and Ministerial consent is forthcoming) : particularly around the Consort negotiations, resourcing and governance. On Consort negotiations, Barry provided to me a further update from IIB and Brian provided a useful update on Thursday on the proposed timetabling for the enabling works.

As I said I would be very happy to meet to go though these issues with a view to them being finalised. I can also provide a commentary on the responses from SFT's perspective if that assists?

Regards

Donna

From: Colin Proctor
Sent: 03 February 2012 14:14
To: Donna Stevenson; Andrew Bruce
Subject: FW: Royal Hospital for Sick Children/Department for Clinical Neurosciences - Outline Business Case

Colin Proctor
Accommodation Director
Scottish Futures Trust

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[cid:image001.jpg@01CCE27E.1F436950]
From: [redacted]
Sent: 03 February 2012 13:53
To: [redacted]
Nils.[redacted]
Colin Proctor
Cc: [redacted]
Subject: FW: Royal Hospital for Sick Children/Department for Clinical Neurosciences - Outline Business Case
Importance: High

Good afternoon

Please find attached the response from NHS Lothian to the queries raised on the Royal Hospital for Sick Children/DCN Outline Business Case.

Can you please let me know by close of play on Tuesday, 7 February, if the answers submitted address your concerns and that you are now content to support the business case.

Thanks

Phyllis

Phyllis Haggarty
Health Finance and Information Directorate Capital and Facilities Division Basement Rear St Andrew's House
Tel: - [redacted]

From: Cosens, Sorrel [mailto:Sorrel.Cosens@luht.scot.nhs.uk]
Sent: 03 February 2012 12:10
To: Haggarty P (Phyllis)
Subject: RE: Royal Hospital for Sick Children/Department for Clinical Neurosciences - Outline Business Case
Dear Phyllis,

Please find attached NHS Lothian's responses to the comments provided on Monday. Please let me know if there is any further information that we can provide.

Best wishes,
Sorrel

Sorrel Cosens
Project Manager
RHSC + DCN - Little France
NHS Lothian
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SAVE PAPER - please do not print out this email unless absolutely necessary.

From: [redacted] [redacted]
Sent: 30 January 2012 12:17
To: Cosens, Sorrel
Subject: Royal Hospital for Sick Children/Department for Clinical Neurosciences - Outline Business Case
Importance: High

Sorrel

Please find attached a table which details comments made by some of my colleagues in relation to the Outline Business Case for the Royal Hospital for Sick Children/Department for Clinical Neurosciences.

<<Untitled>> <<NHS Lothian - Royal Hospital for Sick Children - Department of Clinical Neurosciences -

Comments Table Issued to Board - 30 January 2012.doc>>

I would be grateful if you could enter your Boards response to the comments into the attached table and return to me by close of play Thursday 2 February, if possible.

Kind regards

Phyllis Haggarty
Health Finance and Information Directorate Capital and Facilities Division Basement Rear St Andrew's House
Tel: - [redacted]

RHSC and DCN at Little France, NHS Lothian
OBC Queries received from Scottish Government 30 January 2012 for response by 2 February 2012
Comments and Responses

Department and Contact: Health Finance – **Comment**	**NHS Board Response**
From paragraph 1.45, clinical workforce changes are not included in the revenue costs but the projected increase in activity, and its impact on staffing, is recognised as a financial planning issue and will be considered as part of the annual planning cycle prior to the new facility being opened. Please confirm that any additional funding requirement is able to be managed from within existing resources.	Additional funding requirements will be managed and prioritised in relation to both existing resources and future uplift / NRAC; through the annual (and five year) financial planning process
From paragraph 1.46, should the noted costs increase following the OBC analysis, the residual risk remains with NHS Lothian. Does NHS Lothian have contingency funding in place should the need arise?	Figure 27 at paragraph 2.14 sets out the sensitivity analysis on the key risks. Whilst no specific contingency funding is in place, should any of these costs arise (for those risks applicable to NHSL) they will be managed and prioritised from future uplift / NRAC via the financial plan.
From paragraph 5.40, hard FM and double running costs have yet to be quantified and are not included in the analysis but will be quantified as part of the FBC process. Are there any early indications of the likely costs?	Not yet, but these will be developed further during the next phase of the project
From paragraph 5.43, NHS Lothian is in dialogue with neighbouring Boards to obtain their support for the OBC. Please provide an update on any progress with this. Please also confirm when formal agreements are likely to be reached and whether agreement in principle is already in place.	A letter of support in principle for the funding model outlined in the OBC have been received from NHS Borders: Goldsmith & Sansbury 230112.doc

	An email in support has been received from NHS Forth Valley, confirming that a letter will follow. Letters are expected following Board meetings from NHS Fife (7th February) and NHS Dumfries and Galloway (6th February). A letter of support has been received from the University: o-shea-12.pdf

Department and Contact: Asset Management	
Comment	**NHS Board Response**
Pg 5 preferred option will have own energy centre – what options were considered to upgrade existing energy centre to cope with extra capacity required, why was this discounted?	The original capital scheme for a stand-alone RHSC considered the provision of an enhanced RIE energy centre, which in itself would require significant enhancement and upgrading. The revenue-funded project was directed to consider the need to separate energy supplies for contractual risk and procurement (level playing field) purposes. The Project Steering Board subsequently considered the options and recognised the different constraints and objectives for the revenue-funded RHSC+DCN. The Reference Design has included a separate energy centre from initiation and Planning in Principle obtained on this basis.
Pg 7: Why are there 2 separate but linked emergency departments – why couldn't RIE's department be expanded to act as front of house for both?	The clinical model put forward by NHS Lothian is to separate adult and childrens' pathways. This is in line with *Delivering a Healthy Future: An Action Framework for Children and Young People's Health in Scotland* (Scottish Executive, 2007), specifically in regard

	to segregated accommodation and specialist staff for paediatrics, ensuring age-appropriate facilities. The RHSC is a Level 4 Specialist Children's Hospital. Staff pathways, including those of specialist trainee and consultant medical staff who work with both adult and paediatric patients, will not make a distinction between RIE and RHSC departments. The 'front door' for ambulance patients will be the same, with paramedic and hospital staff directing patients to appropriate services. Reception and triage for ambulatory patients will be in an age-appropriate environment.
Pg 8: How does expected bed occupancy benchmark with other equivalent facilities?	Bed projections have been modelled against the benchmark group at the 75^{th} percentile. See Appendix 7.
Pg 8 section 1.27 single bed provision levels – how does this compare with provision in other modern children & young people facilities? What is the rationale behind 58% provision?	Alder Hey Children's Hospital currently has 70% of beds in single rooms. Newcastle Children's Hospital opened in 2011 with 75% single rooms. Glasgow plans 85% for their new RHSC. Comparison with Glasgow plans for inpatients wards excluding critical care shows NHS Lothian proposes 62% of beds in single rooms where Glasgow proposes 83%. NHS Lothian proposes a mixture of single rooms and shared wards following recommendations after extensive engagement with specialist clinical staff in the RHSC. The rationale is based on patient safety, providing care in an age-appropriate environment, and workforce planning. This issue is on the agenda of the Project Steering Board on 10 February 2012. Any decision by NHS Lothian to revise the recommendation for single rooms post-OBC will go through internal

	governance before presentation in the Full Business Case.
Pg 12 section 1.53 – how long will redesign take – how will services be provided in the interim & when is consort agreement anticipated?	Service planning and design of the clinical enabling works in the RIE is underway, and detailed programmes are being established for each workstream. These will be completed, with the relevant input from Consort Healthcare, in order to inform costings for Full Business Case and inform the delivery programme.
Pg 13 1.58 & 1.59 roles – is there overlap?	Clarification required. Is this asking about overlap between NHSL appointed advisers (being technical, legal and financial), or between NHSL advisors and SFT advice?
Section 2.23 – what are the constraints affecting the total waiting time of 18 weeks?	At present DCN has two operating theatres serving both elective and emergency patients, which limits the throughput of surgical activity.
Section 2.38 – which services will be transferred to community premises as a result of the project?	Patients whose care does not require an acute hospital setting will be seen in primary and community care premises. There are no plans to transfer a service wholesale from RHSC, but Community Child Health staff who are currently accommodated in Sciennes as part of the RHSC estate will not relocate to Little France.
Section 2.43 – will all emergency patients be separated from elective pathways?	This section relates to the DCN service model. - All elective admissions will report to theatres reception for day of surgery admission, or inpatient wards for medical treatment. They are separated from emergency admissions. - All emergency admissions to neurology and neurosurgery will be through the DCN Acute Care ward, generally for the first 48 hours of their hospital stay. Once stable, these patients would be transferred to inpatient wards alongside elective patients.
Section 2.77 theatre model – what are the planned operating hours	This is provided in Appendix 7. Planning for theatres is based

Commented [DLS1]: This is one of the issues in the Project Review which was raised by Atkins

per week for the new theatres?	extended working days with 13 sessions of 3.5 hours per week for each theatre.
Pg 103 – useful to understand what will be devolved to other sites, timescale, scale of change required & approximate cost. & how this has reduced accommodation requirements for the new facilities.	Services that could be located in the community, or are better delivered from other hospitals, are being identified. Planning for paediatric outpatients activity across Lothian will be completed in time for inclusion in the Full Business Case.
Pg 107- theatres/ day surgery – what criteria will determine whether theatres can operate extended days?	Workforce and medical job planning. Bed availability for post-operative patients.
Pg 112 what paediatric emergency modelling has taken place – how will new unit be supported by support in community so that only necessary cases reach emergency facility?	Redesign is required to ensure that community and acute services are accessed appropriately. Work to deliver HEAT target (Treatment) 10 is underway, with a workshop planned for March 2012. It is hoped that such redesign will reduce emergency activity, and any change in projections will be reflected in the Full Business Case.
Pg 129 – what impact does information that 41% of bed days taken up by patients under one year old have on RHSC design & service provision?	The proportion of activity by patients under one year means that the capacity required is very quickly impacted on by any change in the birth rate. NHS Lothian requires to future proof as much as is practicable against an increase in the birth rate that almost immediately puts pressure on RHSC beds. The proportion of activity by patients under one year of age also influences the proposed proportion of single rooms. Younger children and babies are not able to use nurse call systems and therefore observation of them is more challenging if nursed in single rooms. The ability to cohort patient groups (where infection control allows it) allows for greater observation and patient safety. Younger children would be isolated in single rooms, especially if their carers are not in the hospital with them.

Department and Contact: ASD	
Comment	**NHS Board Response**
Echoing comment above – 3.32 states that economies of scale will be addressed for accommodation and facilities, yet the decision is to built a separate energy source for the new building – is this viable?	See answer to the related question from Asset Management.
More detail on the NPV breakdowns in the appendices would be useful.	Clarification required. What level of detail is requested?

Department and Contact: Dental	
Comment	**NHS Board Response**
It is good to note that dentistry is included in the schedule of accommodation for the build, however the business case still seems very light on detail given it is an OBC. Can the board ensure that further information on this will be included within the FBC.	Work to inform the Full Business Case will include planning for all clinical and non-clinical departments.

Department and Contact: Scottish Futures Trust	
Comment	**NHS Board Response**
Negotiations with Consort: It would be helpful if the Board could now provide Appendix 1, which is to summarise the current position.	Paper sent to M Baxter 30 January 2012. Summary briefing provided as Appendix 1 in version 3.0 of OBC on 30 January 2012
It would be helpful if the Board could confirm that all of the technical discussions which have recently been taking place with Consort and utilities undertakers as regards substation and utilities connections have now been resolved to the Board's satisfaction	The agreed route for substation connection does not involve "Consort land". Supplemental Agreement (SA) 6 includes the rights reserved for substation location and access to and from it. The Supplemental Agreement which agrees the provision for the University's Anne Rowling Building includes

Commented [DLS2]: Risk factors to be discussed in the context of IIB discussion and suggested condition to be inserted in Funding Conditions per SFT letter of 9 Feb 12 : see also Iain Grahoam's email of 27 Jan 12

Commented [DLS3]: See comments in new Appendix 1 and Iain Graham's email : clarification required

and that SA6 now accommodates all of the Board's requirements in relation to the changes to the PA and the leases to enable the Project to be developed, including connections to the substation, subject the agreement to carry out the Enabling Works. It would be helpful if the Board could confirm whether contracts have been concluded with University of Edinburgh and Careshare (the current occupier of the crèche) for the amendment or renunciation of their leases required as part of the arrangements, or if not yet concluded the programmed date for completion.	enabling works for NPD Co for RHSC+DCN to connect to the county sewer. Board discussions with University ongoing at senior level. Careshare renunciation terms agreed, contract missives in agreed form ready for completion.
Can the Board please provide an updated programme showing the expected dates for finalisation of the agreement of scoping and pricing of the Enabling Works, agreement of the terms of a supplemental agreement and approval from all of Consort's banks and how these dates correlate with the programmed dates for issue of OJEU and commencement of competitive dialogue.	Latest programme, shared with SFT 2 February 2012 and to be presented to Project Steering Board on 10 February for approval: RHSC+DCN NPD Strategic Prog 03021
Project Review: SFT have carried out a Project Review, having engaged Atkins as consultants for the review and a report was issued to the Board on 22 December 2011. The Board had been provided with an earlier draft of the report from Atkins and have helpfully provided an action list responding to the recommendations in the draft report as Appendix 2 to the OBC. Our comments on Appendix 2 are set out in the attached table.	In response to the SFT comment regarding the ITPD KSR: "SFT to review the Authority's Construction Requirements at the Pre ITPD KSR and obtain confirmation from the Board that this issue has been satisfactorily addressed". Can SFT confirm that there is an agreed detailed programme for the ITPD KSR have any necessary consultants appointed and ready to meet NHSL programme. Updated Action Plan for addressing recommendations from SFT Design and Cost Review:

Commented [DLS4]: See suggested condition to be inserted in Funding Conditions per SFT letter of 9 Feb 12

Commented [DLS5]: To be considered in the context of condition to be inserted in Funding Conditions

	RHSC DCN IDR SFT Action Plan Ver04 2 F	
It would be helpful if the [single rooms] rationale could also be explained for the purposes of the consideration of the OBC.	See answer to the same question from Asset Management, above.	**Commented [DLS6]:** To be discussed with SGHSCD
Can the Board please provide a copy of the [catering] option appraisal underpinning the strategy or advise when it will be available?	This has been completed and will be taken to the Project Steering Board, which includes SFT and SGHD representatives, on 10 February 2012. The recommendation remains for a traditional catering model.	**Commented [DLS7]:** Comments will be provided on the paper
Since the Board response was collated in November 2011, the final form of the Project Review was issued and it contains recommendations in connection with cost benchmarking covering Net to Gross Areas (Recommendation 15) and Capital Costs (Recommendation 20). It would be helpful if the Board could provide its response to those two recommendations.	The later than expected delivery of the final Design and Cost Review (referred to as a Project Review) report has led to a timing difference in responses and recommendations. These actions are still being progressed and NHSL is happy to provide updates on Action Plan attached above.	**Commented [DLS8]:** Agreement of timing of updates required: any issue to be flagged by NHSL at this stage
Can the Board please advise of any changes to the scope from that reflected in TC4?	The OBC reflects the scope signed off by NHSL Board. Further updates to the scope and costing will be taken through the appropriate governance channels.	
Governance: Could the Board please clarify the issues to be covered by the delegation scheme referred to in the action plan and the timescale for that being put in place.	The proposed scheme of delegation, intended to support the Project Steering Board in progressing with procurement and competitive dialogue, is to be reviewed at NHSL Finance and Performance Review on 8 February 2012. This will be confirmed to the Project Steering Board on 10 February 2012.	**Commented [DLS9]:** Comments will be provided on the paper
Resourcing: Could the Board please provide its proposals for augmenting its	A paper on Project Resources was approved by the Project Steering Board	

team with someone with suitable commercial PPP expertise.	on 13 January 2012 and will go to NHSL Finance and Performance Review on 8 February 2012. As part of developing the team in line with recommendations, job specifications are being prepared and SFT's input would be welcomed to assist defining "suitable commercial PPP experience".
Unitary charge: We have reviewed the financial case in the OBC and the discrepancy between our expectation of UC (and the projected contribution by the Scottish Government (SG)) and the calculations in the OBC, which we had highlighted to the Board in previous discussions remains. We have used the main cost input the assumptions as stated in the OBC of construction cost (£154.9m), FM cost (£1.4m pa) and lifecycle (£1.3m pa), in our affordability model, and our calculation of UC is significantly less than that of the Board. In addition there is a difference between the senior debt margin sub debt coupon assumptions which we had provided to the Board in our most recent update of these assumptions and those used by the Board. The net effect of these issues is that our estimate is about £2m per annum less than that of the Board. We would be happy to meet with the Board to agree a financial model that translates these inputs into UC and SG revenue support – both with the shadow bid model and bidders' financial models- on a basis upon which we both agree.	During a helpful discussion at the Project Board meeting on the 25th November and a subsequent conversation on 7th December, the Director of Finance & Structures (SFT) agreed with the Director of Finance (NHSL) that no further amendments would be made to the financial model for the OBC. Having not had any prior indication from SFT that there is a modelling difference of £2m, it is difficult to comment on the reasons for this. We would welcome sight of the affordability model used by SFT and will discuss further with our financial advisors
It would be helpful if [letters of support from regional NHS boards and the University of Edinburgh] could be provided in advance of the CIG meeting.	See Health Finance questions above.

Commented [DLS10]: SFT assistance has been offered: see suggested condition to be included in the Funding Conditions

Commented [DLS11]: Meeting is being arranged

It would be helpful if the Board could confirm that it is satisfied that it will be able to comply with any [planning]conditions which have been or are to be attached to the Planning in Principle consent and that none is unusual or requires third party consents, other than the known requirement for Consort to approve and carry out the Enabling Works.	NHSL is working to secure this with the Planning Committee before local council election Purdah, and plans to submit revised proposals to the City of Edinburgh Council mid February 2012. The flood model will be provided to the City of Edinburgh Council by 14th May 2012. All other reserved matters to be dealt with post issue of Decision Notice (hopefully late February 2012).
Could the Board please advise as to the level of interest which has been expressed from potential bidders and the proportion of whom have previously bid successfully for UK acute hospital PPP projects.	NHS Lothian's Project Director and Director of Capital Planning & Projects have responded to market interest in the project by meeting with representatives of firms potentially interested in bidding for the project. These meetings commenced from shortly after the procurement route change and have continued to the current date. It is planned that these informal discussions will cease before publication of the OJEU notice. There have been a variety of bid managers and similar coming forward and the Board representatives have received differing levels of assurance as to the respective corporate interest and depth of consortium members in the project - see abridged list attached. It is clear from the meetings that initial concerns over a dominant bidder have been alleviated, subject to this being borne out through procurement contract documentation. Similarly all the interested parties have indicated high level engagement with SFT regarding the project as part of the NPD programme. NHS Lothian has not been represented at SFT meetings, but the project working group has received feedback from SFT consistent with our informal discussions. The abridged list attached has been produced for the sole purpose of CIG

Commented [DLS12]: This does not address the clarification requested

Commented [DLS13]: The list was not attached.

	consideration of the Outline Business Case and should not be more widely distributed. The Board at this time cannot confirm that there will be multiple bidders as that will be dependant on a positive response from the market to the project.
It is suggested in the Board's response to the PricewaterhouseCoopers report that SFT has carried out soft market testing: this is not the case.	The PwC report referred to Programme Level soft market testing by SFT as per the March 2011 SGHD letter to Health Boards.

Commented [DLS14]: SFT liaise with the market in relation to the programme in general but not the detail of projects

A. Funding Conditions

We recommend that the Funding Conditions Template be completed to reflect the following recommendations so as to enable certain information to be completed and to set out issues which require to be delay with prior to the issue of OJEU, the ITPD documentation or on an ongoing basis as the case may be.

Negotiations with Consort Healthcare (ERI) Limited (Consort)
Conclusion of SA6:
Recommendation 1 :
Before the OJEU is advertised :

- SA6 must be contractually effective, having been approved by Consort's shareholders and all of Consort's banks, including the agreement to the release of security over the land to be handed back; and
- The consent of the University to the arrangements contemplated by SA6, and the agreement by Care share to renounce its lease of the crèche should be legally effective.

Recommendation 2:

In relation to the approval of the Enabling Works:

SFT's view, as previously explained to the Board, and consistent with the recommendation of the IIB, is that appropriate risk mitigation measures put in place is that before the OJEU is issued:

1.1. the risk mitigation as previously discussed with the Board is aimed at the Board having in place an achievable programme which demonstrates that there is significant confidence that approval by Consort's banks will be achieved prior to the programmed commencement of competitive dialogue: agreement between the Board and Consort on scope and price of most of the Enabling Works is expected by the end of January and a date for the flood defence works is awaited;
1.2. we await an updated programme from the Board;
1.3. the terms of the Enabling Works SA needs to be agreed (though we would expect that most of the form of the document and all but the final commercial terms should be capable of being agreed in advance), before being sent to Consort's banks for approval; and
1.4. we would suggest that the timescale of all banks consenting to SA6 would be a reasonable proxy for estimating the timescale for achieving consent to the Enabling Works SA (once agreement has been reached with Consort).

We await further advice from the Board as to progress with Consort in this respect so that the conditions to be satisfied prior to issue of OJEU can be finalised.

We recommend that the Funding Conditions Template include provisions to reflect the above, including conditions which require to be satisfied prior to issue of OJEU, as further discussed with us in the light of the responses to be received from the Board.

Comment : Updated information has been obtained from NHSL and the final form of SA6 is to be sent to the funders on 20 February with consent expected within a short period thereafter. The updated programme shows approval and consent for funders of the supplementary agreement for the 6 Enabling Works packages well in advance of the commencement of competitive dialogue. This is consistent with our recommendation that approval from Consort and all of its banks be obtained before the competitive dialogue stage, is engaged upon.

Project Review
Recommendation 3 :
That the Funding Conditions include a provision that all of the recommendations in the Project Review are to be implemented by the Board, to the extent not already dealt with, prior to the issue of the ITPD documentation and that at the Pre ITPD KSR, SFT consider whether the Recommendations have been satisfactorily addressed by the development of the Reference Design and Authority's requirements and as reflected in the ITPD documentation.

Reference Design
Recommendation 4 : That the extent of negotiable and non negotiable elements is developed by the Board on the basis that bidders should be provided with maximum flexibility to propose their own design and engineering solution, within defined parameters, and avoiding the need to open up the clinical adjacencies which has been settled with the Board's clinicians to date and reflecting the constraints in the site as reflected in SA6. The final position is to be reviewed by SFT as part of the Pre ITPD KSR.

Capital Construction Cost: NPD Element
Recommendation 5:
That the sum of £154.9m (excluding VAT) be used as an appropriate overall cap on construction costs for the NPD element on the basis of the scope set out in the OBC and that this be reflected in the Funding Conditions. This will be subject to the ongoing requirement for NHSL to seek to minimise construction costs and operating costs.

As noted in Recommendation 20 of the Project Review, there are a number of elements within the overall cost which are considered too high, for example the allowance for post financial close design costs, and yet others which seem relatively low for example, the external wall elements. It is expected that NHSL will work through the various issues raised in the recommendations in the Project Review to develop further the Project within the overall construction cost cap.

Capital Construction Cost: **NPD Element : Inflation**
Recommendation 6 : That the construction cap will be set on the basis that inflation allowance is reassessed and recast periodically up to financial close by reference to any difference (positive or negative) between (a) the cost inflation from the pricing base date that is implied by NHSL's forecast and (b) the cost inflation from the pricing base date implied by the forecast (or reasonable extrapolation) of the same index at the time (assuming financial close is not delayed beyond an agreed date). NHSL is expected to limit

project scope or design creep to ensure that any apparent surplus inflation allowance is not utilised. The Funding Conditions should reflect these arrangements.

Lifecycle Cost and Hard FM costs
Recommendation 7: That the lifecycle estimate of £27/m2 be used as the estimate for the time being on the basis that it is monitored as the procurement progresses as outlined above.

Affordability: Level of the Unitary Charge
Recommendation 8:
If the discrepancy referred to in the foregoing letter is not resolved prior to approval of the OBC, the Funding Conditions should make it clear that the there is not at this stage a commitment for SG support at the level indicated on page 49 and 50 of the OBC. Rather there is SG support to their share of the input costs, subject to the conditions of the approval, and that the discrepancy should be resolved before the OJEU is advertised. As with other pre OJEU issues, this would checked as part of the Key Stage Review process.

The OBC states that the contribution of the University of Edinburgh will be confirmed at FBC stage and that details of contributions from charities will be further developed at FBC stage.

We would suggest that the Funding Letter sets out how this contributions will feed into the calculation of Scottish Government revenue support for the Project.

Governance
Recommendation 9:
That a comprehensive delegation scheme should be put in place before the issue of the OJEU.

Resourcing
Recommendation 10:
That the Board should provide a written commitment, before the issue of OJEU, that an appropriate additional resource to provide commercial PPP experience, as part of the project team, will be put in place as soon as possible and that the resource should in any event be in place prior to the issues of the ITPD documentation.

Note: Planning Permission Decision Notice to be covered if not issued pre OBC: see above.

SFT
17 February 2012

From: Donna Stevenson
Sent: 03 April 2012 16:04
To: Andrew Bruce
Subject: FW: RHSC/DCN OBC Clarification Issues

Andrew
This is just for background as I will refer to it in my update to Iain this afternoon.

Regards

Donna

Associate Director
Scottish Futures Trust

Mobile [redacted]
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www.scottishfuturestrust.org.uk

-----Original Message-----
From: Donna Stevenson
Sent: 26 March 2012 10:49
To: 'Currie, Brian'
Cc: [redacted]
Subject: RE: RHSC/DCN OBC Clarification Issues

Brian

Further to my earlier email on the KSR, it would be helpful if you could come back to me on the final pre OBC clarification issues which I raised from SFT's perspective.
Regards

Donna

From: Donna Stevenson
Sent: 08 March 2012 15:46
To: Currie, Brian
Cc: [redacted]
Subject: RHSC/DCN OBC Clarification Issues

Brian

I refer to our telephone conversation this morning when we went through the additional clarification points which we had following the response which had been sent by the Board to Mike Baxter. As I said, Mike had asked that I close off the points with you directly.

For ease of reference I have included below our initial clarification questions below and included the update discussion which we had on the phone this morning in italics. I have noted the issues where no further update is required pre OBC approval. It would be helpful if you could come back to me on the final issues, as soon as possible.

1. Negotiations with Consort Healthcare (ERI) Limited (Consort)

1.1. In relation to SA6 we await confirmation from the Board before approval of the OBC:

1.1.1. that all of the technical discussions which have recently been taking place with Consort and utilities undertakers as regards substation and utilities connections have now been resolved to the Board's satisfaction and that SA6 now accommodates all of the Board's requirements in relation to the changes to the Project Agreement and the leases to enable the Project to be developed, including connections to the substation, subject to the agreement to carry out the Enabling Works;

Update: Appendix 1 flags a number of risks and in particular says that

"SA6 does not include rights to install cables from the substation (to be constructed on Car Park F) to RHSC/DCN through NRIE. NHS Lothian intends to lead the cables through the Bioquarter service strips. If this is not possible subsequent agreement will require to be reached with Service Co.

As I said, I had understood from speaking with Iain Graham has advised that this issue had been resolved. You said you would clarify the position with MacRoberts and come back to me with the definitive position.

1.1.2. whether contracts have been concluded with University of Edinburgh and Careshare (the current occupier of the crèche) for the amendment or renunciation of their leases required as part of the arrangements.

Update: As I said, I understand that discussions are in process and we would expect the contracts to be concluded prior to the issue of the OJEU. No further update required pre OBC approval.

Can the Board please provide an updated programme showing the expected dates for finalisation of the agreement of scoping and pricing of the Enabling Works, agreement of the terms of a supplemental agreement and approval from all of Consort's banks and how these dates correlate with the programmed dates for issue of OJEU and competitive dialogue

Update: : Latest programme shows SA for the 6 Enabling Works approval by the end of April and competitive dialogue in June so this is consistent with the discussions of requirements that the approval for Consort and funders would be in place pre commencement of competitive dialogue. No further update required pre OBC approval.

2. Project Review

2.1. In relation to the Board's response to recommendations in Appendix 2:

2.1.1. on recommendation 5 the Board says that "Review of single room accommodation within the RHSCE has been undertaken in tandem with the recent Bed Modelling review. The ratio of single bed provision remains. The rationale for the proportion of single rooms to be included within the design brief".

It would be helpful if the rationale could also be explained for the purposes of the consideration of the OBC;

Update: The same issue was raised in other comments on the OBC and the issue of the proportion of single rooms is one to be resolved with SGHSCD.

2.1.2 on recommendation 12, which recommended that the Board undertake an option appraisal to determine the optimum catering methodology for patient and non-patient catering to deliver best value for money the Board, says that a Catering Strategy is being prepared by the Facilities Management Directorate with an end date of January.
Can the Board please provide a copy of the option appraisal underpinning the strategy or advise when it will be available?; and
Update: Catering paper provided to the January Project Board: The paper of 10 January says that it is reasonable to assume that, broadly speaking, the overall spatial requirements for the different options are similar.
You confirmed when we spoke that there was only marginal cost change in the overall area in moving to the full production kitchen method. No further update required pre OBC approval.

2.1.2 since the Board response was collated in November 2011, the final form of the Project Review was issued and it contains recommendations in connection with cost benchmarking covering Net to Gross Areas (Recommendation 15) and Capital Costs (Recommendation 20). It would be helpful if the Board could provide its response to those two recommendations.

Update : Updated action list provided with NHSL's response. SFT maintains it position that that that the level of post FC design fees is higher than benchmarks : the overall construction cap has been agreed. SFT is discussing with NHSL the question of the mandatory or non mandatory nature for communication space pre issue of the ITPD documentation; , the targeting of the net to gross ratio needs to be an ongoing process and reflected in the ITPD documentation. No further update required pre OBC approval.

2.1.3 Can the Board please advise of any changes to the scope from that reflected in TC4?
Update : No change in scope advised : OBC reflects Technical Cost 4. No further update required pre OBC approval.

2.1.4 The Project Report does not comment on the projected costs of the non NPD elements of the Project in respect of which the Board is seeking capital funding, as these are outwith the SG revenue support of the NPD element of the Project. We note that the Enabling Works element of these costs is the subject of ongoing discussions with Consort and the Board has advised that it expects to obtain fixed costs, representing a maximum price, subject to subsequent adjustment as the design is refined, by the end of February. This process should allow the significant levels of optimism bias which are included within the OBC relating to these works to be reconsidered
Update : For SGSCHD to consider with NHSL

3. Governance

Could the Board please clarify the issues to be covered by the delegation scheme referred to in the action plan and the timescale for that being put in place.
Update : Terms of Reference for Project Board considered at the Project Board in January We understand that this is being considered further by NHSL and we would expect the revised delegation to be in place pre issue of OJEU. No further update required pre OBC approval.

4. Resourcing

Could the Board please provide its proposals for augmenting its team with someone with suitable commercial PPP expertise.

Update : SFT have offered assistance and discussions are ongoing: we would expect the additional resource to be in place pre submission of the ITPD documentation at the latest. No further update required pre OBC approval.

5. Unitary Charge
Discrepancy in unitary charge between the financial model and SFT's calculations to be resolved.
Update : Agreed that no unitary charge affordability level will be disclosed to bidders. No further update required pre OBC approval.

6. Planning Permission in Principle
The OBC says that planning permission in principle was approved by Edinburgh City on 8 December 2011, subject to a Section 75 legal agreement being completed. We have asked the Board to confirm that it is satisfied that it will be able to comply with any conditions which have been or are to be attached to the consent and that none is unusual or requires third party consents, other than the known requirement for Consort to approve and carry out the Enabling Works.
Update : You confirmed on the telephone that there are no unusual or unexpected conditions in the planning permission or section 75 agreement.
We would expect the Decision Notice to be issued before the launch of the procurement.
7. Utilities : the OBC states at Figure 32 that the Utilities will be provided via NPD Co. It would be useful to set out these arrangements in a fuller form such that they can inform the ITPD documentation and discussions with potential bidders.
Update : to be included on updating of the OBC text.
7. Market Interest
Could the Board please advise as to the level of interest which has been expressed from potential bidders and the proportion of whom have previously bid successfully for UK acute hospital PPP projects.
Update : List of interested parties was not attached to NHSL's responses. You confirmed that you would arrange to send the list through to me.
8. Letters of Support: to be included as Appendices: for SGSCHD

Regards

Donna

Donna Stevenson
Associate Director
Scottish Futures Trust

Mobile [redacted]
Direct [redacted]
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Royal Hospital for Sick Children and Department of Clinical Neurosciences at Little France

NHS Lothian

ACTION NOTES

Commercial in Confidence – not disclosable under the Freedom of Information (Scotland) Act 2002

Meeting Title: RHSC + DCN – Little France – PROJECT STEERING BOARD #13

Date/Time: 11th May, 2012 / 1.00pm

Location: Craigmillar Room, PEC, RIE, Edinburgh

Attendees:	Jackie Sansbury	Chief Operating Officer – NHSL (Chair)
	George Walker	Non Exec Director - NHSL
	Peter Reekie	Director Finance + Structures – SFT
	Iain Graham	Director of Capital Planning and Projects – NHSL
	Carol Potter	Associate Director Finance - NHSL
	Brian Currie	Project Director – NHSL
	Susan Lloyd	Partnership Lead – NHSL
Apologies:	Susan Goldsmith	Director of Finance – NHSL
	Mike Baxter	Deputy Director (Capital + Facilities) - SGHD
	David Farquharson	Medical Director – NHSL
	Fiona Mitchell	Dir. Ops – NHSL - Women's, Children's + Neurosciences
	Stuart Wilson	Director of Communications - NHSL
	Norman Kinnear	Major Capital Projects Advisor – SGHD
	Chris Bowring	Director of Finance – NHS Fife

NOTES

Item		
1.	**Previous Notes + Matters Arising**	**Lead**
	Revisions were agreed to previous notes (see copy attached).	
	Susan Goldsmith and Alan Payne to be consulted as to minimum attendance to form quorum.	**BC**
2.	**Dashboard**	
	Off Site Flood Works have been identified as necessary following flood modelling exercise recently undertaken by Arup. Scope and cost yet to be determined. Land registry search underway to determine ownership.	**BC**
	SA6 sign off by all Consort's funders has made no progress since last meeting. A proposal has been given to Consort by the last remaining bank to enable them to approve. However, this would require all funders to agree and first indications are that this will not be possible.	
	The issue, as far as NHSL understand, is not in relation to SA6 as such rather a financial issue between the bank in question and Consort.	
	JKS asked what timescale is anticipated to resolve this problem and what and when needs to be escalated?	
	It was noted that the issue will be taken to the Main Board on 23 May and thereafter to a Consort / NHSL Board to Board meeting on the 28th May.	**SG**
	GW commented that it is essential that the Main Board have clarity on the possible outcomes and steps necessary to resolve.	**SG / IG**
	Fundraising Strategy update to be provided by SG at next meeting.	**SG**

Royal Hospital for Sick Children and Department of Clinical Neurosciences at Little France

ACTION NOTES

Commercial in Confidence – not disclosable under the Freedom of Information (Scotland) Act 2002

Item		
3.	**Equipment Update**	
	Paper as tabled was noted.	
4.	**Approach to Reference Design**	
	Paper as tabled was approved.	
5.	**Year End Financial Report**	
	Paper as tabled was noted	
6.	**ANY OTHER BUSINESS**	
	JKS asked for an updated cost per month for delay to the delivery of the project.	**BC**
7.	**DATE & TIME OF NEXT MEETING**	
	Board Room 1 , RIE , 1.00pm – 3.00pm, 8th June 2012	**All**

NHS Lothian

RE-PROVISION OF THE ROYAL HOSPITAL FOR SICK CHILDREN AND DEPARTMENT OF CLINICAL NEUROSCIENCES AT LITTLE FRANCE

INFORMATION MEMORANDUM AND PRE-QUALIFICATION QUESTIONNAIRE FOR APPOINTMENT OF NPD PARTNER

CONTENTS

FOREWORD

Dr Charles Winstanley
Chairman, NHS Lothian

Lothian has a long history of being at the forefront of medicine and research within Scotland and the world.

Our Royal Hospital for Sick Children (RHSC) and Department of Clinical Neurosciences (DCN) have played pioneering roles in developing Scotland's healthcare.

The RHSC has been saving children's lives for over 150 years and has established a reputation as a world leader in a number of fields, including the development of keyhole surgery in children. Today, the hospital cares for over 100,000 children and young people a year from across Lothian and beyond.

The first neurosurgical unit in Scotland opened in Edinburgh in 1937 and DCN has recently celebrated 50 years in its current home at the Western General Hospital. When it opened the unique theatre design attracted worldwide attention and the unit has continued to play an important role in advancing neurosurgery.

Our vision for this project will ensure that Lothian continues to lead the way in these fields. It will allow us to deliver the highest standards of care and pioneer new treatments. It will provide a safe, comforting and healing environment which promotes recovery and has been designed to meets the needs of the wide range of age groups who will use the facility.

This is an exciting project and the Lothian NHS board is looking forward to working in partnership with the private sector to deliver our vision and create new centres of excellence for children, young people and for neurosciences on the Little France site.

Tim Davison
Chief Executive, NHS Lothian

NHS Lothian is focused on improving the quality and standards of care while increasing productivity and creating an organisation that is best placed to meet the needs of our population in Lothian now and in the future.

We are committed to maintaining Edinburgh's reputation as a world-class centre for medicine. Our project to re-provide services from the Royal Hospital for Sick Children, Child and Adolescent Mental Health Service and the Department of Clinical Neurosciences at Little France will help us to provide the people of Lothian with facilities and services that ensure they receive the highest possible standards of care.

The benefits of having children's, maternity and adult services on the same site are well documented. This new building will bring the pieces of the jigsaw together to create a centre of excellence at Little France. Having paediatric care, specialist neonatal care, neurosciences and adult and children's emergency departments all on one site will ensure that teams can share experience and expertise for the benefit of patients.

The proximity to the University Medical School and the BioQuarter places the facility at the heart of one of the most successful and renowned medical and research communities in the world, improving opportunities for partnership working and bringing research to the bedside.

Healthcare is moving forward at incredible speed. Through this procurement process we are looking for a building that will adapt to meet the changing demands on services, ensuring we can take full advantage of future developments.

This Information Memorandum and Pre-Qualification Questionnaire marks the beginning of the process for selecting a partner who will develop and maintain this new facility and I am very much looking forward to engaging with you in this process.

1 EXECUTIVE SUMMARY

1.1 Introduction

Plans to build a replacement for the current Royal Hospital for Sick Children (RHSC) and for a new Department of Clinical Neurosciences (DCN) have been in the making for several years.

In November 2010, the Scottish Government set out proposals to take forward a number of capital infrastructure developments across Scotland using the non-profit distributing (NPD) model.

The re-provision of RHSC and DCN were highlighted as projects to be procured through this new funding model. Since then the Board has worked closely with the Scottish Government and the Scottish Futures Trust to develop the outline business case for a combined building.

The Board is now inviting, by means of issuing this Information Memorandum ("IM") and Prequalification Questionnaire ("PQQ") to interested parties following a contract notice in the Official Journal of the European Union placed on [date to be inserted once confirmed] (the "OJEU Notice"), applications from Candidates who can fulfil the requirements of designing, building, financing and maintaining (DBFM) the new facility.

Those interested in being shortlisted are required to complete and submit the PQQ which forms Annex 1 to this IM, the Statement of Good Standing which forms Section F to Annex 1 to this IM and any other documents as required in accordance with this IM and PQQ.

In accordance with 6.4 the deadline for receipt of completed PQQs is [XXXX] 2012.

1.2 Strategic context

The Board's principal purpose is to deliver the Scottish Government's objective of a Healthier Scotland, and other national strategic objectives are also reflected in the Board's strategic goals.

The Board has five high-level strategic goals:

- to deliver and sustain high quality care and treatment
- improving health and reducing health inequalities
- to embrace advances in medicine, technology and information
- to be at the forefront of research and leadership and
- to be an exemplar employer

There are a number of common drivers behind this project, which reflect the quality ambitions for NHS Scotland to provide appropriate services for all, at the right time, in a suitable environment with minimal waste or harm.

The options available to the Board were appraised for their benefits and risks, and their financial affordability. The preferred option identified is a stand alone new build combining services from the RHSC, child and adolescent mental health (CAMHS) and DCN on the existing site of the Royal Infirmary of Edinburgh (RIE) at Little France, Edinburgh.

1.3 The vision

The Board's vision is to create a world-class facility founded in Lothian's finest traditions of healthcare and medical research. It will allow the Board to ensure the highest standards of care, pioneer new treatments and provide a safe, spacious, light and comforting environment which promotes recovery and meets the needs of patients and their carers.

1.4 The opportunity

In accordance with the Scottish Government's Non-Profit Distributing (NPD) initiative, the Board is now seeking to procure through a competitive dialogue procedure a NPD partner who will form a NPD company (the "Project Co") for the delivery of, including the design, construction, financing and the provision of certain non-clinical management services, a new facility for a combined stand-alone DCN and RHSC.

The Project will also include: the delivery of a dedicated energy centre and FM goods yard to service the facility, certain interface enabling works, installation and commissioning of Information and Communications Technology (ICT) infrastructure and the supply, installation and maintenance of other associated works. The Project will include some elements of equipment (excluding specialist medical) and FM services including reactive and planned maintenance, associated helpdesk facility, grounds maintenance, utilities procurement and management, pest control and external fabric cleaning.

The Project's capital design and build value is estimated at c. £150m to £175m (excluding VAT).

1.5 The site

The planned location for the new facility is at Little France, a site in the south east of Edinburgh, home to the RIE and the University of Edinburgh Medical School and adjacent to the Edinburgh BioQuarter development.

1.6 Reference design work to date

The Board has, in conjunction with experienced private sector organisations, undertaken a significant amount of work to develop a reference design for the Project. Planning permission in Principle was received from the City of Edinburgh Council Planning Department on 5 April, 2012.

Parts of the information that relate to certain aspects of operational functionality will be mandatory, as will be set out in the invitation to participate in dialogue (ITPD) documentation. The reference design shall be made available to Candidates at the bidder's day as outlined in 5.5.

1.7 Stakeholder support

The Scottish Government, who will provide revenue support, approved the Outline Business Case for the Project on 19 September 2012.

The new development will be home to a number of regional and national speciality services and as a result will receive revenue support from NHS Scotland and other health boards in the South East and Tayside region.

A project stakeholder board has been established to ensure these organisations and other interested groups are kept informed of developments in the Project.

1.8 Outline of this Information Memorandum

- Section 2 provides background and details of the contracting authority – Lothian NHS board
- Section 3 provides an overview of the project and associated opportunities
- Section 4 describes the proposed site for the new facility and work completed to date by the Board and their advisers
- Section 5 describes the project management arrangements that the Board has in place
- Section 6 provides information on how the pre-qualification questionnaire (PQQ) should be completed and submitted
- Section 7 details conditions for participation
- Section 8 describes the evaluation process that will be applied to PQQ submissions
- Annex 1 is the PQQ form.

2 THE CONTRACTING AUTHORITY

2.1 About the Board

The Board provides a comprehensive range of primary, community-based and acute hospital services for the populations of Scotland's capital city of Edinburgh, Midlothian, East Lothian and West Lothian.

Serving around 800,000 people and employing 24,000 staff, it is the second largest health board in Scotland. It was established in 2001 as the umbrella organisation for all Lothian health services in the belief that working together across all areas of health is the best way to provide care for patients.

Over the years, patients and staff have benefited from the creation of a more streamlined, patient-centred structure and from an integrated approach to planning and delivering healthcare services.

More than £1.4 billion a year is invested by the Board in health care services, which are aimed at preventing ill health wherever possible, and are provided by local health centres and hospitals.

The organisation also provides a wide range of specialist services for people from across Scotland, including liver and kidney transplantation, neonatal intensive care, cancer services and complex surgery.

In any one year, there are more than 4.4 million patient contacts - more than 90% of these are in primary and community settings.

Much of what the Board does is delivered in partnership with other agencies and organisations, including local authorities, universities, and voluntary sector and community groups.

NHS Lothian comprises the following:

- Lothian NHS Board
- University Hospitals Division
- Community Health (and Care) Partnerships

2.1.1 Lothian NHS Board

With its headquarters at Waverley Gate in the heart of Edinburgh, the Board's overall purpose is to ensure the efficient, effective and accountable governance of the organisation and to provide strategic leadership and direction focused on outcomes.

The Board is responsible for investing in health care services to monitor, protect and improve the health of the people of Lothian and beyond.

2.1.2 Acute Hospital Services

The University Hospitals Division (UHD) provides a comprehensive range of acute adult and children's services to the population of Edinburgh and the Lothians, and more specialised health services for patients from all over Scotland.

The Royal Infirmary of Edinburgh (RIE), the Western General Hospital and St. John's Hospital, Livingston are the three main adult acute teaching hospital sites.

The existing Royal Hospital for Sick Children is a teaching hospital that provides a comprehensive range of general and specialist services for children, locally, regionally and nationally.

Other specialist hospitals provide services including acute psychiatry, care of the elderly, learning disabilities and rehabilitation.

2.1.3 Community Health Partnerships

The Board has four Community Partnerships:

- Edinburgh Community Health Partnership
- Midlothian Community Health Partnership
- East Lothian Community Health Partnership
- West Lothian Community Health and Care Partnership

These partnerships provide a focus for the integration between primary care and specialist services, and with social care, and ensure that health improvement is placed at the heart of both service planning and delivery. They have played a key role in making sure that more people receive clinical care closer to their homes and in community settings.

2.2 Achieving excellence

The Board has set five strategic goals which the organisation is working towards with the aim of achieving excellence:

1. To deliver and sustain high quality care and treatment
   - treat 95% of all patients in the community compared to 90% currently
   - improve access to care and treatment for all – at the right time and in the right location
   - encourage self care and illness prevention in line with 'shifting the balance of care'
   - provide person-centred, safe, effective care, continually improving the care experience for people who use our services.

2. Improve health and reduce health inequalities
    - work with partners to reduce inequalities and narrow the poverty gap
    - work with partners to enhance physical wellbeing and improve people's health
    - involve people in how the Board plans and deliver services, develops policies and strategies to create a mutual NHS.
3. Embrace advances in medicine, technology and information
    - develop better and more robust information systems to support delivery of services
    - lead and embrace technological advances in order to improve care and encourage self care.
4. Be at the forefront of research and leadership
    - be at the forefront of research and development
    - continue to develop as a centre of excellence in research and development
    - develop the Edinburgh BioQuarter jointly with partners.
5. Be an exemplar employer
    - be an employer of choice and work in partnership with our staff; and
    - improve productivity and quality while reducing cost.

The Board is committed to increasing social capital and addressing inequalities, deriving benefit for the local communities, such as through proactive application of community benefits clauses in procurement.

These common goals run throughout the organisation's strategies and plans for the future. They reflect the national aims of the Healthcare Quality Strategy for Scotland to maximise the contribution the NHS can make to support the people of Scotland to live longer, healthier lives and to participate more productively, both economically and socially.

2.3 Financial performance

As in previous years, the Board achieved its financial targets for 2011/12. The Scottish Government sets three budget limits at Health Board level on an annual basis.

These limits are:

- Revenue resource limit – the resource budget to fund ongoing operations
- Capital resource limit – the resource budget for new capital investment
- Cash requirement – the financing requirement to fund the cash consequences of the ongoing operations and new capital investment.

	Limit set by SGHD £'000	Achievement in 2011/12 £'000
Core revenue resource limit	£1,143,227	£921 under spend on limit
Non core revenue resource limit	£102,307	£1 under spend
Core capital resource limit	£53,742	Break even
Cash requirement	£1,339,000	£812 under spend

2.4 About the Royal Hospital for Sick Children (RHSC)

The existing RHSC provides a comprehensive range of dedicated children's services, caring for over 100,000 children, up to the age of 13, and to age 18 in certain cases, from across Lothian and beyond.

Services include accident and emergency, acute medical and surgical care, specialist surgical and medical care, haematology and oncology, day care, and critical care. The busy outpatients department cares for more than 34,000 patients a year. A number of regional and national services are hosted by RHSC including the Paediatric Intensive Care Unit for the east of Scotland and the national Scoliosis service.

The hospital has been based at its current site in the centre of Edinburgh for almost 120 years. A three floor extension was added in 1995 and the vacated wards created a new Paediatric Intensive Care unit.

Based on current projections, the emergency department for children and young people will expect to see around 50,000 attendances a year by 2016. The hospital is also expected to admit 9,500 inpatients, treat 8,000 day cases and see 64,000 outpatients under 18 years of age.

2.5 About the Department for Clinical Neurosciences (DCN)

The neurosciences centre in Edinburgh is not only for the people of Lothian; it is where patients from the Borders, Dumfries & Galloway, Forth Valley and Fife are transferred for specialist care. It covers a population of 1.6 million across these areas, while for some specialist services it covers the 2.8 million people living on the east side of Scotland.

The department is currently located at the Western General Hospital, Edinburgh and has three wards, operating theatres, diagnostic services (e.g. scans) and an outpatients department. An outpatient service is also provided at St John's Hospital in Livingston and at the Royal Infirmary of Edinburgh. The outpatient service for children is provided in the existing RHSC in Edinburgh.

Based on current projections, the DCN in 2016 will admit 3,600 inpatients from across the region, treat 1,200 day cases, and see 21,000 outpatients.

2.6 Little France: Edinburgh's BioQuarter

Edinburgh's reputation as a world-class centre of excellence for medicine is built on almost three centuries of teaching and world-leading research. Today, Edinburgh boasts the largest concentration of high-quality medical research in Britain outside Oxford. The Little France site combines this research with practical application as the Royal Infirmary of Edinburgh (RIE) and the University of Edinburgh Medical School sit side by side.

The RIE is a major acute teaching hospital with more than 900 inpatient beds. The hospital opened in 2003 and has Scotland's busiest Accident & Emergency Department. It provides a full range of acute medical and surgical services for patients from across Lothian and specialist services such as cardiac surgery and kidney, liver and bone marrow transplants for the South East of Scotland and beyond.

The hospital is also home to the Simpson Centre for Reproductive Health, Scotland's biggest maternity unit, where over 6,000 babies are born every year.

The University of Edinburgh's medical school and research institute provides significant teaching and research facilities on site. The Queen's Medical Research institute houses more than 600 researchers and a range of university and Medical Research Council research centres. The Chancellor's Building is home to the Euan MacDonald Motor Neurone Disease research centre, and the Multiple Sclerosis research centre which is building the Anne Rowling Building.

Overall the BioQuarter is home to a research community of more than 1,200 scientists.

2.7 Project background

Plans for this project have been developed over a number of years.

Specific factors driving the need for change in children's and young people's services and clinical neurosciences are:

- the age and limitations of the current premises
- the need to deliver sustainable specialist services whilst meeting the challenge of relatively small numbers of patients and small numbers of clinical experts
- the national policy for Paediatric Intensive Care Units in Scotland, which have been commissioned under NHS National Services since 2007, sited in two hospitals for children and young people
- the need to provide care for young people up to 16 years of age, and up to 18 in some cases, in an age appropriate facility
- the need to deliver neurosurgery on the same site as adult and children's emergency departments
- the need to maintain strong links with the University of Edinburgh's Division of Clinical Neurosciences and their planned Institute of Neurosciences at Little France.

Clinical benefits of integrating the services into one building, supporting the Board's and national strategic ambitions include:

- the ability to deliver paediatric and adult neurosurgery in the same theatre suite, maximising the utilisation of specialist equipment (e.g. intra-operative MRI) and expert staff, with direct internal access to age-appropriate critical care and wards
- mental health services on the same site as acute hospital services for children and young people, supporting their physical and psychological care
- joint-working and economies of scale in high-cost specialist clinical areas such as theatres and radiology
- the opportunity to improve emergency access to services by incorporating a helipad on the roof of the new build.

The options available to the Board were appraised for their benefits and risks, and their financial affordability. The preferred option was a standalone new build combining DCN and RHSC on the existing site of the Royal Infirmary of Edinburgh (RIE) at Little France, Edinburgh.

In November 2010, the Scottish Government set out proposals to take forward a number of capital infrastructure developments across Scotland using the Non-Profit Distributing (NPD) model. The RHSC and DCN were highlighted as projects to be procured through this new funding model. Since then the Board has worked closely with the Scottish Government and the Scottish Futures Trust (SFT) to develop the outline business case for a combined building.

2.7.1 Involving people

The Board is committed to involving people, be they patients, staff or members the general public, to help shape and improve services.

Extensive public consultation has taken place in the development of the proposals for this Project and specific stakeholder groups have been set up to ensure that patients and partner organisations have an understanding and input into the Project.

The new development will be home to a number of regional and national speciality services and as a result will receive revenue support from NHS Scotland and other health boards in the South East and Tayside area.

A project stakeholder board has been established to ensure these organisations and groups are kept informed of developments in the project.

The stakeholders to the Project can be summarised under the headings below:

- the Board, comprising Lothian Partnership Forum, individual clinical design groups, facilities management, support services groups
- patient and carer representative groups
- project work stream groups e.g. commercial, FM, design and construction groups
- statutory authorities and public utilities including the Health & Safety Executive, City of Edinburgh planning department as well as other bodies such a Architecture and Design Scotland (A&DS) who are a statutory consultee through the planning process
- funding bodies comprising Scottish Government, Lothian NHS Board, other NHS Boards, charities, the University of Edinburgh and the Scottish Government.

The Board has demonstrated its commitment to working with stakeholders prior to the establishment of the Project and will continue to inform, engage and consult stakeholders for the duration of the Project, and to involve them in post-project evaluation.

The communications and engagement plan for the Project, developed in conjunction with the Scottish Health Council, details the plans for involving and informing staff, patients, the public and other stakeholders.

There has been ongoing dialogue with the City of Edinburgh planning department throughout the development process. This has included engagement with all statutory bodies and other key stakeholders as necessary.

The Board is engaged directly with third sector and voluntary organisations to develop the community benefits agenda and create shared learning opportunities from projects and new services. The Board actively pursues opportunities for apprenticeships and local sourcing of products to support the local and national economies.

2.7.2 Affordability

The Scottish Government, through the Scottish Government Health and Social Care Directorates, has confirmed the terms under which it is prepared to provide financial support to the Board and the Board is confident and content that these terms can be satisfied.

It is intended that the Project is to be fully financed by the successful NPD partner inclusive of the design, construction and maintenance. However, in accordance with section II.1.5 of the OJEU Notice, the Board reserves the right to consider alternative financing, funding and/or contractual arrangements to support the delivery of the Project in line with other projects in the NPD programme. A copy of SFTs guidance note dated December 2011 regarding this matter is available for interested parties to download at www.scottishfuturestrust.org.uk/docs/583/OJEU Guidance to Procuring Authorities within the NPD Programme.doc

The Board confirms that the financial consequences will ultimately be managed as part of their financial planning process; with significant support from the Scottish Government in terms of the revenue funding for the unitary charge, as well as support from other NHS Boards and partners. Further details of the affordability envelope for the project will be included within the ITPD.

3 THE PROJECT AND OPPORTUNITY

3.1 Introduction

National policy on the provision of paediatric and neuroscience services provides a framework for redesigning services, developing new models of care and in turn, identifying the facilities required to support the provision of high quality care in fit-for-purpose accommodation. This framework is reflected in the redesigned models of care and the plans for the new combined facility.

The Project will co-locate services currently provided at the existing Royal Hospital for Sick Children based in Sciennes, Edinburgh and CAMHS based at the Royal Edinburgh Hospital, Morningside with the clinical neuroscience services currently provided out of the Western General Hospital on Crewe Road South, Edinburgh, on the existing RIE site adjacent to the RIE Hospital at Little France.

The new facility is to be delivered as a standalone new build but, as it will be located on the existing site of the RIE, there will be a physical link between the new facility and the RIE at ground and first floor levels. These links will ensure clinical functionality and efficiencies, particularly between the emergency departments, theatres and critical care departments on site. There shall also be operational links between the new facility and the RIE in respect of connecting services mainly in terms of infrastructure associated with ICT, pneumatic tube system and fire alarm systems.

Facilities required include:

- inpatient beds
- day case facilities
- outpatient clinics
- emergency care
- operating theatres
- radiology and physiology departments
- rehabilitation facilities
- roof top helipad
- dedicated energy centre and goods delivery yard

3.2 The opportunity and anticipated scope

The Board is seeking an innovative NPD partner to make its vision for the Project a reality and provide a state of the art new facility for its local and national specialist services.

This Project will give the NPD partner the opportunity to create a long term relationship with the Board as a key participant in this significant Project. A summary of the anticipated scope of service to be provided by the NPD partner is contained within this section of the IM. This is indicative only and a detailed Board's Construction Requirements Document will be provided to shortlisted Candidates as part of the ITPD documentation.

3.2.1 Design and construction

Using the work undertaken to date, as referred to in 4.2, the Board are looking for innovative proposals to meet its requirements. At ITPD stage, shortlisted Candidates will be asked to provide high quality designs as part of their proposals, building on work completed to date and described in the reference design for the Project.

The focus will be on providing age appropriate facilities in a safe, caring and healing environment. This ranges from suitable facilities for young children, an adolescent inpatient zone, and accommodation for the adult population of DCN.

Areas for children, young people and adults should have their own identity within the integrated facility. The ethos, environment and needs of these different specialist areas has been considered in planning departmental relationships and patient pathways and this will need to be maintained.

Effective services rely on close adjacencies between related specialties and disciplines. The design brief specifies that routes between departments should minimise travel time and distances for patients and staff in order to maximise clinical safety and efficiency.

The design will incorporate clearly identifiable, friendly and secure children's entrances to their outpatients and ward areas. Recreation space and public facilities outside the wards will also be segregated as far as is practical.

The Board welcomes and will encourage shortlisted Candidates to bring innovation, and expertise from within the UK and/or overseas to develop their own design proposals but it should be noted that certain elements of the design, as they relate to certain aspects of the operational functionality, will be mandatory, as will be set out in the ITPD documentation.

3.2.2 Art and Wayfinding

The integration of art into the architecture and landscape to enhance wayfinding and the hospital environment is an essential requirement of the design. The Board welcomes innovative proposals for interactive art and wayfinding and will work with Project Co to appoint artists to deliver the Board's developing arts strategy.

3.2.3 BREEAM

Candidates will strive to achieve a "Very Good" BREEAM rating in line with BREEAM requirements for health facilities 2011.

3.2.4 Sustainability design and quality

Candidates will be required to promote sustainable development by demonstrating an integrated approach to the social, environmental and economic well-being of the area served, now and for future generations. The facilities will reflect the objectives of any local agenda strategy supported by the City of Edinburgh Council and also satisfy the requirements of all Health and Social care guidance notes associated with sustainability and environmental performance.

The Board supports the importance of enhancing sustainability of the community, regional and national employment and economy. Community Benefits Clauses in procurement support this agenda. Provisions relevant to training and appropriate supply chain contracts and engagement with SMEs are recognised as examples of elements demonstrating sustainable projects.

3.2.5 Enabling works

The extent of any enabling works as they are required will be fully set out within the ITPD.

3.2.6 Operation

Project Co will be required to provide a lifecycle replacement, hard FM service with associated helpdesk facilities including grounds maintenance, utilities procurement and management, pest control and external fabric cleaning.

It should be noted by interested parties that it is anticipated that soft FM services will be provided by a combination of the Board and third party providers. There will be a number of operational interfaces not only with the Board's team but also the FM staff working within the RIE. As a result, Project Co will be required to adopt a collaborative approach to interfaces to ensure that hard and soft facilities services are provided by the Project Co, the Board and the RIE FM team effectively. Key to the success of that relationship will be the quality of the team and clarity of the agreement between the parties.

3.2.7 Energy centre and FM goods yard

A dedicated autonomous energy centre with standby power generation and FM goods yard is required to be provided as part of the Project.

3.2.8 ICT

The Project includes the design, construction and maintenance of a comprehensive and robust infrastructure (e.g. containment, cabling and node rooms) for the facilities in accordance with the requirements of the Board's construction requirements.

However, it should be noted by interested parties that the Board will install hardware (e.g. servers, PCs, printers, scanners), make the final connections (at the application and in computer rooms) and commission the operational system. Future management of the telephone system and IT helpdesk will not form part of Project Co's scope of operational services. Instead, the telephone system and switchboard will be managed by the Board. The IT helpdesk service will also be provided by the Board.

3.2.9 Retail opportunities

The provision of catering and retail services within the new facility does not form part of the Project. Catering and retail services shall be provided by the Board and associated parties, such as voluntary and/or charitable organisations.

3.2.10 Equipment

By reference to the NHS Estates Activity Database (ADB), Project Co will be responsible for the procurement, installation, maintenance and lifecycle replacement of all Group 1 equipment and, the installation of certain Group 2 equipment. Further information relating to equipment responsibilities will be set out in the ITPD.

3.2.11 Variant bids

In accordance with the OJEU notice, Candidates should be aware that no variant bids will be permitted.

It is envisaged that the ITPD will set out certain minimum requirements, including in relation to output specifications and adherence to the reference design (see 1.6). Minimum requirements set out at ITPD stage may, in accordance with the competitive dialogue procedure at the Board's discretion, and where, in compliance with the regulations (including considerations relevant to maintaining a level playing field), be subject to some revision and update during the dialogue phases. Candidates should however be aware that the Board envisages limited scope for change to its output specifications and reference design.

Final tenders will require to meet the minimum requirements set out within the invitation to submit final tenders. Failure to meet stipulated minimum requirements will result in non-compliance.

3.2.12 TUPE

The board does not envisage that the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) will apply to the Project or to any current Board staff.

3.3 NPD structure

The Project will be delivered using the Scottish Government's NPD model. The NPD model was developed and introduced as an alternative to, and has since superseded, the traditional private finance initiative or "PFI" model in Scotland. It has been used in the education (schools) and health sectors. The model has been fine-tuned since it was first introduced and this section summarises the basic principles that will underpin the NPD model as it will apply to the Project.

The NPD Model is defined by three core principles:

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

Projects funded using the NPD model will pay a fixed return to the holders of the junior or risk-bearing debt of the special-purpose vehicle (SPV). All other distributions to equity (i.e. the holders of the shares and junior debt of the SPV) will be prohibited. Surpluses arising after satisfying all precedent lines in the cash cascade, subject to any agreed buffer, will be payable to the Board as a rebate against unitary charge service payments. In this way, returns to investors are capped at the level bid during the procurement process.

Therefore, the NPD model is often referred to as a "not for profit" model. Although contractors and lenders are expected to earn a normal market rate of return as in any other form of privately-finance PPP deal, the NPD model seeks to eliminate uncapped equity returns associated with the traditional PFI model and limit these returns to a reasonable rate set in competition.

3.3.1 Key features of the NPD model:

These key features include:

(a) Corporate structure: the Board will contract with a SPV (referred to in the Project Agreement as "Project Co") which will be majority owned and controlled by the private sector investors. The Board will own a "golden share" in the Project Co which gives it certain controls over the corporate, governance and management structures within the Project Co. The Project Co articles of association must incorporate the mandatory NPD articles, produced by the SFT, that enshrine the fundamental principles of the NPD model

(b) Public Interest Director: one of the Project Co's directors will be nominated by the SFT. The Public Interest Director will bring an independent voice to the Project Co's board and shall ensure a greater degree of transparency and accountability to stakeholders

(c) Refinancing: under the NPD model the Public Interest Director has the right to instigate a refinancing on the same basis as the Board may instigate a refinancing under SoPC4 guidance

(d) Capped returns: this shall ensure that a "normal" level of investment return is made by the private sector and that these returns are transparent

(e) Surpluses: surpluses generated by Project Co shall be reinvested in the public sector

(f) Transparency: the public interest shall be represented in the governance of the NPD structure, which increases transparency and accountability and facilitates a more pro-active and stable partnership between public and private sector parties.

SFT has provided a suite of contractual documents, comprising a NPD Project Agreement and articles that will be adopted for use in this Project, appropriately amended for project and NHS-specific issues. These will be included in Volume 2 of the ITPD.

Further information on the NPD model is available from the SFT website: www.scottishfuturestrust.org.uk.

3.4 Allocation of project risks

The DBFM contact between the Board and the NPD partner will reflect the SFT Standard NPD Project Agreement that will be appropriately amended for project and NHS-specific issues. In particular, the NPD payment mechanism will require to be revised to reflect the fact that the facilities will be required to be available 24/7, with some additional project specific risk allocation.

4 THE SITE AND WORK TO DATE

4.1 Little France site

The planned location for the new facility is at Little France, situated in the south east of Edinburgh, home to the RIE and the University of Edinburgh Medical School.

4.1.1 The RIE

The RIE is a major acute teaching hospital which opened in 2003 and has more than 900 inpatient beds. It is home to Scotland's biggest maternity unit – some 6000 babies are born at the RIE's Simpson Centre for Reproductive Health each year – and Scotland's busiest emergency department.

With a 24-hour emergency department, it provides a full range of acute medical and surgical services for patients from across the Lothian region and specialist services for people from across the south east of Scotland and beyond.

4.1.2 University of Edinburgh

The Chancellor's Building, adjoining the RIE, is part of the University of Edinburgh Medical School and houses teaching facilities, the medical library and research laboratories. It is currently home to the Multiple Sclerosis and Euan MacDonald Motor Neurone Disease research centres. The Chancellor's Building was constructed by Consort Healthcare (Edinburgh Royal Infirmary) Ltd under the terms of the RIE Project Agreement.

The University opened its Queen's Medical Research Institute in 2005 which represented a major milestone in the history of biomedical research in Edinburgh.

The Institute houses over 600 researchers and aims to tackle a wide range of diseases at the most fundamental cellular level. Facilities include MRI and other modern imaging technologies and supporting infrastructure.

The University's Scottish Centre for Regenerative Medicine was opened in the Edinburgh BioQuarter in 2011.

4.2 Work to date

The Board has developed a reference design to confirm operational functionality. The reference design shall be made available to Candidates at the bidder's day as outlined in 5.5, and may be requested by any Candidates unable to attend the bidders day.

4.2.1 Reference design mandatory elements

Certain elements of the information included in the reference design will be mandatory; as will be set out in the ITPD documentation.

4.2.2 Clinical relationships

The way in which the reference design proposal arranges the various components of the Board's brief horizontally and vertically is outlined in diagram 4.2.2. In describing the key clinical adjacencies it is also important to establish some of the existing RIE facilities to which connections must be made.

The provision of the new emergency department must make a direct connection with the existing RIE emergency department in order to maximise the benefits of co-location and to ensure that the arrival of blue-light emergency vehicles is contained in a single area served from one principal road.

The proposed emergency department must therefore occupy a ground floor location adjacent to the existing facility. The location of the new emergency department, adjacent to the existing facilities, also determines the location of the new vertical circulation cores. These have to connect with the new emergency helipad. It is also critical that radiology services are co-located with emergency services, so the proposed radiology facilities must also be on the ground floor, close to emergency services.

The proposed DCN operating theatres must co-locate with the existing first floor RIE theatres and critical care in order to facilitate the transfer of adult patients to and from intensive care and high dependency beds. This physical link will also support the transfer of emergency patients destined for other RIE surgical and critical care services from the helipad.

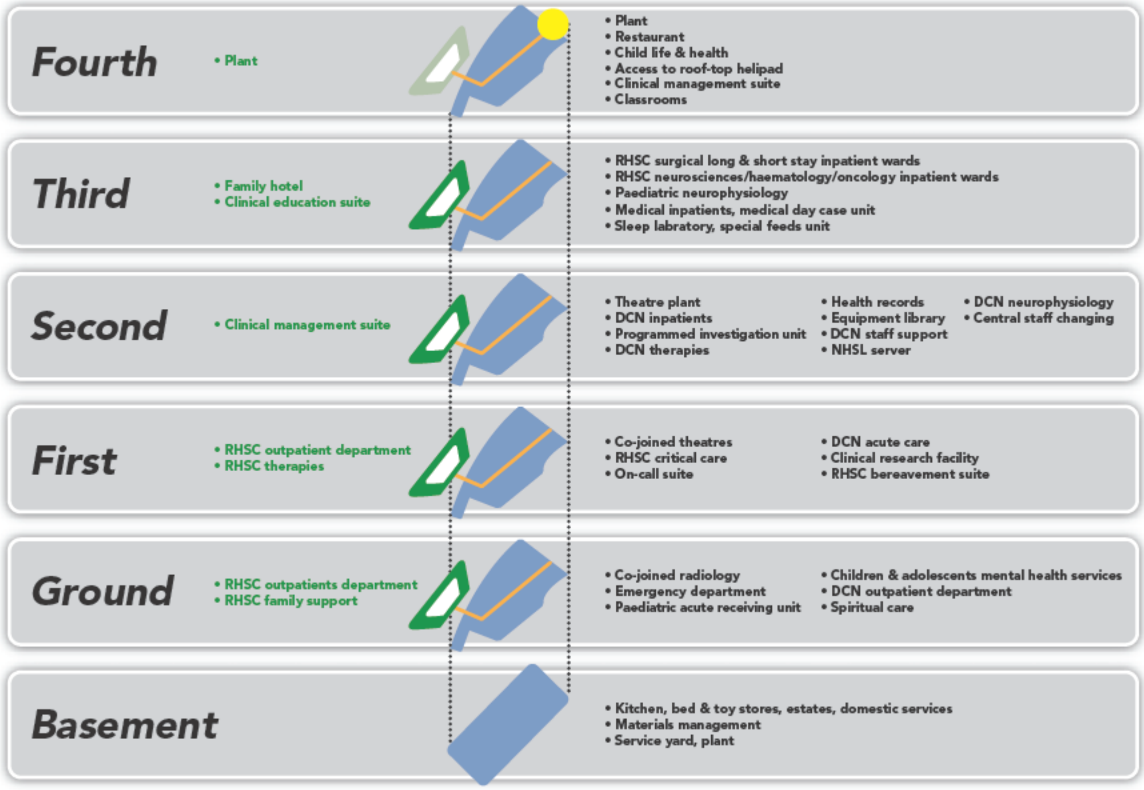
Optimum adjacencies to be achieved with operating theatres include critical care, DCN acute care and surgical admissions.

A further key requirement is the need to arrange inpatient wards serving the children's hospital on a single floor in order to ensure flexibility of services and staffing.

Wards also need to be arranged contiguously as far as possible, in order to allow boundaries between adjoining wards to flex as and when service demands change. Good access to external space both as a visual and physical amenity is also a requirement.

Key adjacencies are as shown on the diagrams below:

Diagram 4.2.2



4.3 Interface with Consort

The RIE was procured as a PFI contract between the former Royal Infirmary of Edinburgh NHS Trust and Consort Healthcare (ERI) Ltd (Consort). The Project Agreement for the RIE was signed in August 1998 and covers a 25 year operational period until February 2028. The RIE was financed, designed and built by Consort Healthcare, and a range of soft and hard facilities management services are provided through the RIE Project Agreement.

The site is leased to Consort thus any site development required Consort approval together with changes to the RIE Project Agreement.

The Board has concluded negotiations on a Supplemental Agreement (SA6) to the RIE Project Agreement which included a land transfer of the site earmarked for the Project. The Supplemental Agreement also covers;

- access during construction
- wayleaves for utilities
- land provision associated with the new sub station
- oversail rights
- right to connect to the RIE

The DBFM contract will reflect these provisions.

4.3.1 Enabling works

Consort is also undertaking certain 'enabling' works on the Little France site in preparation for the Project. These fall into two categories: external and clinical. The external enabling works relate mainly to flood defence and service diversions from the proposed site and are due to be completed prior to financial close. The clinical enabling works within the RIE include changes in critical care, pharmacy and laboratory services and will be completed prior to the new facility opening.

4.3.2 Traffic management

During construction activities for the Project, the RIE shall continue to operate and function as a 24 hour working hospital facility.

Accordingly, interested parties should note that it is of paramount importance to the Board that construction activities by Project Co at the RIE site are respectful of the existing operational needs of the RIE in respect of safe traffic management. The Board wishes to minimise construction traffic using Little France Crescent and intends that the primary construction access to the site will be via a dedicated construction access from Old Dalkeith Road or Little France Drive (i.e. rather than over Little France Crescent).

If such a dedicated access is not technically feasible, would not represent value for money or if construction access is otherwise required over Little France Crescent then access over Little France Crescent will be available. However, it should be noted by interested parties that where construction access is required over Little France Crescent shortlisted Candidates shall be required as part of the Competitive Dialogue to prepare and submit to the Board a Traffic Management Strategy for approval.

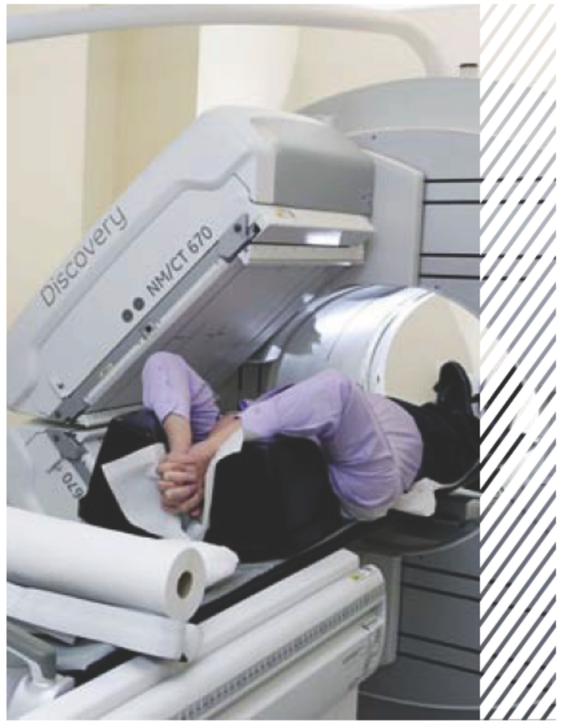
Further details relating to the Traffic Management Strategy shall be provided to shortlisted Candidates in the ITPD, but as a minimum it is anticipated by the Board that it shall be necessary for any traffic management system to recognise the following:

- the health and safety of all users of the RIE site must be safeguarded at all times
- the RIE is a working hospital to which access must be maintained at all times
- a prioritisation of traffic in accordance with the following hierarchy:
  - blue light traffic access and egress;
  - staff, patients and visitors to the RIE (by means of public transport);
  - staff, patients and visitors to the RIE (by means of vehicular access and parking);
  - deliveries, FM supplies and waste collection for the RIE
  - construction traffic for the Project.
- a segregation of construction traffic from other traffic e.g. by way of contra-flow or one way traffic, in so far as practicable and reasonable.

4.3.3 Access strategy

Likewise, interested parties should note that it is of paramount importance to the Board that safe vehicular and pedestrian access to the RIE is maintained at all times. Accordingly, in addition to a traffic management strategy, where permitted works (for example, to install services) are to be carried out outwith the site and may impact upon access to RIE, shortlisted Candidates shall be required, as part of the competitive dialogue, to prepare and submit to the Board for approval an access strategy to allow for the continued access and egress of pedestrians and vehicles to and from the RIE during the relevant construction period. It is anticipated that a similar hierarchy shall apply as with the traffic management strategy.

Further details relating to the access strategy shall be provided to shortlisted Candidates in the ITPD.



5 THE PROJECT MANAGEMENT ARRANGEMENTS

5.1 Introduction

This section describes the arrangements the Board has put in place to ensure the procurement process is as efficient as possible and the interests of the public sector are accounted for at all times. It also outlines the timetable and procurement process.

The Board has a fully resourced in-house team dedicated to the delivery of the Project, supported by a team of specialist, technical, legal and financial advisers.

5.2 The Procurement Team

The proposed structure below shows the Board's resources required for the PQQ evaluation and subsequent dialogue and tender evaluation stages of the procurement process. The structure shows the relationship between a core evaluation team (that will be consistent throughout the process and be the principal assessment body), the evaluation support groups (that will provide technical, legal and financial input as required to support the core group) and, the Project Steering Board (that will ratify decisions made by the core evaluation team).

The procurement co-ordination team will be responsible for managing and overseeing all aspects of communication and engagement with Candidates to ensure compliance with EU procurement rules. This will range from meeting management and document control to overseeing the bid evaluation process and processing clarifications with Candidates.

5.3 Procurement and Evaluation Team structure

Procurement Co-ordination Team

Procurement and commercial representation from the Board and technical advisers.

Project Steering Board – approval and sign off of core evaluation team recommendations

Core Evaluation Team – principal assessment body

NHSL Personnel	**Advisers**
NHSL Project Director	Technical adviser
NHSL Operations	Financial adviser
NHSL Finance	Legal adviser
NHSL Clinical Director	
NHSL Capital Planning	

Evaluation Support – for the Core Evaluation Team

Technical advice (design and construction and facilities management)	**Commercial advice**
Specialist support	**Operational/User support**

5.4 Outline Timetable

Target dates for the procurement process for the Project are as follows:

Stage	Date By
OJEU dispatch	
Bidders' day	
Submission of PQQs	
PQQ evaluation and shortlist	
Issue Invitation to Participate in Dialogue to shortlist	
Phase 1 submission	
Phase 2 submission	
Submission of draft final tenders	
Submission of final tenders	
Announce Preferred Bidder	
Financial close and contract award	
Start on site	
Building operational	

Please note the above dates are indicative only.

5.5 The procurement process

A bidder's day will be held on [date to be inserted once confirmed] which Candidates are invited to attend so as to meet the Board and the project team and learn more about this opportunity. Copies of the reference design will be made available on the day and may be requested by any Candidate unable to attend the bidder day.

This Project is regulated and governed by the Public Contracts (Scotland) Regulations 2012 and any contract awarded shall be to the Candidate who can offer the most economically advantageous tender in accordance with the competitive dialogue procedure. The procurement process will also be conducted in accordance with guidance published by the Scottish Government Health and Social Care directorates and Office of Government Commerce guidance and use the NPD standard form contract, with the payment mechanism and output specifications amended to take account of project and NHS specific issues.

This section describes in summary how the Board intends to procure the solution that satisfies the Board's requirements and is the most economically advantageous tender.

5.5.1 Pre-qualification

Section 6 of this document sets out the completion and submission requirements of PQQ responses; section 7 sets out the conditions for participation; section 8 sets out the methodology to be used by the Board relative to the pre-qualification and selection process. The pre-qualification questionnaire is included at Annex 1.

The Board intends to shortlist three Candidates who will be taken through to the competitive dialogue stage.

5.5.2 Shortlist

The three shortlisted Candidates successfully pre-qualifying will receive the Invitation to Participate in Dialogue (ITPD) which will confirm the award criteria and the arrangements for the next stage of the procurement process.

Drafts of all the relevant contracts (including the DBFM contract) will be made available in the ITPD.

The ITPD shall set out the information for shortlisted Candidates to prepare during the competitive dialogue process, at final tender stage and at Preferred Bidder stage up to and including financial close.

5.5.3 Competitive dialogue

5.5.3.1 Dialogue phase 1

It is proposed that there are three main phases to the competitive dialogue process. The initial phase will involve dialogue on the strategic direction of the Project and development of Candidate's proposals, including technical, financial and legal proposals.

It is proposed that a review at the end of this phase is an informal process rather than a full submission. Shortlisted Candidates will be asked to give a presentation on their outline proposals and work to date. This will be an opportunity for shortlisted Candidates and the procurement team to present initial proposals to the Board representatives who have not been fully involved in the procurement process, but are still significant stakeholders in the Project.

Shortlisted Candidates will be given guidance on the presentation structure and requirements and will be asked to let stakeholders see the presentation in advance to familiarise themselves and frame questions. The presentations will not be formally scored, but comments from stakeholders will be captured and fed back to shortlisted Candidates with salient points informing phase 2 of the dialogue process.

5.5.3.2 Dialogue phase 2

It is proposed that the second phase of competitive dialogue will look at more detailed technical, financial and legal proposals. The second phase will conclude with an invitation to submit detailed solutions. This will require a more formal submission, focusing on key issues including affordability.

Feedback will be given to each shortlisted Candidate and will inform the basis for the remaining dialogue prior to submission of the draft final tender.

In both the phase 1 and phase 2 reviews, shortlisted Candidates will be expected to demonstrate innovation and explain how they intend to address issues around construction and provision of services.

5.5.3.3 Dialogue phase 3 and draft final tender

It is proposed that after the phase 2 review a further round of dialogue and clarification will take place before shortlisted Candidates are asked to submit a draft final tender.

It is proposed that at this stage, shortlisted Candidates will be asked to submit their final proposals in draft form based on an agreed contractual position. Draft proposals will be reviewed for compliance and to ensure they are presented correctly to allow full evaluation to take place at the final tender stage.

Only limited dialogue is anticipated after submission of draft final tenders. This will allow the Board to engage with each shortlisted Candidate to clarify, specify or fine tune their tender.

Dialogue will formally close when the Board is comfortable that one or more solutions are capable of meeting its needs. An Invitation To Submit Final Tender (ISFT) will be issued at this stage. Full details of ISFT requirements will be included in the ITPD.

5.5.4 Final Tenders

When the Competitive Dialogue period concludes, shortlisted Candidates will formally be invited to submit final tenders via an ISFT.

Details of scoring criteria and weightings that will be used by the Board during the evaluation of bid proposals will be described in the ITPD.

5.5.5 Selection of Preferred Bidder

Following receipt of final bids, some further discussions will take place with shortlisted Candidates to clarify their final bid. The Board shall then undertake a detailed evaluation of final bids based on the evaluation criteria specified in the ITPD. Following the detailed evaluation of the final bids, a final evaluation report will be prepared to recommend the Preferred Bidder. This recommendation will be based on the bid that represents the most economically advantageous tender. A standstill period will apply at the point at which the Preferred Bidder is selected and announced.

5.5.6 Financial close

It is envisaged that the Board and the Preferred Bidder shall then proceed towards a position where the DBFM contract can be entered into and signed. At this time the Preferred Bidder shall not be entitled to make material changes to any aspect of its final bid. During this period the Preferred Bidder will apply for and obtain detailed planning approval of the detailed components of the Project, through applications for approval of matters specified in the conditions attached to the planning permission in principle.

In parallel, activity will take place to complete the full business case for the Project and gain all necessary approvals to allow financial close to take place.

It is proposed that a further standstill period shall take place between the date the Board notifies those parties who submitted a tender and the date on which the Board proposes to enter into and conclude the final contract with the Preferred Bidder, if the Board considers a further standstill period to be required or appropriate.

6 COMPLETION AND SUBMISSION OF PQQ RESPONSES

6.1 Introduction

The PQQ assesses the technical capability and capacity, financial and economic strengths of organisations expressing an interest in bidding for the Project.

The Information Memorandum (IM) provides information about the Board and the Project.

The Board wish to be satisfied that, within the parameters of Regulations 23 – 26 of the Public Contracts (Scotland) Regulations 2012, each Candidate selected has the appropriate capacity and resources to undertake the Project and successfully meet the necessary requirements to design, build, finance, and maintain the relevant facilities within the specified facility.

6.2 Form of PQQ

The content of PQQ response to which Candidates are to submit is set out in Section 6.3 below. The layout of this PQQ has been designed to enable Candidates to complete their submissions as easily as possible and is organised as follows:

Section A: details of the Candidate as a whole, including the financial standing of its Key Organisations

Sections B – D: details which are specific to certain Candidate Members.

6.3 Content of PQQ responses

Each Candidate must complete and submit -

- All sections of Annex 1 under the headings given and using the tables and information supplied by the Board, following the order and numbering set out. Where a section of this PQQ is not applicable to a Candidate this should be clearly stated. All aspects of a PQQ response must be clear, concise and formatted as follows:
- language: English (UK)
- font – Arial
- size of text: font size 10
- financial: all financial information or data forming part of the PQQ submission shall be submitted in or converted to pounds sterling. Where any official documents include financial data in a foreign currency, a sterling equivalent shall be provided by the Candidate. Any such sterling equivalent shall be certified as true and fair equivalent by the Candidate.
- the Declaration contained at Section E of Annex 1 signed on behalf of the Candidate (or Lead Candidate Member where the Candidate is a consortium) by an authorised representative of the Candidate
- the Statement of Good Standing contained at Section F of this PQQ signed on behalf of the Candidate (in the case of a Consortium by each Candidate Member), confirming that:

1. the Candidate or Candidate Member (as applicable) has not committed certain specified offences which would make it ineligible to tender in accordance with Regulation 23(1) of the Public Contracts (Scotland) Regulations 2012

2. various listed circumstances which could result in the Candidate's or Candidate Member's (as applicable) exclusion from the process do not apply to that Candidate or Candidate Member (as applicable), in accordance with Regulation 23(4) of the Public Contracts (Scotland) Regulations 2012.

Where a Candidate is a consortium it should complete the PQQ in accordance with the completion table at paragraph 8.7.

The inclusion of an executive summary or a statement of reasons for selection or general information such as marketing and promotional information is not required and will not be considered in the evaluation of PQQ submissions.

6.4 Submitting PQQ responses

Candidates are required to:

1. deliver five CD ROMs and five hard copies of their completed response in unmarked envelopes to :

   RHSC and DCN Project Director
   NHS Lothian
   Waverley Gate
   2-4 Waterloo Place
   Edinburgh
   EH1 3EG

   Candidates must obtain a signed receipt acknowledging delivery. Faxed or emailed PQQ responses will not be accepted.

2. upload one electronic copy of their completed PQQ responses to the e-tendering system at www.publiccontractsscotland.gov.

Completed responses must be received via the e-tendering system and by paper copy by no later than 12 noon on [date] at the above addresses. Any completed responses received after this closing date and time may be rejected by the Board and therefore not be evaluated further.

6.5 Clarification requests by Candidates

The Board will not enter into any detailed discussions in relation to its tender requirements at this stage. Any questions about this PQQ should be submitted via the e-tendering system by [insert date] to [insert relevant details here]. Both the question and the response will be communicated to all Candidates before the closing date for the pre-qualification responses.

The deadline for the submission of such queries is five working days before the last date for the return of PQQ responses. The Board will not be obliged to answer any queries received after that deadline, though the Board may extend the submission date if it considers it is required to do so.

6.6 Clarification requests by the Board

Candidates may be required by the Board to provide additional information (including as to any Candidate Members) supplementing or clarifying its PQQ submission in order for the Board to assess their suitability in accordance with this PQQ process. If so required, any additional information shall be requested by the Board in writing to the Candidate or its nominated representative. Failure by a Candidate to respond fully and adequately to any request by the Board for such additional information may result in the Candidate's PQQ submissions being rejected by the Board.

7 CONDITIONS FOR PARTICIPATION

7.1 Right to reject and/or disqualify

The Board reserves the right to reject or disqualify a Candidate where:

- the PQQ response is completed incorrectly, is incomplete or fails to meet the Board's submission requirements in this document or as otherwise notified to Candidates prior to the deadline for submission of PQQ responses
- the Candidate fails to provide any of the information requested in the PQQ or otherwise that fails to comply fully with the requirements of the selection process set out in this PQQ
- the Candidate or any Candidate Member is excluded under Article 45 of Directive 2004/18/EC and Regulation 23 of the Public Contracts (Scotland) Regulations 2012 as amended at any stage during the pre-qualification and evaluation process
- the completed Statement(s) of Good Standing disclose, or the Board otherwise find out, that grounds for mandatory or discretionary rejection exist under Article 45 of Directive 2004/18/EC and Regulation 23 of the Public Contracts (Scotland) Regulations 2012. In the case of a Candidate who is a Consortium, the Candidate will be rejected if any Candidate Member is rejected on those grounds
- following short listing of a Candidate there is a change in identity, control, financial standing or other factor affecting the Candidate or any of its Candidate Members unless approved by the Board
- the Board become aware that information provided by the Candidate or any of its candidate members in response to the PQQ is false, misleading or incorrect
- the circumstances for disqualification referred to in Paragraph 6.4 and 6.6 above apply.

7.2 Right to revisit PQQ evaluation

The Board reserves the right to revisit, and if necessary amend the result of, the evaluation if after completion of the evaluation:

- new information emerges or circumstances change which require the Board to revisit the outcome of the original pre-qualification and short listing
- in relation to a consortium a Candidate Member changes.

The Board also reserves the right at a later stage of this process to ask for evidence as to the claims made by and information provided by the Candidate or Candidate Member pursuant to the PQQ.

Candidates must immediately bring to the Board's attention any material change in the financial or other circumstances of the Candidate or any Candidate Members which the Candidate would have been obliged to disclose in response to the PQQ had such circumstances existed at the time of PQQ submission.

7.3 Right to cancel or vary the PQQ or the procurement process

The Board reserves the right to:

- cancel, abandon and/or withdraw from the contract opportunity and procurement process at any time and therefore not proceed with this PQQ or selection process and/or award a contract
- amend the terms and conditions of the PQQ process and/or tender process.

7.4 Freedom of Information

Candidates should note that the contents of PQQ responses and tender submissions, and any of the information provided by the Candidates in the course of tendering for this Project or in the course of their subsequent appointment, may be disclosed to the Scottish Government and/or SFT. These parties will be subject to the same confidentiality obligations as the Board.

In addition, the Board is committed to meeting its responsibilities under the Freedom of Information (Scotland) Act 2002. Accordingly, all information submitted to the Board may need to be disclosed and/or published by the Board in response to a request under the Act. If any interested party considers that any of the information provided to the Board in its PQQ submission is commercially sensitive and/or confidential, please identify which information and explain in broad terms what harm might result from disclosure and/or publication. All parties should however be aware that, even where an indication is given to the Board that information is commercially sensitive and/or confidential the Board may be required to disclose and/or publish that information.

Receipt by the Board of any material marked "commercially sensitive" and/or "confidential" or equivalent shall not be taken to mean that the Board accepts any duty of confidence by virtue of that marking.

7.5 Costs

The Board shall not be responsible or liable in any way to any person for any expenses incurred by any Candidate or Candidate Member (or connected persons or any of their respective advisers) in responding to this PQQ or any future stages of the selection and evaluation process. No expenses incurred shall be reimbursed by the Board.

7.6 Notice to applicants

The PQQ and other contract documents have been prepared by the Board for the purpose of providing an application procedure for Candidates interested in tendering and to assist Candidates in making their own evaluation of the potential opportunity.

Whilst prepared in good faith, the PQQ and other contract documents are intended only as a preliminary background explanation of the Board's activities and plans and are not intended to form the basis of any decision on whether to enter into any contractual relationship with the Board. The PQQ and other contract documents do not purport to be all inclusive or to contain all of the information that a potential Candidate may require. The Board reserves the right to amend and update information and/or processes outlined in this PQQ and IM in taking forward the procurement of the Project.

Any Candidates considering making a decision to enter into contractual relationships with the Board following receipt of the PQQ and other contract documents should make their own investigations and their own independent assessment of the Board and their requirements for the project and should seek their own professional technical, financial and legal advice.

None of the Board, its advisers, or the directors, officers, members, partners, employees, other staff, agents or advisers of any such body or person:

- makes any representation or warranty (express or implied) as to the accuracy, reasonableness or completeness of the PQQ and other contract documents.
- accepts any responsibility for the information contained in the PQQ and other contract documents or for its fairness, accuracy or completeness
- shall be liable for any loss or damage (other than in respect of fraudulent misrepresentation) arising as a result of reliance on such information or any subsequent communication.

Only the express terms of any written contract relating to the subject matter of the PQQ and other contract documents, as and when it is executed, shall have any contractual effect in connection with the matters to which it relates. Any such contract will be governed by Scots law.

The publication of the PQQ or other contractual documents, in no way commits the Board to award any contract or pursue any tender process for this Project.

8 PRE-QUALIFICATION EVALUATION PROCESS

8.1 Overview

The PQQ evaluation will comprise the following stages:

- all PQQ submissions submitted in accordance with the PQQ submission requirements (section 6) will firstly be checked by the Board for compliance and completeness. Non-compliant and/or incomplete PQQ submissions may be rejected by the Board
- the Board will then carry out a preliminary assessment of each remaining PQQ submission to evaluate the "Pass/Fail" questions. If a Candidate is assessed as failing any such question their PQQ submission will be rejected by the Board. Candidates should note that the preliminary assessment will include an assessment of each remaining Candidate's financial standing submission(s) and any Candidate's PQQ submission assessed as failing the financial standing evaluation will be rejected by the Board.
- the Board will then carry out a detailed assessment of each remaining PQQ submissions to evaluate the scored questions. During the detailed assessment the Board will calculate a score for each remaining PQQ submissions using the section weightings and question sub-weightings shown in the evaluation table at paragraph 8.6.

8.2 Preliminary assessment

Responses to the "Pass/Fail" questions identified in the evaluation table at paragraph 8.6 will be evaluated on a pass/fail basis as described in the evaluation guidance at the end of the relevant questions. As noted at paragraph 8.1 any Candidate who fails any of these questions will be automatically rejected by the Board.

8.3 Detailed assessment

The scored questions identified in the evaluation table at paragraph 8.6 will be scored using the scoring system described at paragraph 8.4.

Some of the questions relate to the use of references provided by the Candidates. The references are not scored in themselves but will allow the Board to clarify and verify aspects of the Candidates' and/or Candidate Members' (as applicable) PQQ submission, concerning project specific experience. Candidates should note the scores for some of the scored questions (where indicated) may be amended by the Board following review of the references and clarification of the Candidates' PQQ submission.

8.4 Scoring system

Evaluation guidance is provided in the PQQ for each question that will be scored. Unless otherwise indicated, responses to each question will be scored out of 10 and based on the degree to which the response covers the range of factors specified in the relevant evaluation guidance and as appropriate/relevant to the question, depth of understanding of the issues and/or quality of examples and experience provided as set out below:

Scoring Range	Categorisation	Description
0-1	Very poor	A response that fails to address the factors within the Evaluation Guidance. As appropriate/relevant to the question: • demonstrates a very poor understanding of all the issues; • provides some examples/basic examples of relevant experience.
2-4	Poor	A response that addresses some but not necessarily all factors within the Evaluation Guidance. As appropriate/relevant to the question: • demonstrates a poor understanding of all the issues • provides some examples/ basic examples of relevant experience.
5-6	Satisfactory	A response that covers some but not necessarily all factors within the Evaluation Guidance in a satisfactory way. As appropriate/relevant to the question: • demonstrates some understanding of all the issues • provides some examples of relevant experience.
7-8	Good	A response that covers most or all factors within the Evaluation Guidance in a good way. As appropriate/relevant to the question: • demonstrates a good understanding of all the issues • provides good examples of relevant experience.
9-10	Excellent	A response that covers all factors within the Evaluation Guidance in an outstanding way. As appropriate/relevant to the question; • demonstrates excellent understanding of all the issues • provides excellent examples of relevant experience.

8.4.1 Questions B8 and C7 will be scored using the following mechanism:

10 = no claims
9 = 1 claim
8 = 2 claims
7 = 3 claims
6 = 4 claims
5 = 5 claims
4 = 6 claims
3 = 7 claims
2 = 8 claims
1 = 9 claims
0 = 10 or more

8.5 Short-listing of Candidates

Following the detailed assessment stage, the Board shall rank the remaining Candidates in numerical order against their cumulative score. A short list of Candidates to be invited to participate in the dialogue stage shall be drawn up.

The Board only intends to select three Candidates for inclusion on its short-list. The three short-listed by the Board shall be those achieving the highest scores during detailed assessment.

In the event that the scores of two or more Candidates are equal such that it is not possible to distinguish between the scores of three Candidates and the remaining Candidates following Detailed Assessment, the Board reserves the right to invite to participate in the dialogue more than three. Likewise, in the event that less than three Candidates meet the Board's minimum requirements / thresholds, the Board reserves the right to invite to participate in the dialogue fewer Candidates than three, provided the Board considers the number of Candidates is sufficient to ensure genuine competition.

8.6 Evaluation Table

Note: Items that are 'not scored' must be completed. Failure to complete may result in rejection (see 7.1 and 8.1)

Section	Question Number	Subject	Status	Qu-Sub Weighting	Section Weighting
A		**The Candidate**			**30%**
	A1-A6	General Information	Not scored		
	A7.1	Resourcing	Scored	30%	
	A7.2	Capacity	Scored	10%	
	A8	Working Together	Scored	30%	
	A9	Conflicts	Pass/Fail		
	A10	Raising finance	Scored	30%	
	A11-A13	Financial capacity and economic standing	Pass/Fail		
			Sub-weighting Total	**100**	
	A14.1	Construction Contractor: minimum turnover	Pass/Fail		
	A14.2	Construction Contractor: minimum financial standing	Pass/Fail		
	A15.1	Subordinated Debt Providers: minimum financial standing	Pass/Fail		
	A16	CDM ACoP	Pass/Fail		

Section	Question Number	Subject	Status	Qu-Sub Weighting	Section Weighting
B		**Construction Contractor**			**30%**
	B1-B3	General information	Not scored		
	B4	Healthcare experience PPP	Scored	40%	
	B5	Healthcare experience non-PPP	Scored	20%	
	B6	Experience operational site	Scored	15%	
	B7	Other experience	Scored	10%	
	B8	Claims	Scored	5%	
	B9	References	Not scored separately		
	B10	Quality	Pass/Fail		
	B11-B13	Health & Safety	Pass/Fail		
	B14	Environmental	Pass/Fail		
	B15-B16	Employment	Pass/Fail		
	B17	Employment	Scored	5%	
	B18	Employment	Scored	5%	
	B19-B21	Employment	Pass/Fail		
			Sub-weighting Total	**100**	

Section	Question Number	Subject	Status	Qu-Sub Weighting	Section Weighting
C		**FM Service Provider**			30%
	C1-C3	General information	Not scored		
	C4	Healthcare experience PPP	Scored	45%	
	C5	Healthcare experience non-PPP	Scored	25%	
	C6	Other experience	Scored	15%	
	C7	Claims	Scored	5%	
	C8	References	Not scored separately		
	C9	Quality	Pass/Fail		
	C10-C12	Health & Safety	Pass/Fail		
	C13	Environmental	Pass/Fail		
	C14 – C15	Employment	Pass/Fail		
	C16	Employment	Scored	5%	
	C17	Employment	Scored	5%	
	C18-C20	Employment	Pass/Fail		
			Sub-weighting Total	**100**	

Section	Question Number	Subject	Status	Qu-Sub Weighting	Section Weighting
D		**Designated Organisations***			**10%**
	D1-D2	General introduction	Not scored		
	D3	Healthcare experience PPP	Scored	40%	
	D4	Other PPP experience	Scored	20%	
	D5	Healthcare experience non-PPP	Scored	25%	
	D6	Other experience	Scored	15%	
	D7	References	Not scored separately		
			Sub-weighting Total	**100**	
E		PQQ declaration	Not scored		
F		Statement of Good Standing	Not scored		
				Weighting Total	**100%**

* Each designated organisation will be scored separately with sub-weighting split evenly across them.

8.7 Completion table

Section	Question Number	Subject	Response Required From
A		**The Candidate**	
	A1-A5	General information	Lead Candidate Member
	A6-A7	Resourcing	Lead Candidate Member (composite response)
	A8	Working together	Relevant Candidate Members
	A9	Conflicts	Lead Candidate Member (composite response)
	Al0	Raising finance	Key Organisations
	A11 – A13	Financial capacity and economic standing	Candidate
	A14.1	Construction Contractor: minimum turnover	Construction Contractor
	A14.2	Construction Contractor: minimum financial standing	Construction Contractor
	A15.1	Investor: minimum financial standing	Investor
	A16	CDM ACOP	Candidate

Section	Question Number	Subject	Response Required From
B		**Construction Contractor**	
	B1-B3	General information	Construction Contractor
	B4	Healthcare experience PPP	Construction Contractor
	B5	Healthcare experience non-PPP	Construction Contractor
	B6	Experience operational site	Construction Contractor
	B7	Other experience	Construction Contractor
	B8	Claims	Construction Contractor
	B9	References	Construction Contractor
	B10	Quality	Construction Contractor
	B11-B13	Health & Safety	Construction Contractor
	B14	Environmental	Construction Contractor
	B15-B21	Employment	Construction Contractor
C		**FM Service Provider**	
	C1-C3	General information	FM Service Provider
	C4	Healthcare experience PPP	FM Service Provider
	C5	Healthcare experience non-PPP	FM Service Provider
	C6	Other experience	FM Service Provider
	C7	Claims	FM Service Provider
	C8	References	FM Service Provider
	C9	Quality	FM Service Provider
	C10-C12	Health & Safety	FM Service Provider
	C13	Environmental	FM Service Provider
	C14 – C20	Employment	FM Service Provider

Section	Question Number	Subject	Response Required From
D		**Designated Organisations**	
	D1-D2	General Information	Designated Organisations
	D3	Healthcare experience PPP	Designated Organisations
	D4	Other PPP experience	Designated Organisations
	D5	Healthcare experience non-PPP	Designated Organisations
	D6	Other experience	Designated Organisations
	D7	References	Designated Organisations
E		**PQQ declaration**	Lead Candidate Member
F		**Statement of Good Standing**	Candidate/each Candidate Member

9 DISCLAIMER

This Information Memorandum and the associated pre-qualification document are intended only as background preliminary explanation of the Project. This document is intended to provide the information necessary for respondents to the Contract Notice in the Official Journal of the European Union to decide whether the Project is an opportunity of interest to them, and explains the procedure that the Board intends to use to allow respondents the opportunity to be considered to be invited to participate in the EU public procurement procedure. No warranty or representation of any kind is given by the Board or its advisers to any person, as to the accuracy or completeness of the information provided. As more fully set out in section 7, publication of this Information Memorandum and the associated pre-qualification document in no way commits the Board as a contracting authority to award any contract and the Board reserves the right to amend or withdraw the pre-qualification document at its discretion at any time. No information provided in this document or the pre-qualification document shall be construed as part of any contract which may be awarded by the Board.

GLOSSARY

Board	means Lothian NHS Board which is the common name of Lothian Health Board.
Candidate	means the entity submitting this PQQ, including in case of a consortium all of the Candidate Members.
Candidate's Advisers	means a Candidate's financial and legal Advisers.
Candidate Members	means the members of a consortium submitting a PQQ comprising collectively the Key Organisations, the Designated Organisations and the FM Service Provider.
Construction Contractor	means the design and build contractor or contractors to be appointed by Project Co in respect of the Project.
DBFM Contract	means the project agreement to be entered into between the Board and Project Co in relation to the design, construction, financing and maintenance of the Project.
Designated Organisations	means the entities which are to perform the following roles: • Lead Architect • Lead Civil and Structural engineer • Lead Mechanical and Electrical engineer.
FM Service Provider	means the entity or entities to be appointed by Project Co to provide the facilities management in respect of the Project.
Key Organisations	means all of the Investors and the Construction Contractor.
Lead Candidate Member	means in the case of a consortium the lead member of a consortium submitting a PQQ.
Project	means the design, build, finance and maintenance of a joint building to re-provide services from the Royal Hospital for Sick Children, Child and Adolescent Mental Health Service and the Department of Clinical Neurosciences on the Royal Infirmary of Edinburgh campus at Little France.
Project Co	means the special purpose company to be formed to enter into the DBFM Contract to design, build, finance and maintain the Project.
PPP	includes NPD, PFI and other similar initiatives utilising similar financing methods.
SFT	means Scottish Futures Trust Limited, having a registered office at 1st Floor, 11-15 Thistle Street, Edinburgh EH2 1DF.
Investor	means any organisation which is to subscribe for or lend a share of subordinated debt or mezzanine finance in or to Project Co once it is incorporated.

ANNEX 1: PRE-QUALIFICATION QUESTIONNAIRE

FORM OF PQQ

Section	Requirement
A	Details of the Candidate, its internal organisation and relationships between Candidate Members, including their roles and key individuals Details of the Candidate Members Financial and economic capacity (including last three years' audited accounts) Details of experience in raising finance CDM ACOP
B	Information on the Candidate's Construction Contractor Background information and legal form PPP and other relevant technical experience and references Quality, Health & Safety and environmental accreditation
C	Information on the Candidate's FM Service Provider Background information and legal form PPP and other relevant technical experience and references Quality, Health & Safety and environmental accreditation
D	Information on the Designated Organisations Background information and legal form PPP and other relevant experience and references
E	Declaration
F	Statement of Good Standing

SECTION A

A1 About the candidate

Candidate / Consortium Name	
Address	
Telephone	
Fax	
Email	

Candidate's, or in the case of a consortium, the Lead Candidate Member's authorised representative (person for contact purposes).

Name	
Address	
Telephone	
Fax	
Email	

Declaration that must be signed by the Candidate is at the end of the document in Section E.

Details of Lead Candidate Member submitting this pre-qualification questionnaire if different from that identified in A1	
1.2 Name	
1.3 Registered office	
1.4 Registration number	
1.5 Year of registration	
1.6 Country of registration	
1.7 Principal contact name	
1.8 Address	
1.9 Telephone	
1.10 Fax	
1.11 Email	
1.12 Role within the Consortium	

Details of all other Candidate Members forming part of the consortium if appropriate – please complete for each Candidate Member	
1.2 Name	
1.3 Registered office	
1.4 Registration number	
1.5 Year of registration	
1.6 Country of registration	
1.7 Principal contact name	
1.8 Address	
1.9 Telephone	
1.10 Fax	
1.11 Email	
1.12 Role within the Consortium	

A2 Status of Candidate

(a) Single Candidate ◯ Consortium ◯ Other joint venture ◯

(b) Already a Limited Company ◯ To be incorporated ◯ Not to be incorporated ◯

A3 Where Candidate is already a limited company

Registered name	
Current trading name	
Previous trading names (if different)	
Registered address (if different to A1)	
Telephone (if different to A1)	
Fax (if different to A1)	
Email (if different to A1)	
Registered No	
Year of registration	
Country of registration	

A4 Indicate the Candidate Members and Candidate's Advisers that will undertake the following roles on the project.

Role within the Project	Full name and address	Percentage debt to be provided (if any) and/or in the case of the Construction Contractor, if there is more than one, the anticipated percentage of the total construction capex each will be responsible for.
Lead Candidate Member		
Investor(s)		
Construction Contractor(s)		
FM Service Provider		
Lead architect		
Lead mechanical and electrical engineer		
Lead civil and structural engineer		
Financial adviser		
Legal adviser		

A5 Provide an organisation chart showing internal relationships between the Candidate and the Candidate Members.

Resourcing the Project

A6 Provide the names of the key team members (and their employers) that are likely to be involved in the management structure of the bid.

Role	Lead name	Company/firm
Bid manager		
Investor(s)		
Construction Contractor representative(s)		
FM Service Provider representative(s)		
Lead architect		
Lead mechanical and electrical engineer		
Lead civil and structural engineer		

Attach CVs for the people named above. In respect of the companies/firms named, the number of CVs is not to exceed three and each CV should include details relevant to the Project and should be no more than one A4 page in length.

A7.1 Include a statement providing relevant individual's experience (over the last five years) and attach a CV of each individual (of not more than one A4 page in length).

Evaluation guidance (scored)

Candidates will be evaluated on the basis of demonstrating each individual's relevant skills and experience in undertaking similar roles to that proposed on the Project and on projects of similar scope and scale. Health and PPP experience will be of particular relevance.

A7.2 Provide details of the capacity of key persons listed in A6 to allocate sufficient time to the project. Identify any existing or future potential time conflicts for each key person, particularly those prior to financial close. Further information relating to the outline timetable is provided in paragraph 5.4 of this IM.

Evaluation guidance (scored)

Candidates will be evaluated on the basis of demonstrating the availability of each key person listed in A6 and their ability to allocate sufficient time to the Project particularly prior to financial close.

Working together

A8 Provide examples of projects demonstrating relevant experience gained over the past five years by the Candidate Members working together, particularly the Construction Contractor, FM Service Provider and Designated Organisations, to deliver successful projects similar in scope and value to the Project. The response must not exceed three sides of A4. Candidates should also provide details including contact name, address, telephone number and email of client references for each of the projects provided (this should be the public sector referee where the public sector is the ultimate procuring body). Candidates should note that the Board will verify all information provided with the referees. The score awarded to the response to question A8 may be moderated accordingly in the light of information provided in the reference.

Evaluation guidance (scored)

Candidates will be evaluated based on their ability to demonstrate their track record of collectively delivering projects similar in both scope and scale.

Conflicts

A9 Identify any potential conflicts of interest that may arise if the Candidate were to be selected (taking into account all Candidate Members), and how these will be dealt with. In particular, please deal with any potential conflicts where:

a) Candidate Member has carried or is carrying out any work for the Board or another party that may present a conflict

b) Candidate Member is potentially providing services for more than one prospective bidder in respect of this Project or procurement process.

Evaluation guidance (Pass/Fail)

Candidates will pass if they are able to confirm they have no potential conflicts of interest or if they do, are able to demonstrate how this would be resolved satisfactorily. Candidates will fail if they have a potential conflict and do not propose a satisfactory resolution to it, should it arise.

Raising finance

A10 Please provide details of how the Investor(s) has previously raised both debt and risk capital (including subordinated debt and mezzanine finance) financing on PPP projects in the last five years (based on the date of financial close of the project). This should include brief details of the project concerned, the capital value of the project, the amounts raised in each class of debt, the source of the funds, the Candidate's role in these projects and the date of financial close.

Evaluation guidance (scored)

Candidates will be evaluated based on their ability to demonstrate their previous experience and track record of raising debt and risk capital on similar projects.

Financial Capacity and Economic Standing (Pass/Fail)

Information requirements

The financial capacity and economic standing of each Candidate's will be assessed by the evaluation of the information requested in this section. The response from the Candidate should be provided and labelled as 'Financial capacity and economic standing annex'.

A11 Identity of Candidate and/or Key Organisations

In order to assist in the financial evaluation, the following information should be provided for the Candidate and/or each Key Organisation as defined in the introduction to this document:

a) company name

b) company number

c) DUNS number

d) role – i.e. Investor or Construction Contractor

e) where the Key Organisation is an Investor, the proportion of investment (indicative) to be provided (%).

f) Where the role of Construction Contractor is to be carried out by more than one Key Organisation, the proportion of the capital value (indicative) of the Project for which each Key Organisation will be responsible (%) should be clearly stated. In this case a clear statement should be made regarding any proposed sharing of liability between the Key Organisations (i.e. any wrap or joint and several liability arrangements).

Candidates should be aware that, if successful in proceeding to ITPD stage, a material change to the proportion of investment provided or construction work to be undertaken by each Key Organisation will trigger a requirement to re-evaluate the Candidate's PQQ scoring (see section 7.2).

A12 Election to rely on a Parent Company for the purposes of evaluation

A Candidate may elect to have the financial evaluation carried out on the Parent Company of any of the Key Organisations instead of the Key Organisation itself, but only where a suitable Parent Company guarantee is offered or is in place.

Where a Candidate wishes a Parent Company to be evaluated instead of the relevant Key Organisation, the following information must be provided for each provider of a suitable Parent Company guarantee:

a) company name

b) company number

c) DUNS number

d) identity of the Key Organisation for which the guarantee is being provided

e) a letter signed by a person with appropriate authority within the Parent Company confirming that a suitable guarantee is in place or is offered in respect of the Key Organisation.

Key financial information

A13 In order that the Board can carry out the financial assessment, the following information must be provided for each Candidate and/or Key Organisation or Parent Company, where the Candidate has elected under the terms of A12 above for the evaluation to be performed on the Parent Company of a Key Organisation.

1. Please provide key financial information for the previous three years (or such other period for which this information is available where the organisation has been trading for less than three years) by populating the table below.

		Year end date	Year end date	Year end date
A	Turnover			
B	Operating profit before exceptional items			
	Operating profit percentage (B/A)			
B	Operating profit before exceptional items			
C	Interest payable and similar charges			
	Interest cover ratio (C/B)			
D	Current assets			
E	Current liabilities			
	Current ratio (D/E)			
F	Net assets (excluding intangible assets)			

Notes:

(1) Amounts should be presented in £'000. If a Candidate or Key Organisation prepares annual accounts in a currency other than Sterling they should contact NHS Lothian and an appropriate exchange rate will be supplied for conversion purposes.

(2) Ratios should be calculated to a level of two decimal points.

2. Please enclose copies of audited accounts and annual reports for the last three years (or such other period for which audited accounts and annual reports are available where the organisation has been trading for less than three years), to include:
   a) balance sheet and profit and loss account
   b) full notes to the accounts
   c) director's report/auditor's report.

3. Moderation statement

   Please provide a statement for the Candidate, Key Organisation or Parent Company signed by a person of appropriate financial authority setting out the following:
   - any key events or movements in financial position that have a bearing on the financial standing of the Candidate, Key Organisation or Parent Company that have occurred since the most recent published accounts;
   - any information relating to factors that have a bearing on the financial standing of the Candidate, Key Organisation or Parent Company that require a more detailed explanation than is given in the information provided in response to questions 1 to 7 above;
   - a statement, where relevant, that addresses any misreporting of factual information or information that has been publicly available in the Factiva database in the last year which, in the Candidate, Key Organisation or Parent Company's opinion, requires additional explanation.

Evaluation guidance (Pass/Fail)

The information provided in A11 to A13 above will be evaluated according to the process set out in this section. The evaluation will be divided into two parts:

- evaluation of the Construction Contractor
- evaluation of Investor(s).

A14 Evaluation of Construction Contractor

This evaluation will be performed on those Key Organisations whose role has been identified as Construction Contractor in response to A11 (or A12 where relevant) above. The evaluation falls into three parts:

- the minimum turnover threshold test
- the minimum financial standing threshold test
- the qualitative moderation.

A14.1 Minimum turnover threshold

The Board wishes to ensure that the contract will not excessively dominate the existing business of any Construction Contractor. Therefore, the turnover of the Construction Contractor (or its Parent Company where the terms of A12 have been exercised) should not be less than three hundred million pounds (£300,000,000). Where the Construction Contractor is made up of more than one Key Organisation, this threshold will be applicable to the aggregate turnover of all the Key Organisations carrying out the Construction Contractor rule.

The failure of this test will result in the Candidate being automatically deselected.

The minimum turnover requirement will be measured by the turnover reported in the most recent set of audited accounts. Where any Key Organisation submits accounts for a period of more than 12 months the reported turnover figure should be adjusted to a 12 month period on a straight pro rata monthly basis (e.g. a 16 month reporting period should be adjusted by a factor of 12/16).

A14.2 Minimum financial standing threshold

The Construction Contractor (or its Parent Company where applicable) must pass a minimum financial threshold test. This basis for determining the Construction Contractor's financial standing in relation to the threshold is set out in the following table.

Criterion	Score of -1	Score of 0	Score of 1	Score of 2	Max Score Available
A – Measured at date of pre-qualification evaluation using company information provided at A12 and A13 above					
D&B rating (risk)	Rating of 4	Rating of 3 or n/a	Rating of 2	Rating of 1	2
B – Measured in each of the three most recent years based on analysis of information provided in response to questions A13 1, 2 and 3 (where relevant) above and the review of the Factiva database.					
Operating profit percentage	Less than or equal to 0	Above 0 but less than or equal to 1%	Above 1% but less than or equal to 5%	Above 5%	(2*50%)+(2*25%) +(2*25%) = 2
Interest cover	Less than or equal to 1.00	Above 1.00 but less than or equal to 2.50	Above 2.50 but less than or equal to 3.50	Above 3.50	(2*50%)+(2*25%) +(2*25%) = 2
Current ratio	Less than or equal to 1.0	Above 1.0 but less than or equal to 1.05	Above 1.05 but less than or equal to 1.20	Above 1.20	(2*50%)+(2*25%) +(2*25%) = 2
Net asset test excluding intangibles (£'000)	Less than or equal to 0	Above 0 but less than or equal to 5,000	Above 5,000 but less than or equal to 30,000	Above 30,000	(2*50%)+(2*25%) +(2*25%) = 2
Auditor report	Auditor report contains material qualifications to the accounts, emphases of matter or adverse or disclaimer comments	Auditor report contains qualifications to the accounts, emphases of matter or adverse or disclaimer comments but which are of limited materiality	Auditor report contains no matters of concern	Not used	(1*50%)+(1*25%) +(1*25%) = 1

For the criteria in group B in the table above, the results will be weighted according to the relative importance placed by the Board on each of the last three years. The weightings are as follows:

Year	Weighting
Most recent	50%
Most recent -1	25%
Most recent -2	25%

Where fewer than three years accounts are provided, the weighting for the absent year(s) will be allocated evenly over the years for which information is provided. For example, if only two years of information is provided, the 25% allocated to the third year will be split evenly by adding 12.5% to each of the two years provided.

Where any set of the most recent accounts of any Key Organisation are not available to be assessed by the Board as they have not been filed in line with the statutory requirements of the relevant country then the Board will apply the following weightings to the three years actually provided:

Year	Weighting
Most recent submitted	25%
Most recent -1	25%
Most recent -2	25%

The process outlined above will produce a score for each Key Organisation making up the Construction Contractor. Where there is more than one Key Organisation named, the scores awarded to each will then be combined into a single score by allocating a weighting to each Construction Contractor using the proportions indicated in the response to question A11 f) above.

Where a Key Organisation identified as a Construction Contractor is guaranteeing the performance of other Key Organisations as detailed in A11 f) above, then only the score of the Key organisation providing the guarantee will be taken into account.

In order to meet the minimum financial standing threshold, the Construction Contractor must achieve a score for the criteria above of 5 or more.
The maximum available score is 11.

A14.3 Qualitative moderation

The scores awarded against each of the criteria above may be subject to qualitative moderation based on the information provided by the Contractor in the 'Moderation Statement' requested in question A13.3 and the Board's review of information relating to the Contractor publicly available on the Factiva database over the year up to the date of the PQQ submission.
Such moderation may result in the scores awarded being amended upwards or downwards.

A15 Evaluation of subordinated debt provider(s)

This evaluation will be performed on those Key Organisations whose role has been identified as an Investor in response to A11 above. The evaluation falls into two parts:

- a minimum financial standing threshold test
- a qualitative moderation.

A15.1 Minimum financial standing threshold and qualitative moderation

The Key Organisation(s) identified as an Investor (or its parent company where applicable) must pass a minimum financial threshold test. This basis for determining each Subordinated Debt Provider's financial standing in relation to the threshold and the qualitative moderation process that may be applied is the same as that set out in A14.2 and A14.3, except that in order to meet the minimum financial standing threshold, the Investor must achieve a score for the criteria above six or more.

A16 Please provide evidence to demonstrate that both the Construction Contractor and Designated Organisations meet the required standards that are identified within Appendix 4 of the CDM Approved Code of Practice (ACoP).

Candidates will pass if they can demonstrate that they meet or exceed the required standards within Appendix 4 of the CDM ACoP. Candidates that cannot demonstrate that they meet or exceed such standards will fail.

SECTION B

Information on the Construction Contractor

To be completed by the Construction Contractor and hence by each contractor making up a construction joint venture. Where there is more than one Construction Contractor with a consortium, the section will be weighted approximately by each contractor's proportion of the capital value of the construction element of the Project. Note this is the Construction Contractor's experience and must not detail experience that a Construction Contractor's staff has gained when employed elsewhere.*

B1 Details of organisation

Registered name	
Current trading name	
Previous trading names (if different)	
Registered address	
Telephone	
Fax	
Email	
Registered No	
Year of registration	
Country of registration	
Capital value to be provided (£m)	

* Please note that, within this section, experience relating to the Board will be permitted (though note the referee provided may not be a member of the Procurement and Evaluation Team (see section 5.3). SECTION B.

B2 Type of organisation

Private Limited Company ◯ Public Limited Company ◯

Partnership ◯ UK registered branch of overseas company ◯

Other (please specify) ....

B3 Parent or holding companies

If the organisation named in B1 is a subsidiary of another organisation, please:

- name the parent or holding company and indicate what interest the parent or holding company has in the company in B1
- if the Parent Company will be providing a guarantee (or equivalent e.g. performance bond or collateral warranty) to support the obligations of the named contractor in B1, provide a statement from the Parent Company stating that it is, in principle, prepared to support the contracting company, including the provision of performance guarantees.

B4 Comparable healthcare PPP experience

This Project involves the delivery of complex acute facilities for the provision of paediatric and clinical neurosciences services.

Using the pro forma for Annex B4, provide three examples of previous project experience of healthcare PPP gained in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable healthcare PPP projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided:
  - evidence of delivering high quality projects, where the following areas will be considered
  - evidence of innovation/design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

B5 Comparable healthcare experience (non PPP)

Using the pro forma for Annex B5, provide three examples of previous project experience of healthcare (non PPP) gained in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally including the extent of the services or works for which the organisation was responsible and the dates of the organisation's involvement. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable healthcare non PPP projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects, where the following areas will be considered:
  - evidence of innovation/design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

B6 Comparable experience (operational site)

Using the pro forma for Annex B6, provide three examples of projects delivered upon an operational site and undertaken in the last five years that are relevant to this scheme (as defined in this IM) either within the UK or internationally. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable project experience of delivering facilities on an operational site
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects, where the following areas will be considered:
  - evidence of innovation/design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

B7 Other relevant experience

Using the pro forma for Annex B7, provide three examples of projects that demonstrate the organisation's experience gained in the last five years relevant to its proposed role in the Project. Projects which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally should be highlighted. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable role on projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects, where the following areas will be considered:
  - evidence of innovation/design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

B8 Claims

Give details of any projects for contracts in excess of £1 million in which the organisation has been involved where there has been a failure to complete (by the scheduled completion date) or where there have been claims for damages, or where damages have been deducted or reserved within the last five years and where the amount of damages (claimed or ordered) is greater than £100,000. Include, for each project, a summary sentence on the reasons for the failure or claim (note: the summary provided will not form part of the assessment as set out in the scoring mechanism in 8.4.1).

Evaluation guidance (scored)

Candidates will be evaluated based on their claims record using the scoring mechanism at 8.4.1.

B9 References

Provide details including contact name, address, telephone and email address of five client references (one per project) from projects listed in B4 – B7 (this should be the public sector referee where the public sector is the ultimate procuring body). Candidates should note that the Board will verify all information provided with the referees. The scores awarded to the responses to questions B4 – B7 may be moderated accordingly in the light of information provided in the reference (note: if Board projects are used, the referee cannot be a member of the Procurement and Evaluation Team (see section 5.3)).

B10 Quality Assurance

1. Does the Construction Contractor operate an ISO9001 (or equivalent) accredited quality management system for this project? If so, please provide details of the accreditation.
2. If the Construction Contractor does not operate such an ISO9001 (or equivalent) accredited quality management system, please provide details of how the Construction Contractor has previously ensured quality in performance of their role.

Evaluation guidance (Pass/ Fail)

The Candidate will pass if they operate an ISO9001 accredited (or equivalent) quality management system. If they do not, their systems will be assessed against an ISO accredited (or equivalent) system. Systems which meet or exceed these standards will pass, systems which do not meet such standards will fail.

Health & Safety

B11

1. Does the Construction Contractor operate a BS OHSAS 18001:2007 (or equivalent) accredited health and safety management system that it would be able to apply when providing the work or services required for the Project? If so please provide details of the accreditation.
2. If the Construction Contractor does not operate a BS OHSAS 18001:2007 (or equivalent) accredited health and safety management system please provide details of how it has previously implemented relevant company policy in the delivery of the types of works or services to be provided for this project.

Evaluation Guidance (Pass/ Fail)

The Candidate will pass if they operate a BS OHSAS 18001:2007 (or equivalent) accredited Health and Safety Management System. If they do not, their systems will be assessed against an ISO accredited (or equivalent) system. Systems which meet or exceed these standards will pass, systems which do not meet such standards will fail.

B12 During the last five years have any notices been served on the Construction Contractor or prosecutions been pursued by the Health and Safety Executive? Has the Construction Contractor been prosecuted for contravening the Health and Safety at Work Act 1974 or other health and safety law? Is the Construction Contractor (or has it been) subject to an investigation by the Health and Safety Executive or similar body? If YES to any of the questions above, please provide details and explain what steps have been taken in response.

Evaluation guidance (Pass/Fail)

Candidates will pass if they have not been served any notices in the last five years. If Candidates have been served notices within the last five years and can provide satisfactory evidence of the steps taken to prevent reoccurrences, they will pass. If they do not demonstrate this satisfactorily, they will fail.

B13 Please provide details and evidence of the Construction Contractor's procedures to establish the competence of sub-contractors/sub-consultants and evidence of monitoring.

Evaluation guidance (Pass/Fail)

Candidates will pass if they can demonstrate they have clear procedures and systems in place for establishing sub-contractor competence and can demonstrate how monitoring is undertaken including:

- evidence of a mechanism for ensuring quality management regime applies to approved supply chain partners
- evidence of a mechanism for ensuring that performance management regime applies to supply chain partners
- evidence of clear procedures in place for assessing, rating and monitoring capabilities of supply chain
- evidence of a single service team approach when working with a supply chain.

Candidates who cannot demonstrate this will fail.

Environmental

B14

1. Does the Construction Contractor operate an ISO14001 (or equivalent) accredited environmental management system that it would be able to apply when providing the works or services required for the Project? If so, please provide details of the accreditation.
2. If the Construction Contractor does not operate an ISO14001 (or equivalent) accredited environmental management system please provide details of how it has previously implemented relevant company policy in the delivery of the types of works or services to be provided for the Project.

Evaluation guidance (Pass/Fail)

Candidates will pass if they operate an ISO14001 accredited (or equivalent) environmental management system. If they do not, their systems will be assessed against an ISO accredited (or equivalent) system. Systems which meet or exceed these standards will pass, systems which do not meet such standards will fail.

Employment

B15 Is it the Construction Contractor's policy as an employer to comply with its statutory obligations under the Race Relations Act 1976, the Sex Discrimination Act 1976, the Disability Discrimination Act 1995, the Equal Pay Act 1970, the Employment Equality (Religion or Belief) Regulations 2003, the Employment Equality (Sexual Orientation) Regulations 2003 and the Employment Equality (Age) Regulations 2006 all of which apply in the UK, or equivalent legislation that applies in the countries in which your firm employs staff?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

B16 Is it the Construction Contractor's practice not to discriminate directly or indirectly on grounds of colour, race, nationality or ethnic or national origin, disability, gender, religion or belief, sexual orientation or age in relation to decisions to recruit, select, remunerate, train, transfer and promote employees?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

B17

1. In the last three years, has any finding of unlawful discrimination in the employment field been made against the Construction Contractor by an employment tribunal, an employment appeal tribunal, or any court, or in comparable proceedings in any other jurisdiction?
2. If the answer to question B17.1 is yes, what steps have you taken as a result of that finding?

Evaluation guidance (scored)

Candidates will achieve full marks if they have answered "No" to B17.1. If they answered "Yes" they will be evaluated based on providing satisfactory evidence of the steps taken to prevent reoccurrences in their response to B17.2. Areas that will be taken into consideration will be:

- evidence of the management actions put in place
- evidence of the monitoring procedures to ensure implementation
- evidence of the review procedures of any areas of non-compliance.

B18

1. In the last three years, has the Construction Contractor been the subject of formal investigation by the Equality and Human Rights Commission (EHRC), (or pre 1 October 2007, the Commission for Racial Equality, the Equal Opportunities Commission, and the Disability Rights Commission) or comparable bodies, on the grounds of alleged unlawful discrimination in the employment field?
2. If the EHRC or other body has made an adverse finding what steps have been taken as a result?

Evaluation guidance (scored)

Candidates will achieve full marks if they have answered "No" to B18.1. If they have answered "Yes" they will be evaluated based on the evidence provided to B18.2 of the steps taken to prevent reoccurrences. Areas that will be taken into consideration will be:

- evidence of the management actions put in place
- evidence of the monitoring procedures to ensure implementation
- evidence of the review procedures of any areas of non-compliance.

B19 Does the Construction Contractor observe the relevant codes of practice on employment in the UK (or comparable codes or statutory guidance issued under equivalent legislation in another member state where you do not currently operate in the UK) which gives practical guidance to employers and others on the elimination of discrimination and the promotion of equality of opportunity in employment, including monitoring of workforce matters and steps that can be taken to encourage people from equalities groups to apply for jobs or training opportunities?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

B20 Is the Construction Contractor's policy on equal opportunities set out in the following:

a) instructions to those concerned with recruitment, selection, remuneration, training and promotion?
Yes/No

b) documents available to employees, recognised trade unions or other employee representative groups and job applicants?
Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

B21 Are the Construction Contractor's staff with managerial responsibilities required to receive training on equal opportunities?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

SECTION C

Information on the FM Service Provider

The FM Service Provider identified at A4 should complete this section separately. Where there is more than one Service Provider, this section will be weighted approximately by each service provider's annual service value. Note this is the FM Service Provider's experience and must not detail experience that the FM Service Provider's staff has gained whilst in other employment.*

C1 Details of organisation

Registered name	
Current trading name	
Previous trading names (if different)	
Registered address	
Telephone	
Fax	
Email	
Registered No	
Year of registration	
Country of registration	

* Please note that, within this section, experience relating to the Board will be permitted (though the referee provided may not be a member of the Procurement and Evaluation Team (see section 5.3).

C2 Type of organisation

Private Limited Company ◯ Public Limited Company ◯

Partnership ◯ UK registered branch of overseas company ◯

Other (please specify) ....

C3 Parent or holding companies

If the organisation named in C1 is a subsidiary of another organisation, please:

- name the parent or holding company and indicate what interest the parent or holding company has in the company in C1
- if the parent company will be providing a guarantee (or equivalent e.g. performance bond, collateral warranty) to support the obligations of the named contractor in C1, provide a statement from the parent company stating that it is, in principle, prepared to support the contracting company, including the provision of performance guarantees.

C4 Comparable healthcare PPP experience

This Project involves the delivery of hard FM services within a complex acute hospital facility providing paediatric and clinical neurosciences services.

Using the pro forma for Annex C4, provide three examples of healthcare PPP projects undertaken in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally. Projects should be listed in order of decreasing annual contract value. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable healthcare PPP projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided

- evidence of delivering high quality projects where the following areas will be considered:
  - evidence of innovation / design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

C5 Comparable healthcare experience (non PPP)

Using the pro forma for Annex C5, provide three examples of healthcare projects undertaken in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally, including the extent of the services or works for which the organisation was responsible and the dates of the organisation's involvement. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable healthcare non PPP projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects where the following areas will be considered:
  - evidence of innovation / design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

C6 Other relevant experience

Using the pro forma for Annex C6, provide three examples of non-health projects and/or non-PPP projects that demonstrate the organisation's experience gained in the last five years relevant to its proposed role in the project. Projects which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally should be highlighted. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. project experience of providing similar hard FM services to that proposed
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects where the following areas will be considered:
  - evidence of innovation / design quality and sustainability aspects
  - evidence of partnering and collaboration
  - evidence of community benefits
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

C7 Claims

Give details of any projects for contracts in excess of £1 million in which the organisation has been involved where there has been a failure to complete (by the scheduled completion date) or where there have been claims for damages, or where damages have been deducted or reserved within the last five years and where the amount of damages (claimed or ordered) is greater than £100,000. Include, for each project, a summary sentence on the reasons for the failure or claim (note: the summary provided will not form part of the assessment as set out in the scoring mechanism in 8.4.1).

Evaluation guidance (scored)

Candidates will be evaluated based on their claims record using the scoring mechanism at 8.4.1. Marks will be deducted according to the number of claims within the last five years.

C8 References

Provide details including contact name, address, telephone number and email of five client references one per project from projects listed in C4 – C6 (this should be the public sector referee where the public sector is the ultimate procuring body. Candidates should note that the Board will verify all information provided with the referees. The scores awarded to the responses to questions C4 – C6 may be moderated accordingly in the light of information provided in the reference (note: if NHS Lothian / Board projects are used, the referee cannot be a member of the Procurement and Evaluation Team (see section 5.3)).

C9 Quality assurance

1. Does the FM Service Provider operate an ISO9001 (or equivalent) accredited quality management system for this project? If so, please provide details of the accreditation.
2. If the FM Service Provider does not operate such an ISO9001 (or equivalent) accredited quality management system please provide details of how the FM Service Provider has previously ensured quality in performance of their role.

Evaluation guidance (Pass/ Fail)

The Candidate will pass if they operate an ISO9001 accredited (or equivalent) quality management system. If they do not, their systems will be assessed against an ISO accredited (or equivalent) system. Systems which meet or exceed these standards will pass, systems which do not meet such standards will fail.

Health & Safety

C10

1. Does the FM Service Provider operate a BS OHSAS 18001:2007 (or equivalent) accredited Health and Safety Management System that it would be able to apply when providing the work or services required for the Project? If so, please provide details of the accreditation.
2. If the FM Service Provider does not operate a BS OHSAS 18001:2007 (or equivalent) accredited Health and Safety Management System please provide details of how it has previously implemented relevant company policy in the delivery of the types of works or services to be provided for this project.

Evaluation guidance (Pass/Fail)

The Candidate will pass if they operate a BS OHSAS 18001:2007 (or equivalent) accredited Health and Safety Management System. If they do not, their systems will be assessed against an ISO accredited (or equivalent) system. Systems which meet or exceed these standards will pass, systems which do not meet such standards will fail.

C11 During the last five years have any notices been served on the FM Service Provider or prosecutions been pursued by the Health and Safety Executive or otherwise? Has the FM Service Provider been prosecuted for contravening the Health and Safety at Work Act 1974 or other health and safety law? Is the FM Service Provider (or has it been) subject to an investigation by the Health and Safety Executive or similar body? If YES to any of the above please provide details and explain what steps have been taken in response.

Evaluation guidance (Pass/ Fail)

Candidates will pass if they have not been served any notices in the last five years. If Candidates have been served notices within the last five years and can provide satisfactory evidence of the steps taken to prevent reoccurrences, they will pass. If they do not demonstrate this satisfactorily, they will fail.

C12 Please provide details and evidence of the FM Service Provider's procedures to establish the competence of sub-contractors/sub-consultants and evidence of monitoring.

Evaluation guidance (Pass/Fail)

Candidates will pass if they can demonstrate they have clear procedures and systems in place for establishing sub-contractor competence and can demonstrate how monitoring is undertaken including:

- evidence of a mechanism for ensuring quality management regime applies to approved supply chain partners
- evidence of a mechanism for ensuring that performance management regime applies to supply chain partners
- evidence of clear procedures in place for assessing, rating and monitoring capabilities of supply chain
- evidence of a single service team approach when working with a supply chain.

Candidates who cannot demonstrate this will fail.

C13 Environmental policy

1. Does the FM Service Provider operate an ISO14001 (or equivalent) accredited environmental management system that it would be able to apply when providing the works or services required for the Project? If so, please provide details of the accreditation.
2. If the FM Service Provider does not operate an ISO14001 (or equivalent) accredited environmental management system please provide details of how it has previously implemented relevant company policy in the delivery of the types of works or services to be provided for the Project.

Evaluation guidance (Pass/Fail)

Candidates will pass if they operate an ISO14001 accredited (or equivalent) environmental management system. If they do not, their systems will be assessed against an ISO accredited (or equivalent) system. Systems which meet or exceed these standards will pass, systems which do not meet such standards will fail.

Employment

C14 Is it the FM Service Provider's policy as an employer to comply with its statutory obligations under the Race Relations Act 1976, the Sex Discrimination Act 1976, the Disability Discrimination Act 1995, the Equal Pay Act 1970, the Employment Equality (Religion or Belief) Regulations 2003, the Employment Equality (Sexual Orientation) Regulations 2003 and the Employment Equality (Age) Regulations 2006 all of which apply in the UK, or equivalent legislation that applies in the countries in which your firm employs staff?

Yes/No

Evaluation Guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

C15 Is it the FM Service Provider's practice not to discriminate directly or indirectly on grounds of colour, race, nationality or ethnic or national origin, disability, gender, religion or belief, sexual orientation or age in relation to decisions to recruit, select, remunerate, train, transfer and promote employees?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they answered "No" to any questions, they will fail.

C16

1. In the last three years, has any finding of unlawful discrimination in the employment field been made against the FM Service Provider by an employment tribunal, an employment appeal tribunal, or any court, or in comparable proceedings in any other jurisdiction?
2. If the answer to question C16.1 is yes, what steps have you taken as a result of that finding?

Evaluation Guidance (Scored)

Candidates will achieve full marks if they have answered "No" to C16.1. If they have answered "Yes" they will be evaluated based on the evidence provided to C16.2 of the steps taken to prevent reoccurrences. Areas that will be taken into consideration will be:

- evidence of the management actions put in place
- evidence of the monitoring procedures to ensure implementation
- evidence of the review procedures of any areas of non-compliance.

C17

1. In the last three years, has the FM Service Provider been the subject of formal investigation by the Equality and Human Rights Commission (EHRC), (or pre 1 October 2007, the Commission for Racial Equality, the Equal Opportunities Commission, and the Disability Rights Commission) or comparable bodies, on the grounds of alleged unlawful discrimination in the employment field?
2. If the EHRC or other body has made any adverse findings, what steps have been taken as a result?

Evaluation guidance (scored)

Candidates will achieve full marks if they have answered "No" to C17.1. If they have answered "Yes" they will be evaluated based on the evidence provided to C17.2 of the steps taken to prevent reoccurrences. Areas that will be taken into consideration will be:

- evidence of the management actions put in place
- evidence of the monitoring procedures to ensure implementation
- evidence of the review procedures of any areas of non-compliance.

C18 Does the FM Service Provider observe the relevant Codes of Practice on employment in the UK (or comparable codes or statutory guidance issued under equivalent legislation in another member state where you do not currently operate in the UK) which gives practical guidance to employers and others on the elimination of discrimination and the promotion of equality of opportunity in employment, including monitoring of workforce matters and steps that can be taken to encourage people from equalities groups to apply for jobs or training opportunities?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they have answered "No" to any questions, they will fail.

C19 Is the FM Service Provider's policy on equal opportunities set out in the following:

(a) instructions to those concerned with recruitment, selection, remuneration, training and promotion?

Yes/No

(b) documents available to employees, recognised trade unions or other employee representative groups and job applicants?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they have answered "No" to any questions, they will fail.

C20 Are the FM Service Provider's staff with managerial responsibilities required to receive training on equal opportunities?

Yes/No

Evaluation guidance (Pass/Fail)

Candidates will pass if they have answered "Yes" to all questions. If they have answered "No" to any questions, they will fail.

SECTION D

Information on Designated Organisations

Each of the Designated Organisations identified in the glossary should complete this section separately.*

D1 Details of organisation

Registered name	
Current trading name	
Previous trading names (if different)	
Registered address	
Telephone	
Fax	
Email	
Registered No	
Year of registration	
Country of registration	

* Please note that, within this section, experience relating to the Board will be permitted, with the exception of experience relating to earlier / pre-procurement stages of the Project. The referee provided may not be a member of the Procurement and Evaluation Team (see section 5.3).

D2 Type of organisation

Private Limited Company ◯ Public Limited Company ◯

Partnership ◯ UK registered branch of overseas company ◯

Other (please specify) ....

D3 Comparable healthcare PPP experience

Using the pro forma for Annex D3, each Designated Organisation should provide three examples of relevant firm's (not individual's) previous project experience of healthcare PPP in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable healthcare PPP projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects where the following areas will be considered:
  - evidence of innovation/design quality and sustainability aspects
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

D4 Other PPP experience

Using the pro forma for Annex D4, each Designated Organisation should provide three examples of the relevant organisation's (not individual's) previous project experience of non-healthcare PPP in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) either within the UK or internationally. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. experience of providing similar services on PPP projects of comparable scope and scale
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects where the following areas will be considered:
  - evidence of innovation / design quality and sustainability aspects
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

D5 Comparable healthcare experience (non PPP)

Using the pro forma for Annex D5, each Designated Organisation should provide three examples of the relevant organisation's (not individual's) healthcare projects undertaken in the last five years which are particularly relevant to the scope of this scheme (as set out in this IM) including the extent of the services or works for which the organisation was responsible and the dates of the organisation's involvement. Responses for each case study must not exceed four sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. comparable healthcare non PPP projects of similar scope and scale
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects where the following areas will be considered:
  - evidence of innovation/design quality and sustainability aspects
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

D6 Other relevant experience

Using the pro forma for Annex D6, each Designated Organisation should provide three examples of projects that demonstrate the organisation's other experience gained in the last five years relevant to its proposed role in the Project. Responses for each case study must not exceed 4 sides of A4 (in total).

Evaluation guidance (scored)

Candidates will be evaluated based on:

- relevance of examples in relation to the question e.g. project experience of providing similar services to that proposed
- understanding of project specific issues and how these compare to examples provided
- evidence of delivering high quality projects where the following areas will be considered when evaluating the examples provided:
  - evidence of innovation/design quality and sustainability aspects
  - relevance of key challenges faced, actions taken in order to resolve and evidence of successful outcomes achieved
  - examples of added value delivered
  - evidence of how value for money was achieved whilst optimising whole life costs.

D7 References

Provide details including contact name, address, telephone and email of five client references (one per project) from projects listed in D3 – D6 (this should be the public sector referee where the public sector is the ultimate procuring body). Candidates should note that the Board will verify all information provided with the referees. The scores awarded to the responses to question D3 – D6 may be moderated accordingly in the light of information provided in the reference.

SECTION E

Declaration

On completion of the questionnaire, please read and sign the declaration below.

I certify that the information supplied in the questionnaire is accurate to the best of my knowledge and accords with the basic criteria of eligibility as set out in the Information Memorandum dated [ ].

I also understand it is a criminal offence, punishable by imprisonment, to give or offer any gift or consideration whatsoever as an inducement or reward to any servant of a public body and that such action will empower the Board to exclude the Candidate or Candidate Member from the selected list of bidders.

I agree that the Board may, if it so wishes, make inspections of completed projects, the details of which will be provided if required by the Board.

I hereby declare that I am authorised by the under mentioned Candidate and its member companies to supply the information given above and, at the date of signing, the information given is a true and accurate record.

Signed: ....

Name: ....

Position: ....

Per pro: ....

Date: ....

The declaration must be signed by an authorised signatory, in his/her own name, and for and on behalf of the Candidate and Candidate Members.

Please return this form with your completed questionnaire.

SECTION F

Statement of Good Standing

Note: where the Candidate is a consortium this statement has to be completed and signed by each Candidate Member.

Name: ....

We confirm that, to the best of our knowledge, we are not in breach of the provisions of Article 45 of Directive 2004/18/EC and Regulation 23 of the Public Contracts (Scotland) Regulations 2012 and in particular that we or our partners, directors or any other person who has powers of representation, decision or control of the Candidate has not been convicted of any of the following offences:

1. the common law offence of conspiracy where that conspiracy relates to participation in a criminal organisation as defined in Article 2(H) of Council Framework Decision 2008/841/JHA or an office under sections 28 or 30 of the Criminal Justice and Licensing (Scotland) Act 2010.
2. corruption within the meaning of section 1 (2) of the Public Bodies Corrupt Practices Act 1889 or section 1 of the Prevention of Corruption Act 1906, where the offence relates to active corruption as defined in Article 3 of the Council Act of 26th may 1997 and Article 3(1) of Council Joint Action 98/742/JHA.
3. bribery or corruption within the meaning of sections 68 and 69 of the Criminal Justice (Scotland) Act 2003 where the offence relates to active corruption, or bribery within the meaning of sections 1 or 6 of the Bribery Act 2010
4. the common law offence of incitement to commit a crime
5. fraud, where the offence relates to fraud affecting the financial interests of the European Communities as defined by Article 1 of the Convention relating to the protection of the financial interests of the European Communities, within the meaning of:
   - the offence of cheating the Revenue
   - the common law offence of fraud
   - the common law offence of theft or fraud
   - fraudulent trading within the meaning of section 458 of the Companies Act 1985 or section 993 of the Companies Act 2006
   - fraudulent evasion within the meaning of section 170 of the Customs and Excise Management Act 1979 or section 72 of and the Value Added Tax Act 1994
   - an offence in connection with taxation in the European union within the meaning of section 340 (ii) of the Proceeds of Crime Act 2002 or section 71 of the Criminal Justice Act 1993
   - the common law offence of uttering
   - the common law offence of attempting to pervert the course of justice
6. money laundering within the meaning of the Money Laundering Regulations 2007 or an offence in connection with proceeds of drug trafficking within the meaning of sections 49
7. any other offence within the meaning of Article 45(1) of the Public Sector Directive as defined by the national law of any relevant state.

None of the following paragraphs apply to us:

1. being an individual is a person in respect of whom a debt relief order has been made or is bankrupt or has had a receiving order or administration order or bankruptcy restrictions order or a debt relief restriction order made against that individual or has made any composition or arrangement with or for the benefit of his creditors or has made any conveyance or assignment for the benefit of his creditors or appears unable to pay or to have no reasonable prospect of being able to pay, a debt within the meaning of section 268 of the Insolvency Act 1986, or article 242 of the Insolvency (Northern Ireland) Order 1989, or in Scotland has granted a trust deed for creditors or become otherwise apparently insolvent, or is the subject of a petition presented for sequestration of that individual's estate, or is the subject of any similar procedure under the law of any other state
2. being a partnership constituted under Scots law has granted a trust deed or become otherwise apparently insolvent, or is the subject of a petition presented for sequestration of its estate
3. being a company or any other entity within the meaning of section 255 of the Enterprise Act 2002 has passed a resolution or is the subject of an order by the court for the amalgamation, or has had a receiver, manager or administrator on behalf of a creditor appointed in respect of the company's business or any part thereof or is the subject of the above procedures or is the subject of similar procedures under the law of any other state
4. has been convicted of a criminal offence relating to the conduct of the candidate business or profession
5. has committed an act of grave misconduct in the course of candidate members business or profession
6. has not fulfilled obligations relating to the payment of social/child security contributions under the law of any part of the United Kingdom or of the relevant State in which the Candidate and/or Candidate Member is established
7. has not fulfilled obligations relating to the payment of taxes under the law of any part of the United Kingdom or of the relevant State in which the Candidate and/or Candidate member is established
8. is guilty of serious misrepresentation in providing any information required of him under Regulation 23 or Regulations 24 to 27 of the Public Contracts (Scotland) Regulations 2006/2012 or has not provided such information in response to a request by the contracting authority
9. is not licensed in the relevant State in which the Candidate/Candidate Member is established or is not a member of an organisation in that relevant State when the law of that relevant State prohibits the provision of the services to be provided under the contract by a person who is not licensed or who is not such a member
10. subject to paragraphs (7), (8), (9), (10), (11), (12) and (13) of regulation 23 of the Public Contracts (Scotland) Regulations 2012 is not registered on the professional or trade register of the relevant State specified in Schedule 6 to the Regulations in which the Candidate/Candidate Member is established under conditions laid down by that State.

Signed: ....

Full Name: ....

Position: ....

Date: ....

Proforma

Proforma to be used for provision of project experience as Annex B4, B5, B6, B7, C4, C5, C6, D3, D4, D5, D6. Responses for each case study must not exceed four sides of A4 (in total).

Project and client name	
Capital cost or annual service contract value (£m)	
Type of project	
Dates of involvement	
Relevant organisation's role	
Current status of project e.g. PQQ, ITPD/CD, Preferred Bidder, financial close, operational.	
Project team	Company/individual's names
Consortium	
Construction provider	
FM Provider	
Lead Architect	
Services/ facilities provided	
Innovation/design quality and sustainability aspects (where applicable) e.g. case study includes examples of innovative, high quality design, sustainability, energy efficiency and low carbon technology	

Partnering and collaboration aspects including approach (where applicable) e.g. case study demonstrates understanding of critical success factors to achieving long term relationships including examples of managing similar interface issues (both physical and site management) with other providers.	
Community benefits including approach (where applicable) e.g. case study illustrates approach to dealing with community issues and provides examples of economic, environmental and social benefits delivered.	
Key challenges and solutions e.g. case study includes examples of key challenges to project, management action taken in order to resolve and successful outcome achieved.	
Added value e.g. case study clearly demonstrates examples of added value delivered.	
VFM/whole life costs including approach (where applicable) e.g. case study illustrates how VFM was achieved while optimising whole life costs.	

means of any payment or transfer of assets, directly or indirectly, in cash or in any kind, whether by way of dividend, bonus or release of obligation or in any other way otherwise than:

(i) for full consideration; or

(ii) to the Board pursuant to Clause 36 (*Payment of Surpluses and Compliance with NPD Requirements*) or Article 12 or 13 of the Articles of Association); or

(iii) Project Co's Share of a Project Co Change; or

(iv) Project Co's Share of a Refinancing Gain;

(b) to comply with Clause 4.4 (*Changes to Funding Agreements and Refinancing*);

"Off-Site" means:

(a) the land made available to Project Co for the Works, the Off-Site Works and Services being:

(i) the Yellow Area, the Petrol Station Site, the Orange Area, the Connection Area and the Service Strip and

(ii) the Foul Service Strip; and

(iii) Not Used; and

(b) those parts of the RIE Facilities made available to Project Co for the Off-Site Works and Services; and

(c) the land procured by Project Co for the Substation Works.

"Off-Site Conditions" means the condition of the Off-Site (including but not limited to) hydrological, hydrogeological, ecological, environmental, geotechnical and archaeological conditions;

"Off-Site Works" means the RIE Works, Hospital Square Works, Cycle Path Works, Substation Works, Petrol Station Site Works and/or Surface Water Drainage Works;

"Operational Functionality" means

(a) the following matters as shown on the 1:500 scale development control plan and site plans;

(i) the point of access to and within the Site and the Facilities;

(ii) the relationship between one or more buildings that comprise the Facilities; and

(iii) the adjacencies between different hospital departments within the Facilities,

as indicated on the following drawings in Section 4 *(Project Co's Proposals)* of Schedule Part 6 *(Construction Matters)*

- HLM-Z0-00-PL-700-020 Rev 6;
- HLM-SZ-B1-PL-400-400 Rev 2;
- HLM-SZ-00-PL-400-400 Rev 3;
- HLM-SZ-01-PL-400-400 Rev 2;
- HLM-SZ-02-PL-400-400 Rev 2;
- HLM-SZ-03-PL-400-400 Rev 2;
- HLM-SZ-04-PL-400-400 Rev 2;

(b) the following matters as shown on the 1:200 scale plans:

(i) the points of access to and within the Site and the Facilities;

(ii) the relationship between one or more buildings that comprise the Facilities;

(iii) the adjacencies between different hospital departments within the Facilities; and

(iv) the adjacencies between rooms within the hospital departments within the Facilities,

as indicated on the following drawings in Section 4 *(Project Co's Proposals)* of Schedule Part 6 *(Construction Matters)*

- HLM-SZ-00-PL-220-001 Rev 6;

- HLM-SZ-01-PL-220-001 Rev 6;
- HLM-SZ-02-PL-220-001 Rev 6;
- HLM-SZ-03-PL-220-001 Rev 6;
- HLM-SZ-04-PL-220-001 Rev 6;
- HLM-SZ-06-PL-240-001 Rev 5;
- HLM-SZ-B1-PL-220-001 Rev 7;
- HLM-Z5-SL-PL-220-001 Rev 6;

(c) the quantity, description and areas (in square metres) and minimum critical dimensions of those rooms and spaces as indicated on the following drawings in Section 4 *(Project Co's Proposals)* of Schedule Part 6 *(Construction Matters)*

- HLM-SZ-00-PL-220-001 Rev 6;
- HLM-SZ-01-PL-220-001 Rev 6;
- HLM-SZ-02-PL-220-001 Rev 6;
- HLM-SZ-03-PL-220-001 Rev 6;
- HLM-SZ-04-PL-220-001 Rev 6;
- HLM-SZ-06-PL-240-001 Rev 5;
- HLM-SZ-B1-PL-220-001 Rev 7;
- HLM-Z5-SL-PL-220-001 Rev 6;

(d) the location and relationship of equipment, furniture, fittings and user terminals as shown on the 1:50 loaded room plans in respect of:

(i) all bed and trolley positions;

(ii) internal room elevations;

(iii) actual ceiling layouts;

(iv) the Non-Clinical Services supplies, storage, distribution and waste management spaces; and

(v) the ICT requirements;

(e) the location of and the inter-relationships between rooms within the departments within the Facilities, as indicated on the following drawings in Section 4 *(Project Co's Proposals)* of Schedule Part 6

(Construction Matters)

- HLM-SZ-00-PL-220-001 Rev 6;
- HLM-SZ-01-PL-220-001 Rev 6;
- HLM-SZ-02-PL-220-001 Rev 6;
- HLM-SZ-03-PL-220-001 Rev 6;
- HLM-SZ-04-PL-220-001 Rev 6;
- HLM-SZ-06-PL-240-001 Rev 5;
- HLM-SZ-B1-PL-220-001 Rev 7;
- HLM-Z5-SL-PL-220-001 Rev 6;

but only insofar as each of the matters listed in (a) to (e) above relate to or affect Operational Use;

"Operational Insurances" means the insurances required by Clause 53.2 and "**Operational Insurance**" means any one of such insurances;

"Operational Term" means the period from the Actual Completion Date until the end of the Project Term;

"Operational Use" means the use of a room or space to the extent that it is used by the Board or its employees, tenants, agents and/or contractors (but not to avoid doubt Project Co staff) for carrying out the Board Services;

"Option Period" has the meaning given in Clause 53.14.3 (*Uninsurable Risks*);

"Orange Area" means the area of land shaded orange on Plan 2 including for the avoidance of doubt the Hatched Orange Area;

"Original Senior Commitment" means the amount committed under the Senior Funding Agreements as at Financial Close (as adjusted to take into account any Qualifying Change);

"Outline Commissioning Programme" means the programme setting out the standards, specifications, procedures and other requirements for the carrying out and completion of the commissioning activities of the parties set out in outline in Appendix 3 (*Outline Commissioning Programme*) Schedule Part 10 (*Outline Commissioning Programme*);

"Oversail Strategy" means the agreed Interface Proposal for oversailing parts of the Campus Site other than the Facilities, as set out in Appendix 3 of Schedule Part 31 *(Consort Interface with Campus Site and/or Campus Facilities);*

2.4.2 Facilities to be provided

Facilities required for the project include:

(a) inpatient wards;

(b) day case facilities;

(c) outpatient clinics;

(d) emergency care;

(e) operating theatres;

(f) radiology and physiology departments;

(g) rehabilitation facilities;

(h) roof top helipad; and

(i) dedicated energy centre and goods delivery yard.

2.5 Reference Design and Mandatory Reference Design Requirements

The use of Reference Design in NPD projects is being promoted by the SFT and the Scottish Government.

A Reference Design for the project has been developed and comprises mandatory elements and indicative elements.

The mandatory elements of the Reference Design (the "**Mandatory Reference Design Requirements**" are those elements of the Reference Design relating to Operational Functionality.

The agreed Operational Functionality is generally set out in the following constituents of the Reference Design:

- 1:500 Departmental Adjacency Layouts;
- 1:200 Departmental Layouts; and
- 1:50 Generic and Key Room Layouts.

Other areas of Operational Functionality are contained in other deliverables within the Reference Design. Full details of the Mandatory Reference Design Requirements are set out in Appendix E (Reference Design Deliverables)

Bidders are required to develop design proposals which comply with the Mandatory Reference Design Requirements.

For the avoidance of doubt, the Board will not enter into any Dialogue on alternative solutions to the Mandatory Reference Design Requirements. Bidders proposals must be developed to reflect these Mandatory Reference Design Requirements and Bidders will be fully responsible for all elements of the design and construction of the Facilities including being responsible for verifying and satisfying themselves that the Mandatory Reference Design Requirements can be designed, built, and operated to meet the Board's Construction Requirements.

2.5.1 Schedule of Accommodation and Drawn Areas

A Schedule of Accommodation has been developed by the Board to meet their requirements and this is included within the Reference Design. While the Schedule of Accommodation is not mandatory in itself, the areas set out within it are considered to be minimum areas. These minimum areas will only apply to elements which affect the Operational Functionality. Areas such as service spaces (including risers) and Hard FM spaces will be for the Bidders to determine since responsibility and risk for these non operational spaces will ultimately rest with Project Co.

Circulation and communication space indicated in the Reference Design is also considered to be indicative but any corridor widths specified will be treated as minimum requirements.

Therefore, the minimum room areas (for those rooms affecting the Operational Functionality) and minimum corridor widths are considered to be Mandatory Reference Design Requirements.

Any courtyards and terrace spaces are to be treated as communications spaces. These should be indicated on the Schedule of Accommodation submitted by Bidders but excluded from the measure of Gross Internal Floor Area (i.e. indicated below the line).

2.5.2 Room Layouts

The 1:50 layout drawings included in the Reference Design cover the generic and key rooms only.

Generic rooms are those rooms that are replicated more than four times across the Facility (**Generic Room**). Key rooms are those that have critical operational requirements which the Board has identified for more detailed consideration and development at this early stage (**Key Room**). These include major spaces in the emergency department, operating theatre, radiology and outpatients departments. There are:

- 1839 rooms in total;
- 222 are covered under 88 Key Room types; and
- 756 are covered by 31 Generic Room types.

The Reference Design is therefore developed in full at 1:500 and 1:200 scales. At 1:50 scale, where individual room layouts are detailed, the coverage is 53% of the total number of rooms (equating to 43% of the net floor area).

The requirements for the remaining rooms are detailed in a combination of the Board's Construction Requirements, Schedule of Operational/Design Notes, the Equipment Schedule, the Equipment Responsibility Matrix and the Environmental Matrix included within Volume 3 of the ITPD.

[2.5.3 Room Data Sheets

Standard format Room Data Sheets have not been prepared by the Board for the Project. The specific room requirements (the "Room Information") is detailed in a combination of the following documents:

- The General Requirements;
- The Clinical Output Specification;
- The Environmental Matrix;
- The Schedule of Operational/Design Notes;
- The Equipment Schedule;

- The Schedule of Accommodation; and
- The Operational Functionality elements of the Reference Design.

Bidders will be required to develop a full set of Room Data Sheets which will form part of their proposals.]

2.6 Indicative Elements of the Reference Design

During the preparation of the Mandatory Reference Design Requirements, other information has been generated both as a by-product of preparing the Reference Design itself and as a general Project requirement as follows:

(i) FM goods handling and distribution;

(ii) Structural engineering solutions;

(iii) Building services engineering solutions;

(iv) Servicing strategies and space allocations; and

(v) Hard FM solutions and space allocations.

This constitutes the "**Indicative Elements of the Reference Design**"

Such information is issued to the Bidders for "information only" so that they may understand the intent of the Reference Design. Bidders must however refer to the Board's Construction Requirements for the detailed requirements for all such Indicative Elements of the Reference Design for which they will ultimately carry the risk. Bidders are advised that the Board's Construction Requirements will always take precedence over the Reference Design for matters which do not define Operational Functionality. The full distinction between Mandatory Reference Design Requirements and Indicative Elements of the Reference Design are set out in Appendix E (Reference Design Deliverables).

2.7 Interface and Enabling Works

[*NHSL reviewing this section*]

2.7.1 Links with RIE

(a) Link Building

As set out in paragraph 2.3 (Stand Alone Requirements) the new Facilities shall be delivered as a standalone new build. However, as it will be located on the existing site of the RIE, there will be a physical link between the new Facilities and the RIE at ground and first floor levels (the **Link Building).** The Link Building shall ensure improved clinical functionality and service delivery, particularly between the emergency departments, operating theatres and critical care departments in the RIE and the Facility. The Link Building from the RIE will be constructed by Consort prior to commencement of the Project. Project Co will be responsible for designing and constructing the Facilities to tie in with the RIE at the Link Building.

(b) Building Services Links

There shall also be building services links between the new Facility and the RIE in respect of building services in terms of: -

- infrastructure associated with ICT, including security;

- a pneumatic tube system (PTS);
- fire alarm systems
- CCTV
- foul and surface water drainage.

The PTS will be extended to tie in to the pharmacy and laboratories within the RIE. The Board will advise of the route for the PTS. Project Co will be given access to the RIE for the installation of the PTS. Project Co will be responsible for maintenance of the PTS and the Board will provide access for all such maintenance. [*Other service interfaces to be confirmed and detailed - MM]* There may also be connections into some existing infrastructure for foul and surface water drainage. A list of proposals from Bidders is required at [Phase 1 Submission/ Phase 2 Submission] for those elements of the new Facility which may have to interface with the existing RIE Facilities and infrastructure of the RIE. These are detailed in paragraph 3.6.1(h) (Interface) below and in Appendix C (iii) of this ITPD Vol1.

Connections: At the RIE but outwith the RIE Site there may also be connections into some existing infrastructure for foul and surface water drainage. Bidders will satisfy themselves in this regard.

[*MacRoberts: Any other operational links?– TA to review re current situ.]*

2.7.2 Interface Works with RIE outside the Site boundary

a) The Board has identified the following interface works (the "**RIE Interface Works**") which will be required to be carried out on the Campus but outwith the Site boundary. These works, in the area to be known as 'Hospital Square', will be carried out by Project Co and upon completion will be handed over to Consort to maintain. These works include:

(i) The design and construction of new roadway, hard and soft landscaping works to the area between the Chancellor's Building, RIE and the redline boundary to the north and east of the Site .

(ii) Emergency Departments: The design and construction of new roadways, hardstandings and parking areas at the new entrance to the RIE and the Facilities' emergency departments.

2.7.3 Other Works outside the Site boundary

The Board has identified other works (the "**Bioquarter Works**") which will be required to be carried out, by Project Co, outwith the Site boundary. This will include the provision of a dedicated Scottish Power substation for the Project which will be located adjacent to car park F in the area outlined in blue on Plan 4 [xx]. Access to the substation for construction and ongoing maintenance will be via the area shaded blue and hatched black on Plan 4. The cable route to the Facilities will be agreed with the Board and shall enter the RHSC/DCN site via the Service Strip (shown shaded yellow and hatched in black on Plan 2) and the cable route shall not cross the red line boundary of the RIE Site at any other point.

The Scottish Government

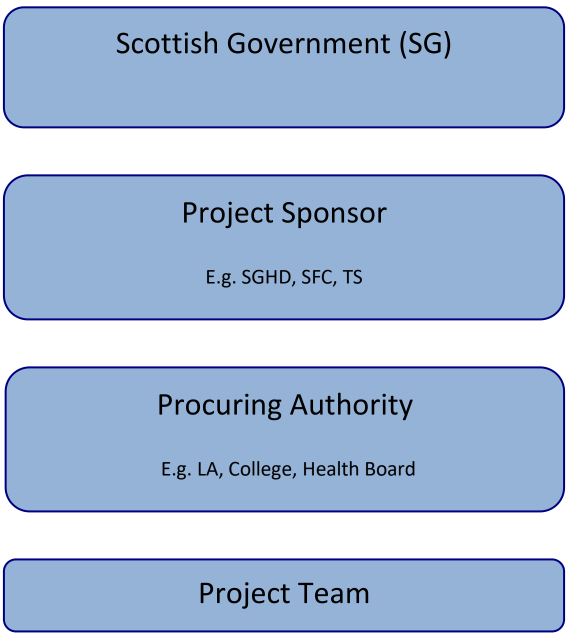
SCOTTISH FUTURES TRUST

Validation of Funded Projects: NPD Programme Pre-OJEU Key Stage Review

(NPD KSR 1 - Pre-OJEU)

NPD Programme
Pre-OJEU Key Stage Review

CONTENTS



Notes to the Reviewer

1.1. Background

It is a condition of Scottish Government (SG) funding support that all projects in the revenue funded 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 a procurement. The KSR process is designed to support the successful delivery of revenue funded projects whether delivered through the non-profit distributing (NPD) model or the hub initiative as Design Build Finance and Maintain (DBFM) projects by providing an assessment of the readiness of a project before it moves on to the next stage in the procurement process.

1.2. Timing

This review is required to be completed in advance of the OJEU notice / advert for the project being issued.

The review should be carried out by the member of the Scottish Futures Trust team who normally provides support to the relevant project (the Reviewer). The Reviewer must agree the precise timing of the review and submission of SFT's report with the Project Sponsor and/or SG to integrate with the other project approvals processes.

In the run up to each review point, the Reviewer will inform and keep up-to-date the SFT validation team of the estimated timetable for carrying out the KSR. The validation team will arrange for a member of the SFT's senior management team(SMT) to scrutinise the list completed by the Reviewer before it can be submitted to the Project Sponsor and/or SG. The Reviewer should thereafter liaise directly with the allocated SMT member and must return a countersigned copy of the list to the Validation Team upon SMT sign-off.

1.3. Process

The Reviewer must familiarise him/herself of the requirements of the checklist and consider which elements s/he can answer on the basis of existing knowledge of the project and identify what additional information is required in relation to the project in order to complete the remaining sections. The Reviewer should, at the earliest opportunity, explain to the Procuring Authority / Project Team what additional information s/he will require, in what form and by when in order to complete the review within the agreed timescales.

The review is not intended to be a "stop-start" process and the Reviewer should refer to the list throughout each delivery stage so that all sections of the checklist can be completed without delay to the project. The process involves the Reviewer completing this pro-forma list on the basis of information obtained in his/her day-to-day dealings with the project, considering whether in his or her view the project is ready to proceed to the next stage of procurement and making recommendations as to what actions may be required to achieve appropriate state of readiness. No formal submission, as such, will be required from the Procuring Authority, but the project team will be required to provide the Reviewer with information to allow him/her to complete the list and compile his/her report.

Once completed by the Reviewer, the list and draft report should be submitted to the allocated SMT member for scrutiny before being issued to the relevant Project Sponsor and/or SG and copied to the Procuring Authority. The relevant Project Sponsor and/or SG will thereafter, as part of its overall sign-off process, determine whether and on what basis the project should proceed to the next stage taking into consideration any recommendations made in the KSR report. The Reviewer should liaise directly with the Project Sponsor and Procuring Authority as may be required to address any queries arising from the KSR report or recommendations.

1.4. Further information

Please contact the Validation Team for further information on the KSR process. Queries relating to the revenue funded programme requirements should be directed to the SFT Finance Team.

Pre-OJEU Key Stage Review List

SFT Reviewer (Primary Reviewer)	Donna Stevenson
SFT Secondary Reviewer (SMT Member)	Tony Rose

Section 1: Project Outline

Project title	**Royal Hospital for Sick Children and Department of Clinical Neuroscience (RHSC/DCN) Project**
Brief project description	The provision of the Royal Hospital for Sick Children, Edinburgh and the Department of Clinical Neuroscience, currently within the Western General, Edinburgh in a joint new building adjacent to the existing Royal Infirmary of (RIE) at Little France in Edinburgh. The new build will extend to approximately 49,000 square metres with separate energy centre and facilities management yard and basement.
Outline of scope of services in project (please identify the services and who (NPD SPV or Procuring Authority) will provide those services)	The NPD SPV is to provide lifecycle replacement, hard FM service with associated helpdesk facilities including grounds maintenance, utilities procurement and management, pest control and external fabric cleaning. NHS Lothian (the Board) is to provide the soft fm services.
Key programme dates: • **OJEU publication** • **Invitation to Participate in Dialogue** • **Invitation to submit Final Tenders** • **Preferred Bidder appointment** • **Financial Close**	On the basis of the programme provided on 27 November 2012 (as updated by the Board), the dates are • OJEU: 5 December 2012 • ITPD : 11 March 2012 • ITFT : 25 October 2013 • PB appointment: 20 January 2014 • FC: 7 August 2014

Project Contact Details

Project Sponsor /SG	Scottish Government's Health and Social Care Directorates

Responsible Officer **(name & contact details)**	("SGHSCD") Mike Baxter, Deputy Director, St Andrew's House, Waterloo Place, Edinburgh Telephone: [redacted] Email : [redacted]
Project Authority Responsible Officer **(name & contact details)**	Susan Goldsmith, Project Sponsor Email: [redacted]
Project Director/Manager (name & contact details)	Brian Currie, Project Director NHS Lothian, 56 Canaan Lane Edinburgh Telephone : [redacted] Email: [redacted]
Principal legal, technical and financial advisers (firm/company & name of main contact)	Technical : Richard Cantlay, Mott Macdonald Financial : Michael Pryor, Ernst & Young Legal: Andrew Orr, MacRoberts

Section 2: Project Requirements

The key objective of this section is to ensure that the project scope is clear, stable and deliverable at the point that the project is formally launched. Arrangements must be in place for anticipating, identifying and managing any changes to the project scope during the tender process.

	Question	Yes/No	Comments
1.	Has an outline business case for the project been approved (i) at the appropriate level within the Procuring Authority and (ii) by the relevant Project Sponsor(s) / SG department(s)?	Yes	The Board approved the OBC on 25 January 2012; The Scottish Ministers approved the OBC on 18 September 2012
2.	Have all issues arising from the OBC sign-off and/or design review(s) been addressed (conditions or recommendations on scope/specification/design)?	Yes	The Funding Conditions will be issued on or around 4th December 2012contains a number of conditions some of which are to be implemented post the issue of OJEU and are addressed elsewhere in this KSR.
3.	Have there been any changes to the project scope since the OBC approval and have these received required approvals?	Yes	The Board has confirmed that there has been no changes to the scope except the removal of the Clic Sergeant space for patients' family accommodation. An options appraisal paper was submitted to the Project Board held on 9 March 2012 recommended Option B – the relocation of the Clinical Education Suite to Zone A, Level 3 and to retain existing Clinical Education Suite accommodation as 'Shelled Space', with serviced infrastructure and stated that the projected saving in capital costs of this option is £0.25 million. The Board has confirmed that that proposal was approved.

4.	Are the specification and space standards sustainable in accordance with relevant sector / programme level benchmarks?	Yes	The SFT Project Review was provided to the Board on 22 December 2011. It contained a copy of the report from Atkins to SFT which included comments on room sizes, numbers of theatres, therapy rooms etc and cost benchmarking. The updated responses to the table of 20 recommendations, as at 12 March 2012 (which has been provided to SGHSCD and the Board) confirms that there are no actions now which require to be resolved prior to the issue of OJEU.

5.	Please explain how the project outcomes will be monitored and evaluated during the procurement process and after financial close.		NHSL has advised that the project outcomes and the approach to monitoring and evaluating these are as set out in the Outline Business Case (see 6.75 of the OBC for outline of the process). In summary: - the key benefits/outcomes have been set out in the OBC - a project benefits realisation plan has been developed (sections 6.55-6.60 and Appendix 22 of the OBC refers)- this sets out who will have lead responsibility for ensuring the delivery of the benefit, action to be taken to ensure the benefit is realised, the projected timescale for realisation of the benefit and how the realisation of the benefit will be monitored and measured - a 4 stage post project evaluation will be carried out (6.71-6.74 refers) In addition to this, NHSL advise that the bid evaluation criteria have been reviewed for consistency with the project outcomes in the OBC and these have been specifically addressed within the Strategic & Management Approach section within the bid submission requirements and associated evaluation process. Consistent with comments from SFT on the draft ITPD, NHSL is currently refining the evaluation criteria to confirm that the specification, categorisation into pass/fail and the and weighting reflect the Board's priorities. The final version of the ITPD will be considered as part of the Pre ITPD KSR.
6.	Please explain what, if any, aspects of the project scope remain intentionally unresolved because the Procuring Authority is actively seeking to discuss		The Board has confirmed that there are no aspects of the project scope remaining intentionally unresolved.

	these with bidders during the competitive dialogue. Please explain the likely implications (e.g. on affordability and timetable) of adopting such an approach.		
7.	Please explain the approach that the Procuring Authority is taking in presenting its design and specification requirements to bidders (e.g. use of exemplar or reference designs) and the opportunities available for bidders to propose alternative or innovative solutions. Please demonstrate that this approach is consistent with (i) allowing opportunity for improved value for money through bidder innovation (ii) allowing scope for value engineering required to deliver the project within the affordability limits (iii) the procurement timetable and (iv) bidder access to project stakeholders during the procurement.		The Board has produced a Reference Design which is to be provided to bidders. SFT has raised issues as to the extent to which the Reference Design is to be mandatory and has commented on this issue in the context of the draft ITPD that clarity is required in relation to this issue. The Funding Conditions provide that *"the extent of negotiable and non negotiable elements is developed by the Board on the basis that bidders should be provided with flexibility to propose their own design and engineering solution, within defined parameters, and avoiding the need to open up the clinical adjacencies which has been settled with the Board's clinicians to date and reflecting the constraints in the site as reflected in SA6. The final position is to be reviewed by SFT as part of the Pre ITPD KSR."* Accordingly the finalisation of this issue will be considered as part of the pre ITPD KSR.
8.	Are control mechanisms and an approvals process in place for identifying and managing changes to scope, costs and timescales during the procurement process?	Yes	The project team headed by the Project Director would consider any changes and the impact on cost and time and reports monthly to the Project Board. In turn there is reporting to each meeting of the finance and resources committee of the Board. The Board has advised that it does not intend any material scope changes as significant work has already been done on the Reference Design including achieving sign off from the clinicians.

			Changes are therefore likely to come from proposals from bidders (within the parameters of non mandatory elements) or changes to keep within the funding envelope. The overall capital cost under the NPD element of the Project is subject to the cap of £154.9m (including inflation at base date per OBC, which is £137.7m excluding inflation) in terms of revenue funding from SG. The delegation to the Project Board which has been put in place (see 23 below) covers arrangements for changes to cost and timescales within the parameters of the outline business case..
9.	Please describe any mandatory variant bids that the Procuring Authority will require from bidders and its intended approach to dealing with any non-mandatory variant proposals put forward by bidders.		The Board as confirmed that there will be no mandatory variant bids.

Section 3: Affordability

The key objective of this section is to consider and test the overall affordability position of the project for both, the Procuring Authority and the Scottish Government, in terms of both revenue and capital funding requirements.

2. Please complete the following project affordability table (with information for the relevant KSR stage)[1]:

	Pre-OJEU	**Pre-ITPD**	**Pre-IFT**	**Pre-PB**	**Pre-FC**
Construction cost (nominal cumulative)	£137.7m plus inflation to mid point construction of 1Q 2016 (from 3Q 2011) or earlier midpoint if applicable during procurement.[2]				
Design fees (nominal cumulative)	See footnote[3]				

[1] It is expected that these costs will be based on internally generated estimates pre-OJEU and pre-ITPD but that cost expectations will be updated to reflect bids as they are submitted during the procurement process.

[2] Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 1Q 2016 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in October 2012 was £11,271,620 so that the Construction Cost Cap at that date on that basis is £149,027,938.
The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

[3] TC5B states that there is included an allowance based upon 8.5% of the estimated construction value and this is included in the construction cap figure. The assumption is that the design costs prior to financial closure are carried elsewhere.

Bid development costs[4] (nominal cumulative)	See footnote[5]				
SPV costs (in construction) (nominal cumulative)	See footnote [6]				
Hard FM costs (real per annum)	£29/m2[7]				
Lifecycle costs (real cumulative)	£27/m2[8]				
SPV costs (in operations) (real per annum)	£387,000[9]				
Operational Term (years)	25 years				
Percentage of unitary charge indexation	22%[10]				
Swap rate[11]	4%[12]				

[4] Including success fees

[5] The Board's advisers financial model assumes 5% of capex whereas SFT considers that 3% of capex is more appropriate, taking account of the level of design development pre procurement.

[6] The Board's advisers financial model does not have an entry for SPV costs during construction : development fees are 5%: see footnote 10.

[7] The Board's advisers model also includes a risk allowance which significantly increases the overall sum for hard fm. The Atkins Report forming an annex to SFT's Project Review says that the figure of £29/m2 sits within the expected range of benchmarks.

[8] The Atkins Report says that "Based on a range of benchmark information the Life Cycle Cost per square metre per annum of £27/m2, at 3Q 2011 prices, sits within the acceptable range of benchmarks"

[9] SFT's assumption is £350kpa

[10] Per EY's shadow bid model : SFT's estimate of indexed amount would be lower given lower estimates of lifecycle, hard fm and SPV costs.

[11] Including any buffer

Unitary charge (nominal year 1 of operations)	See footnote [13]				
Unitary Charge (NPV)	See footnote[14]				
SG funding support (nominal year 1 of operations)	See footnote[15]				
SG Funding Support (NPV)	See footnote[16]				

	Question	Yes/No	Comments
10.	Are you satisfied that the project is affordable (including associated enabling capital costs, unitary	Yes	As stated in the Outline Business Case, the Board advises that the financial consequences will ultimately be managed as part of

[12] for swap rate plus buffer per EY's shadow bid model : 3.41% (SFT model), but margin 2.25% (EY model), 3% (SFT model) and MLA + swap spread 0.38% (EY model), 0.5% (SFT model) – hence all in senior rate 6.63% (EY model), 6.91% (SFT model). (Also sub debt rate – 13% EY, 11% SFT – hence pro forma WACC 7.27% EY, 7.32% SFT.)

[13] As is made clear in the Funding Conditions (and see email correspondence between SFT and the Board culminating on 7 March 2012), there is discrepancy between the figures calculated by the Board and those by SFT : the relevant figures are : Unitary charge (nominal 1st full yr of ops - 12 months to 31/3/2018) - £22,381k (EY model), £20,970k (SFT model) – both excluding insurance costs. No unitary charge figures are to be provided to bidders.

[14] See footnote 15: the relevant figures for unitary charge (NPV – base date 1st January 2014, using 6.09% discount rate) - £262.1m EY, £230.6m SFT.

[15] See footnote 15: the relevant figures SG Funding Support (nominal first full year of ops - 12 months to 31/3/2018) - £19,115k SFT. We cannot find the equivalent figure in the EY financial model but the OBC v3.0 at page 49 says £20,029k

[16] See footnote 15: the relevant figures are the Board : SG Funding Support (NPV – base date 1st January 2014, using 6.09% discount rate) - £205.82m SFT. We cannot find the equivalent figure in the EY financial model.

	charge contributions and other ongoing operational costs (e.g. utilities, soft FM services))?		the longer term financial and capital planning process. This will be based on: • current baseline funding levels for NHS Lothian; • indicative future funding set out in the SGHSCD allocation letter of 10 February 2012 • anticipated future uplifts and NRAC funding, set out in the Board's Local Delivery Plan and associated Financial Plan; • assumed project funding from the Scottish Government, NHS Boards and charity partners. Paragraph 5.42 of the OBC says that the net revenue impact will be managed across the NHS boards which will be contributing to the specialist services and it is expected that the boards will require to commit to their contributions as a condition of the consideration of the FBC. SGHSCD has confirmed that no further information as regards affordability of the overall project is required by it at this stage.
11.	Have sensitivities been applied in assessing the affordability of the project and is an appropriate allowance in place to absorb reasonable cost movements?	Yes : see comments	As stated in paragraph 5.14 of the Outline Business Case, the Board advises that in order to test the robustness of the modelling process and the importance placed on it in assessing affordability, a range of sensitivities were applied to the NPD shadow bid model and new outputs derived. A number of the sensitivities relate to RPI and interest rate risk, which is retained by the Scottish Government. There was also modelled increases in capital and operating costs and retained NHSL risks which would have the effect of increasing the affordability gap (see 10

			above) if realised. Most of these movements would be SG risks while those which could impact on NHSL: will be managed as part of its overall funding arrangements and will be not separately provided for.
12.	Have any changes been made to the cost and funding assumptions (both revenue and capital) contained in the approved outline business case for the project and do these changes have the required level of approval (i) within the Procuring Authority and (ii) from the relevant Project Sponsor(s)?	Yes	For the NPD aspect of the project, the estimated costs remain as per the OBC, subject to inflation adjustment. For the capitally funded costs the Funding Letter provides support for enabling works to reflect the updated costs per SA (enabling) as reported to the November Project Board and for offsite works while equipment and clinical enabling works remain as the OBC (excluding optimism bias, which the funding Letter says will be centrally managed).
13.	Do the costs assumptions contained within the outline business case (or revised and approved cost assumptions, if applicable) remain accurate and deliverable? Have they been verified by the Procuring Authority's advisers? Indicate relevant benchmarks that have been used by the Procuring Authority and/or its advisers.	Yes	The Board advise that there have been no changes since the OBC (but see 3 above re minor change). As indicated above, the cost assumptions in the OBC for the NPD capital element is based on technical advisers, Thomson Gray's Technical Cost 4 and this has now been updated to TCS 5B which contains the same uninflated capital cost for the NPD element. Atkins Report confirmed that "the overall current total Capital Cost per square metre of £3,214 per m2 (including NPD site works) included in Technical Summary 4 for the purposes of the Outline Business Case is considered to be within the expected range for a project of this size and scope, based on the SoA Version 5". The cost per square metre in TCS5B contains the additional floor area which has been added during the finalisation of the reference design within the same underlying uninflated cost for the NPD element.

			The capital required for the enabling works reflect the price agreed for the Supplementary agreement with Consort Healthcare (RIE) Limited (Consort), as reported to the November steering board. The clinical enabling works cost included in the Funding Letter is the optimism bias exclusive figure included in the OBC.The Funding Letter says that optimism bias will be centrally managed. The Funding Letter also includes an amount for town planning external works to be procured directly by the Board. On lifecycle figure, see footnote 13 above and on hard fm, see footnote 12 above.
14.	Please provide details (including amount, proportion of total funding requirement and proposed timing) of any capital contributions that the Procuring Authority intends to make to the SPV during the project. Please demonstrate that the amount of the capital contribution includes allowance for associated financing fees etc.		None: the Board has also advised that any charitable contributions are likely to be revenue rather than giving rise to the ability to make a capital contribution. The Funding Letter does provide for any capital contributions from third parties to offset the SG support.
15.	Please demonstrate how any recommendations / actions / requirements in relation to the affordability of the project, detailed in the outline business case approval, have been addressed.		In relation to the NPD element, the Funding Conditions require that the Board will require to satisfy both the Scottish Government and the SFT that it has sought to minimise capital and operating costs within the agreed project scope and that it has undertaken a whole of life cost analysis of bidders' proposals and to comply with the Requirements of SFT's Project Review. The capital cost cap for the NPD element of the project has been set on the basis of the Project Review's assessment fo the Board's estimates.

16.	What are the key risks / outstanding issues that may have an impact on the affordability of the project and what strategy is in place to manage these?		There is a costed risk register which the Board advise will be updated and presented to the Project Board quarterly. The immediate risks reported to the November 2012 meeting of the Project Board in the monthly dashboard related to the OBC requiring to be affordable and VfM (see responses above re affordability at OBC stage); timing of the project; the potential for a negative response of the market to the NPD project, and the deliverability of changes which are required to the existing RIE to allow DCN activity from WGH Ward 20 and 33 to be delivered from RIE critical care floor. The dashboard set out mitigations to these issues. These risks and other risks which arise will be reviewed as part of the Pre ITPD KSR. The interface with Consort is a key issue to ensure both deliverability and to create a level playing field to maximise competition and hence maintain affordability. The risks have been mitigated by (a) the agreement of SA6 which has been entered into (b) the agreement of the enabling works with Consort and the consent (subject to a condition which has been acknowledged as acceptable at this stage) to the external enabling works from Consort's funders having been confirmed prior to issue of OJEU. There are internal enabling works which will require consent from Consort and its funders as the design for these is developed and as the procurement proceeds. The risk register flags potential technical issues with these works and this risk will be monitored as the project progresses. There is the risk that other issues come to light which require consent under the existing project documentation for Edinburgh Royal Infirmary. A key risk to overall project affordability is the availability and

			cost of long-term finance. This is an issue that SFT is exploring as part of its overall role in the programme of NPD projects and SFT will discuss how this is dealt with in the ITPD documentation in discussions with the Board. Recommendation: The Board should monitor closely the interface issues with the RIE and Consort, including in particular the dependencies between the works to be carried out by Consort which are required to be completed before financial close so as to give the NPD Contractor full vacant possession of the NPD site, and provide to the Project Steering Group at each meeting an update on these risks and should ensure that the project programme includes both the NPD programme and all elements of enabling works and other issues which are required to ensure the successful delivery of the overall project.
17.	Please confirm what affordability information will be made available to bidders in the ITPD documentation and/or during the dialogue period.		Due to the divergence between the view of the Board and SFT in relation to a number of the inputs into the shadow bid model (see affordability table and question 13 above), it has been agreed that the only affordability figure which will be provided to bidders will be the construction cost cap and that no annual or NPV of the unitary charge will be provided.

Section 4: Value for Money

The objective of this section is to ensure that the key drivers of value for money are addressed in the Procuring Authority's approach to development and delivery of the project. Please refer to relevant Value for Money guidance[17].

	Question	Yes/No	Comments
18.	Has the Procuring Authority assessed the requirements for demonstrating VfM in accordance with the SFT VFM Guidance?	Yes	SFT's Supplementary Guidance on Value for Money (VfM) issued on October 2011 at Paragraph 4.1 lists the steps to be taken in considering VfM at OBC stage. In relation to these requirements: • The Board has assessed the scope and procurement options in the OBC Update and the OBC itself and taken account of the issues listed in 2.2 of the Supplementary Guidance; • The Project Review, which is commented upon above, is the means by which SFT have challenged the scope and specification selection of the Project; • Appendix 17 of the OBC contains VfM checklist, forming Annex 1 of the Guidance and does not raise any additional issues which have not been covered by the Funding Letter; • The list at 2.2 of the Supplementary Guidance lists factors which are to be considered as part of Effective Delivery (SCIM Step 7) which is the management case

[17] Value for Money Assessment Guidance: Capital Programmes and Projects (updated October 2011) and SFT's Supplementary Guidance for projects in £2.5bn Revenue Funded Investment Programme (October 2011)

			section of the OBC. The Board has commented on a number of these are reflected in the Funding Conditions in relation to : - Negotiations with Consort (land issues and establishing a level playing field to encourage competition); - Governance - Resources - Affordability - Reference Design The Planning Permission in Principle has now been issued and the Section 75 agreement concluded. In addition, the Board responded in clarifications on the OBC as to advise as to the level of interest which has been expressed from potential bidders and the proportion of whom have previously bid successfully for UK acute hospital PPP project.
19.	Please demonstrate how the Procuring Authority intends to drive value for money through "Effective Delivery".		In relation to Effective Delivery at Stage 2, the response to Question 18 deals with the majority of the issues under Effective Delivery and Stakeholder involvement is dealt with at the response to Question 43 while staff is dealt with at the response to Question 33. The majority of the issues on Effective Delivery will be addressed in the context of the development and finalisation of the ITPD documentation and will be assessed at the pre ITPD KSR.
20.	Has the Procuring Authority demonstrated continuing efforts to discharge its obligation (as detailed in the SG conditions of funding letter dated 22 March 2011 and/or the outline business case	Yes: subject to comments	The Project Review contained recommendations in relation to the ongoing obligation to minimise capital and operating costs and these are reflected in the Funding Conditions. The most recent TCS (TCS 5B) contains the additional area which is a

	approval) to minimise capital and operating costs by reference to the development of the design and specification within the agreed project scope?		product of design review within the capped construction cost set at OBC.
21.	Please describe how any changes to scope and procurement options since approval of the outline business case have been assessed and the impact that these have on the delivery of value for money.		As noted above there have been no changes apart from the removal of Clic Sergeant area which was considered and approved by the Project Board (see 3 above).

Section 5: Readiness

The key objective of this section is to ensure that the arrangements for steering, resourcing and managing the project are robust and that the project is deliverable. This is intended demonstrate that the project has firm foundations on which to proceed, and that the project is operating within a clear decision making structure.

	Question	Yes/No	Comments
22.	Please demonstrate how the recommendations/actions/requirements detailed in the outline business case approval have been addressed (to the extent that these are not dealt with under any other sections of this KSR questionnaire).		The OBC letter issued on 18 September noted that CIG's consideration of the OBC required that planning permission in principle and the completion of SA6 was required and these conditions have been fulfilled. The OBC approval also required that the negotiations with Consort regarding the enabling works to be successfully concluded. The Funding Letter required email confirmation from the agent bank that all banks have approved SA (EW) and both we and SGHSCD are content that this condition is effectively satisfied by the email from the agent bank of 27 November 2012. **Recommendation** : that the Board finalise the documentation relating the SA (EW) for signing and that executed by the Board and Consort following the satisfaction of the condition in the agent bank's email (regarding sign off by Pinsents, solicitors) during December 2012.
23.	Please demonstrate that robust project governance		The Board advises that the following is an extract from NHSL's

	arrangements are in place to provide for effective delegation and decision making throughout the development and delivery stages of the project.		F+PR Paper which was approved on 18th May, 2012 : - *“Agree the proposed Scheme of Delegation for the NPD procurement process, (outlined in 3.21 below), which determines that the Project Steering Board will:* • *Approve the procurement documentation, including evaluation criteria;* • *Recommend to Finance & Performance Review Committee, the three bidders with the highest scoring Pre Qualification Questionnaires to be shortlisted for competitive dialogue; and* • *Recommend to the Finance & Performance Review Committee the preferred bidder at the close of competitive dialogue* *Scheme of Delegation for Procurement* *The proposed scheme of delegation through the procurement process is set out below:* • *The OJEU release (readiness to commence procurement) is the next step in the process and will be triggered by all the necessary external approvals and authorised by the Project Steering Board.* • *The Project Steering Board will sign off the Invitation to Participate in Dialogue (ITPD) evaluation criteria following technical, legal and financial input and workshops involving members of the Project Steering Board and evaluation groups.*

			The outcome of the PQQ scoring will be presented to the Project Steering Board, by the Core Evaluation Team, with recommendations that the three highest scoring submissions be invited to proceed to competitive dialogue. The Project Steering Board's recommendation will be brought to the Finance & Performance Review Committee for approval on behalf of the NHS Lothian Board. *In the same way, the outcome of competitive dialogue and the scoring of final submissions will be presented to NHS Lothian Finance & Performance Review Committee with the recommendation from the Project Steering Board, to approve the preferred bidder.* *The Project Steering Board will agree to Financial Close (the financial, legal and technical "deal") having received recommendations from the Core Evaluation Team. At this stage the Full Business Case (FBC) is brought through the NHS Lothian and Scottish Government governance processes. Post Financial Close an addendum to the FBC is taken through the governance processes.* *Throughout the procurement period the Core Evaluation Team, Project Steering Board and Executive Director will pursue the evaluations, dialogue and negotiations in line with the objectives presented and approved in the business cases. There are also Key Stage Reviews by SFT at appropriate milestones. This approach, although now*

			managed through SFT, is consistent with earlier PPP project governance. *The expectation from SGHSCD and SFT is that the turnaround for approval will be rapid to ensure momentum with the project bidder(s). Therefore there may be a requirement to seek special meetings to accommodate flexibility in the procurement stages"* *SFT considers that this delegation scheme is appropriate but it is* ***recommends*** *that the Project Steering Board is made explicitly aware of terms and that reference is made to it as part of the ongoing decision making of the Project Steering Board and within the project.*
24.	Please demonstrate that a robust and comprehensive project management plan and a robust and comprehensive resource strategy are in place and that these take account of project stages, milestones and dependencies (such as approvals processes, stakeholder engagement, site		NHSL has planned for the project management of the project, including procuring project management services from Mott Macdonald and a Project Execution Plan was attached to the OBC. A strategic programme has been produced and there is regular reporting on issues across the project and on the

	acquisitions etc).		programme to the Project Steering Board. NHSL has also provided a paper on resourcing both within NHSL and the core team. **See further at 28 below.**
25.	Is an evaluation strategy covering all stages from PQQ to final tender evaluation (including resourcing) in place that has been approved by the Procuring Authority?	No : to be completed pre ITPD KSR	The PQQ evaluation strategy is included in the IM/PQQ which document is finalised subject to final checking and publication. The evaluation of final tenders (there is not a down sizing during the procurement) will be included in the ITPD documentation which the Board is developing. NHSL has provided a first draft of the ITPD upon which SFT has provided comments and agreement was reached at a meeting on 26 October as to the way forward in key issues on payment mechanism and evaluation criteria. SFT **recommends** that (1) NHSL continues to liaise with SFT and respond to its comments in the development and finalisation of the ITPD so that all of the documentation is available prior to appointment of the shortlisted bidders and within the current programme and that the fortnightly working group session are used for that purpose with advisers in attendance as required; (2) the Project Director ensures that all parts of the ITPD

			documentation is clear and consistent; and (3) that a workshop or series of workshops are held, with advisers and SFT in attendance, to discuss and finalise the competitive dialogue strategy in the context of the developed ITPD documentation.
26.	Please demonstrate that the tender evaluation methodology allows for an assessment of whole life costs, strikes an appropriate balance between price and quality in the assessment of "most economically advantageous tender" and assesses price on the basis of net present value of the unitary charge and that this methodology complies with SFT guidance on tender evaluation.		The tender evaluation will be included in the ITPD documentation which the Board is developing: see 25 above.
27.	Please demonstrate how the tender evaluation methodology assesses bidders' acceptance of the standard form NPD documentation.		The tender evaluation of the bidders' acceptance of the standard form NPD documentation will be included in the ITPD documentation which the Board is developing: see 25 above.
28.	Please demonstrate that a dedicated project team with appropriate (including NPD/PPP procurement) experience and expertise is in place and that the team has sufficient resources for all stages of the procurement. Please demonstrate that clear roles and responsibilities for and within the project team (and between the project team and external advisers) have been established		The Board has produced a resources paper, which has been considered by the Project Board and sets out the roles and responsibilities for the project team. SFT has consistently comments that the team need to include a further resource with sufficient relevant commercial PPP experience : this is in addition to the proposed contract manger whose main focus appears to be fm specification during procurement and the contract management thereafter.

			The Board advises that the following is an extract from NHSL's F+PR Paper which was approved on 18th May, 2012: *1.3. "Agree membership of the Core Evaluation Team (outlined in 3.18 below)* *3.18 Bid Evaluation Team* *The Core Evaluation Team will be led by the Project Director, supported by a lead from each of the technical, financial and legal advisers. In addition, the Project's full time Clinical Director will be on the Core Evaluation Team* *As agreed by the Committee on 8 February 2012, the Director of Capital Planning & Projects and the Associate Director of Finance will join the core evaluation team for the duration of the procurement phase. In agreement with SFT and SGHSCD, the Director of Capital Planning & Projects will fulfil their requirement for a commercial lead for the Board on the evaluation and competitive dialogue phases through to Financial Close. The Executive Director responsible for the procurement is the Director of Finance. It is important that consistency of membership of the Core Evaluation Team is maintained across the whole bid programme and engagement with bidders.* *The core evaluation team will be supported by specialist groups*

			led by NHS Lothian personnel including Partnership and Facilities. These groups feed into the dialogue process through the core evaluation team and will engage with specific elements of the bidding process appropriate to those functions. These groups will be further supported by the Project Team and advisers, supplemented by identified leads from NHS Lothian Employee Relations, eHealth, Health and Safety and Procurement. " SFT has made a number of recommendations as to resourcing throughout the project and is content with the resourcing which is in place. NHSL has advised that Susan Goldsmith is the executive director responsible for the project and that Brian Currie reports to her. SFT **recommends** that the Board communicates to bidders and others involved in the projects a clear reporting and decision making structure within the project team.
29.	Please confirm any external advisory appointments that have been made. Please describe the reporting arrangements and budgets in place with external advisers and the controls in place to manage advisers' inputs and fees.		The Board has advised that: External advisors have been appointed to support NHSL in the delivery of the NPD procurement: Mott MacDonald was appointed as the lead consultant and Technical Advisers via the Standard OGC Buying Solutions Framework Agreement in March 2011. They will deliver the following services: NPD procurement advice; facilities

			management advice; and design and construction advice. MacRoberts, were appointed prior to OBC submission to provide the following legal advice up to and including financial close: procurement under the NPD model of PPP; advice on the legal requirements related to NHS Lothian's existing PFI contracts at Little France; and advice on other legal and commercial issues related to this project, including advice in relation to organisations covered by the Charities Acts. Ernst & Young were appointed as Financial Advisers, responsible for the preparation of the shadow bid model, financial modelling and project finance advice up to and including financial close. Monthly cashflows are being prepared for each set of advisors for 2012/13, and these will be used to support the monthly reporting process. Specific members of the internal Project Team will meet on a regular basis with each set of advisers, along with the Project Accountant or Associate Director of Finance. The Project Director, Associate Director of Finance and Director of Capital Planning will regularly review both capital and revenue expenditure for this project; the Project Director will subsequently present a regular financial update to the Project Board, including a review of actual expenditure against planned budgets for the advisory team.

30.	Please demonstrate that a realistic and deliverable procurement strategy (including timetable) is in place. Please include details of the Procuring Authority's intended approach to management of the pre-qualification and competitive dialogue stages (e.g. number of shortlisted bidders; interim dialogue submissions, interim down-selection during dialogue etc).		The OBC contains a procurement strategy at Appendix 18. It sets out the procurement proposals in outline and the full detail will be in the ITPD documentation: see 25 above.
31.	Please confirm whether the procurement strategy has been reviewed by the Procuring Authority's external advisers and detail any key risks that have been identified.		The procurement strategy has been reviewed by the Board's advisers. Key risks in terms of timescale are the availability of finance and interface with Consort : see above.
32.	Please demonstrate that a draft OJEU notice, information memorandum and pre-qualification questionnaire (including pre-qualification evaluation methodology) have been prepared and that SFT guidance on the development / content of these documents has been followed. Please confirm whether these drafts have been reviewed by the Procuring Authority's external advisers and approved at the appropriate level within the Procuring Authority and confirm any further action to be taken to finalise these.		The draft OJEU, PQQ and Information Memorandum have been completed, subject to final points checking and have been reviewed by the Board's advisers and SFT's comments have also been taken into account. The ITPD documentation is to be further developed see 25 above.
33.	Please demonstrate that all necessary		The Board is providing the 1:500 scale drawings drawn from the

	documentation, including background project information, has been collated and will be made available to bidders at the start of dialogue including, for example, planning development briefs, room data sheets, staff terms and conditions (if TUPE will apply) etc.		reference design at the bidders day to maintain a level playing field as members of the reference design team may form part of private sector consortium advisers. The documentation for issue along with the ITPD is to be collated by the Board and this issue will be checked at the Pre ITPD KSR.
34.	Please demonstrate that the pre-qualification process will allow a robust assessment of the financial and economic standing of bidding consortia.		The evaluation criteria for financial and economic standing has been developed and refined by the Board's financial advisers in the light of SFT's comments, including a separate assessment of the construction contractor. The Board has confirmed that it is comfortable with the test now being employed.
35.	Please describe the basis on which any bidder down-selection will be carried out during the dialogue phase and demonstrate that adequate time is allowed for this in the procurement timetable.		The Board has confirmed that there is to be no bidder down selection.
36.	Please confirm that the procurement documents allow sufficient scope for the following funding arrangements to be introduced to the project: • public sector debt guarantees and 100% public sector refinancing risk post-construction • investment of a proportion of subordinated or mezzanine finance by a public sector, or public sector nominated, entity		The OJEU contains the standard SFT wording to cover this issue and it is referenced in the IM. The ITPD documentation is to be further developed : see 25 above, and final version should reflect the position of the market at the time.

	• capital market funding solutions • government support/guarantee of procuring authority covenant.		
37.	Please describe any market testing activities that have been carried out to encourage interest in the project from potential bidders		The Board has provided the following clarification on the OBC: “NHS Lothian's Project Director and Director of Capital Planning & Projects have responded to market interest in the project by meeting with representatives of firms potentially interested in bidding for the project. These meetings commenced from shortly after the procurement route change and have continued to the current date. It is planned that these informal discussions will cease before publication of the OJEU notice. There have been a variety of bid managers and similar coming forward and the Board representatives have received differing levels of assurance as to the respective corporate interest and depth of consortium members in the project - see abridged list attached. It is clear from the meetings that initial concerns over a dominant bidder have been alleviated, subject to this being borne out through procurement contract documentation. Similarly all the interested parties have indicated high level engagement with SFT regarding the project as part of the NPD programme. NHS Lothian has not been represented at SFT meetings, but the project working group has received feedback

			from SFT consistent with our informal discussions. The abridged list attached has been produced for the sole purpose of CIG consideration of the Outline Business Case and should not be more widely distributed. The Board at this time cannot confirm that there will be multiple bidders as that will be dependant on a positive response from the market to the project." NHSL subsequently advised that "The Project Director and Director of Capital Planning & Projects and / or Associate Director of Finance have met with the following parties (listed alphabetically) to maximise their knowledge of the project, pre-procurement, and to elicit the levels of interest forthcoming. Where a consortium has been identified, this is shown as a single entry. All have demonstrated a track record in major UK healthcare/ PFI / PPP projects, except FCC whose experience is international. 1. BAM / Balfour Beatty 2. Bouygues 3. Brookfield 4. Carillion 5. FCC

			6. John Laing Investments / Laing O Rourke 7. Skanska/ Miller." More recently. Carillion advised that it did not intend to bid and the Board considers that Bouygues and FCC are not likely to proceed.
38.	Please describe what factors have been considered, and may influence, the timing of publication of the OJEU notice.		The intention is that the OJEU will be launched as soon as practicable after all of the conditions requiring to be fulfilled beforehand have been satisfied. It is expected to be 5December 2012.
39.	Please confirm what arrangements are in place for engaging with the market once the OJEU notice has been published (e.g. has a bidders' day been arranged).		NHSL to confirm date of bidder day : likely to be 13th December 2012. NHSL has confirmed it will be scheduled soon after OJEU, with the date being fixed before the OJEU is published.
40.	Please demonstrate that the ITPD documentation (including tender evaluation methodology) is complete and reflects SFT guidance and/or describe the process and timescales for finalising it. Please confirm whether the documentation has been reviewed by the Procuring Authority's external		The ITPD documentation is to be further developed see 25 above. The ITPD documentation will be reviewed as part of the Pre ITPD KSR.

	advisers and whether it has been approved (or the process for approval) at the appropriate level within the Procuring Authority.		
41.	Please describe what steps the Procuring Authority will take to ensure a level playing field amongst shortlisted bidders during the competitive dialogue and final tender stages.		See comments at 16 and 33 above re the position to date and the ITPD should reflect the position going forward.
42.	Please describe the steps that the Procuring Authority and advisers will take during the competitive dialogue to assess the sufficiency/efficiency/competitiveness of bidders' proposals in relation to the following: • capital cost inputs • SPV average annual operating costs • SPV project development costs • lifecycle maintenance fund and profile • tax efficiency • subordinated debt return.		The ITPD documentation is to be further developed see 25 above.
43.	Please demonstrate that a robust stakeholder management plan has been developed, identifying all project stakeholders (including statutory and other external stakeholders), management of their		The Board has provided a stakeholder management plan and communications log.

	input, specific risk factors etc.		
44.	Please demonstrate that all consultations have been carried out and approvals (internal and external) obtained to allow the project to proceed to OJEU and that any concerns/risks raised have been addressed.		On consents to proceed to OJEU: 1. NHSL obtained Board consent on 25 January 2012; 2. The OBC was approved by Scottish Government on 18 September 2012. 3. The Board has confirmed that there are no other consents required to proceed to OJEU. On consultation, **NHS Lothian has advised the following:** **Overview** *NHS Lothian has a Project Communication and Engagement Plan and through this has delivered a comprehensive programme of engagement and consultation with service users which has involved a broad range of activities to ensure the views of children, young people and adults were gained.* *The Project's Stakeholder Map identifies over 150 groups or bodies with an interest in the project. Consultation and engagement from a service users perspective can be summarised under the following headings:* • *Patients, their families and carers (RHSC, DCN &*

			CAMHS) • *Charities and voluntary organisations e.g. Multiple Sclerosis Society, Teenage Cancer Trust, Sick Kids Friends Foundation, Stroke Association, Epilepsy Scotland* • *Schools* • *Local Communities & General Public* *Examples of the activities undertaken include:-* • *questionnaires* • *focus groups & workshops* • *attendance at public events* • *series of workshops with younger children by a specialist external agency who used art and play to gain their views* • *information sessions for local neighbourhood communities as part of the Planning Process* *The RHSC Young People's Advisory Group and the DCN Patient Reference Group were both established through the project, and the Project Team also works closely with the existing RHSC Family Council.* *Service users' views have played an integral part in the development of the design and they have also been consulted on proposed changes in service delivery and models of care. This*

			included participation in the AEDET review to evaluate the Reference Design in March 2012. *Service users have actively engaged with the project and overall are pleased with the current reference design. However it should be noted that some service users from RHSC remain concerned that this is now a joint build with DCN and would prefer a stand alone children's hospital on the RIE campus.* *In addition to the groups listed above, communication, engagement and consultation have also involved the following groupings:* • *NHS Lothian staff groups and departments* • *Higher and further education institutions* • *NHS Lothian's commercial partners* • *Other NHS Scotland Boards and organisations* • *Local and national government* **Procurement Process** *During the Competitive Dialogue process, the views of patients, their families and carers will be represented by Janice Mackenzie, Project Clinical Director who will be part of the Core Evaluation team. She will be supported by Sorrel Cosens, Project Manager. This team will be the only point of contact between Bidders and users of NHS Lothian services. It will be for this team to liaise*

			internally with service users should any further advice be required and to advise the Bidders accordingly. *Following the selection of the Preferred Bidder, it is NHS Lothian's intention to re-engage users within those areas where they are able to influence the service model and building." Note; NHSL has confirmed that the reengagement referred to is not to reopen any commercial issue which has been established before the appointment of the preferred bidder but simply to deal with detail.*
45.	Please demonstrate how the project team intends to manage the interface between bidders and stakeholders (e.g. end users).		During the Competitive Dialogue process, the NHS Clinicians will be represented by Janice Mackenzie, Project Clinical Director who will be part of the Core Evaluation team. She will be supported by James Steers, Project Clinical Director and Fiona Halcrow, Project Manager. This team will be the only point of contact between Bidders and the NHS Clinicians. It will be for this team to liaise internally should any further clinical support and advice be required and to advise the Bidders accordingly.
46.	Please explain the land/site strategy (e.g. acquisition, title issues, ground conditions, surveys enabling works) and provide information on the current status of planning matters and describe what strategy is in place to manage the impact of any outstanding matters on the project timetable		As noted above SA6 has been entered into and this will provide the land required to build the new facility and the SA (enabling works) will deal with the connection to the A&E and the first floor corridor as well as dealing with a small area of pavement to be excised from the University of Edinburgh's lease.

	and/or affordability position.		Planning Permission in Principle has been granted and the Board has advised that external enabling works, principally VIE and Emergency Department Link Building have been consented through the reserved matters process. Following the receipt of the flood management proposals, application will be made for planning consent for the onsite flood protection works (through reserved matters) and the offsite flood protection works (through a separate planning permission). **Recommendation :** That the Board progresses these planning procedures to obtain planning consent within the timescales required by the overall programme so as to achieve completion of all of these works prior to financial close of the NPD programme. The Board wrote to SFT on 29 November enclosing a draft report on title from CLO with comments from and advising that it is content that the advice provided by CLO and MacRoberts confirms that the Board is clear of encumbrances for the development of the Project. The Board also advised that in relation to the electricity substation and cable run it has now identified the most appropriate route as the publicly adopted verge and that the Board intends to formalise the position with in the next two months. On site investigations NHSL advise that :

			“Our intention in relation to SI / Ground Conditions is as follows: While various ground condition surveys exist, they are not necessarily all encompassing nor do the have collateral warranties in place which would allow bidders to rely on them and accept ground risk in their tenders. As a result, through the dialogue period bidders are likely require further ground investigation before accepting ground risk. Given the issues with the site in terms of access (both live operational site and the PFI ownership issues), it is not ideal to have 3 sets of bidders undertaking their own site investigations (this would also result in the same or similar work being carried out 3 times). NHS Lothian’s intention is therefore (using the existing consultant team) to design a site investigation and then allow the bidders to comment on it early in the dialogue process - thereafter a single site investigation will be carried out, with a collateral warranty being given to the successful bidder from the site investigation contractor. It should be noted that while the bidders will try to achieve a site investigation which is as detailed as possible (to mitigate ground risk as far as they can), the site investigation at dialogue stage should be sufficient to allow the bidders to accept ground risk and the preferred bidder may need further more detailed surveys to allow them to

			finalise their design at a more advanced stage. We see no need to undertake investigations out with the site boundary. Bidders, of course, may take another view." SFT **recommends** that : (1) The amendment to the lease and other documentation is completed by the University of Edinburgh no later than the commencement of dialogue; (2) The nursery is vacated and vacant possession of the crèche is obtained no later than 31 December 2012; (3) The Board obtains clear legal advice prior to the issue of the ITPD that it has all necessary rights to install use and maintain and renew the cable to serve the electricity substation to service the new facilities; (4) Any queries from SFT on the draft Report on Title which was provided on 29 November2012 and any issues affecting the ability to develop use and maintain the project arising from title or third party rights is satisfactory dealt with prior to the issue of the ITPD.

47.	Please demonstrate that a comprehensive risk register and a risk management plan are in place for the procurement and delivery stages of the project. Please describe any changes that have been made to these since approval of the outline business case, and the impact that any such changes have on the project.		A project risk register has been prepared and will be updated periodically and reported to the Project Steering Board quarterly.
48.	Please describe the risks that the Procuring Authority considers to be most significant and the strategy for managing these risks.		NHSL has provided an extract from NHSL's Corporate Risk Register which it reported to the Project Steering Board in November 2012 as being the key risks: (1) Existing RIE cannot accommodate DCN level 3 and 2 patient activity from WGH Ward 20 and 33: Consort Healthcare are to deliver a Feasibility Study to the Project Team for appraisal: The Board advises that it is considering flexibility in the OJEU for possible design changes if necessary consequent upon this issue; (2) Facility does not meet the clinical and operational needs of the service: the Project Steering Board has approved the reference design for the project. (3) Negative Response from NPD Market: Project to be as attractive as possible with all major risks eliminated or mitigated, particularly around Consort consents;

			(4) OBC (meaning the project as it proceeds through to completion) is unaffordable and not Value for Money: ongoing monitoring of estimated and outturn costs;; (5) Procurement Process Delayed Post OBC Approval & OJEU Release: now at point of closure; (6) Project not delivered on time: A revised strategic programme has been prepared with an OJEU Notice release date of November, 2012: now likely early December. Consort's funders' consent to the enabling works is a major risk issue which has been removed. The dialogue period has been reduced but not the FC date. Client change must be avoided and in particular no revision of clinical briefs with resultant design change to the Reference Design can be tolerated without significant detrimental impact to programme. **Recommendation**: That these and any other key risks are closely monitored with mitigations put in place in a timely manner, following discussions by the Project Steering Board.

49.	Is a mechanism in place for reviewing and updating the risk register and risk management plan during procurement?		NHSL has advised that following three monthly reviews it is intended that the full updated risk register will be considered by the Project Steering Board.
	Has appropriate consideration been given to the following matters (to the extent applicable) how these will be managed throughout the procurement and is this position clear in the ITPD documents:		The ITPD documentation is to be further developed see 25 above.
50.	- the scope, cost and timing of any enabling works that require to be carried out to support the effective construction and operation of the facilities;		External enabling works are the subject of the forthcoming supplementary agreement with Consort and are programmed to be carried out during the procurement period. The clinical enabling works (which are internal to RIE) will be developed and carried out in tandem with the construction phase
51.	- scope of FM services;		A scoping paper for the soft and hard fm was presented to the Project Board in February 2012 and see above scope of hard fm within the NPD project a the Project outline above.
52.	- the interface between FM services to be included within the project and those for which the Procuring Authority will retain responsibility;		To be included in the ITPD documentation
53.	- the interface between design and the delivery of FM services (e.g. cleaning) and risks (e.g. energy consumption, security) retained by the Procuring Authority;		To be included in the ITPD documentation
54.	- the interface (during both construction and		SA6 deals with interface issues, as will the SA for the enabling

	operations) between the works and services included in the project and the Procuring Authority's other facilities and services (e.g. impact on use of adjoining facilities during construction phase);		works
55.	- the impact of the project on staff (including potential impact of TUPE legislation);		The Board advise that it is expected that staff who could be impacted by TUPE will chose to be redeployed.
56.	- the delivery of equipment and the Procuring Authority's IT requirements within the new facilities;		To be clarified at the Pre ITPD KSR
57.	- decant from existing facilities and migration to new facilities and disposal of residual assets;		To be clarified at the Pre ITPD KSR
58.	- termination/variation of any existing contractual arrangements related to existing facilities.		To be clarified at the Pre ITPD KSR
59.	- sustainability;		To be included in the ITPD documentation
60.	- community benefit;		To be included in the ITPD documentation; the OJEU indicated that provisions will be included to deal with community benefits.
61.	- disposal of residual assets; and		The residual assets will not form part of the NPD project
62.	- any conditions or recommendations on scope/specification/design identified in the outline business case approval.		See 3 above
63.	Is the Procuring Authority satisfied that the interface issues described above can be resolved during dialogue in a manner that will satisfy its operational	Yes	The Board has commenced the process of dealing with interface issues and this will be more fully developed prior to issue of the

	and functional requirements and deliver the project outcomes?		ITPD.

Section 6: Compliance

The key objective of this section is to test that project has considered and adopted procurement best practice.

	Question	Yes/No	Comments
64.	Please confirm that the Procuring Authority will adopt the standard NPD contract documentation (including service specification, payment mechanism, NPD articles of association and accompanying guidance) as its basis for contracting with the private sector.	Yes	The payment provisions and specification will be developed to take account of the 24/7 use for the facilities and the principles were agreed at a meeting to discuss with SFT on 26 Oct 12.
65.	Please confirm that all derogations have been signed off by SFT.		Derogations will be dealt with prior to the pre ITPD KSR.
66.	Please describe what the approach that the Procuring Authority intends to take in negotiating and agreeing the contract (including service specification, payment mechanism and NPD articles of association) with the bidders during the procurement and ensuring bidders obtain support from sub-contractors and funders.		To be considered at the Pre ITPD KSR
67.	Please demonstrate that full consideration has been given to synchronisation of the service specification and payment mechanism and to calibration of warning notices, termination triggers, levels of deductions, unavailability thresholds etc. Please explain how the calibration of warning notices,		To be included in the ITPD documentation and considered at the Pre ITPD KSR

	termination triggers etc has been arrived at.		
68.	Is the Procuring Authority satisfied that the incentives delivered by the service specification and payment mechanism reflect its priorities and desired outputs? Please describe what scenario testing has been applied in calibrating the payment mechanism.		To be included in the ITPD documentation and considered at the Pre ITPD KSR
69.	Please confirm the status of the Procuring Authority's title investigations and whether a list of reserved rights and disclosed title conditions will be included with the ITPD documentation.		The Board advise that the title is in name of the Scottish Ministers and the existing lease will be renounced through the implementation of SA6. A contract has been concluded for the renunciation of the sub lease over the crèche. On title conditions, see 46 above.
70.	Please demonstrate that the Procuring Authority's approach to managing the financing aspects of the project throughout the procurement complies with SFT guidance and that this is reflected in the ITPD documents. In particular please confirm that the ITPD documents reserve the right for the Procuring Authority, at the request of SG, to call for a funding competition after preferred bidder appointment?		To be included in the ITPD documentation and considered at the Pre ITPD KSR.
71.	It is a condition of SG revenue funding support that the project meets the requirements for classification as a non-government asset for national accounts purposes under relevant Eurostat (ESA95) guidance. Please confirm that the contract to be issued with the ITPD transfers availability and construction risk to the private sector.		To be confirmed at the Pre ITPD KSR: standard contract to be adopted so this should be positive.

Is the project ready to proceed to the next stage?	**Yes , subject to recommendations below**
Reasons / Recommended actions:	**To be completed by:**
1. **Question 16 Recommendation**: The Board should monitor closely the interface issues with the RIE and Consort, including in particular the dependencies between the works to be carried out by Consort which are required to be completed before financial close so as to give the NPD Contractor full vacant possession of the NPD site, and provide to the Project Steering Group at each meeting an update on these risks and should ensure that the project programme includes both the NPD programme and all elements of enabling works and other issues which are required to ensure the successful delivery of the overall project.	Pre ITPD KSR
2. **Question 22 Recommendation** : that the Board finalise the documentation relating the SA (EW) for signing and that executed by the Board and Consort following the satisfaction of the condition in the agent bank's email (regarding sign off by Pinsents, solicitors) during December 2012.	End December 2012
3. **Question 23**: SFT **recommends** that the Project Steering Board is made explicitly aware of terms of the delegation scheme and that reference is made to it as part of the ongoing decision making of	

the Project Steering Board and within the project. 4. **Question 25 :** SFT **recommends** that (1) NHSL continues to liaise with SFT and respond to its comments in the development and finalisation of the ITPD so that all of the documentation is available prior to appointment of the shortlisted bidders and within the current programme and that the fortnightly working group session are used for that purpose with advisers in attendance as required; (2) the Project Director ensures that all parts of the ITPD documentation is clear and consistent; and (3) that a workshop or series of workshops are held, with advisers and SFT in attendance, to discuss and finalise the competitive dialogue strategy in the context of the developed ITPD documentation.	 Pre ITPD KSR
5. Question 28: SFT **recommends** that the Board communicates to bidders and others involved in the projects a clear reporting and decision making structure within the project team.	Bidders' Day
6. **Question 46 (1): Recommendation** : That the Board progresses these planning procedures to obtain planning consent within the timescales required by the overall programme so as to achieve completion of all of these works prior to financial close of the NPD programme.	Pre ITPD KSR
7. Question 46 (2): SFT **recommends** that : (1) The amendment to the lease and other documentation is completed by the University of Edinburgh no later than the commencement of dialogue;	Pre ITPD KSR

(2) The nursery is vacated and vacant possession of the crèche is obtained no later than 31 December 2012; (3) The Board obtains clear legal advice prior to the issue of the ITPD that it has all necessary rights to install use and maintain and renew the cable to serve the electricity substation to service the new facilities; (4) Any queries from SFT on the draft Report on Title which was provided on 29 November2012 and any issues affecting the ability to develop use and maintain the project arising from title or third party rights is satisfactory dealt with prior to the issue of the ITPD.	
8. Question 48: Recommendation: That these and any other key risks are closely monitored with mitigations put in place in a timely manner, following discussions by the Project Steering Board.	Throughout the Project
9. In addition, as noted above, the following issues will be considered again at the Pre ITPDKSR: The ITPD documentation will be reviewed as part of the Pre ITPD KSR and specifically**:**	
9.1. Question 5, NHSL is currently refining the evaluation criteria to confirm that the specification, categorisation into pass/fail and the and weighting reflect the Board's priorities. The final version of the ITPD will be considered as part of the Pre ITPD KSR;	Pre ITPD KSR
9.2. Question 7: Reference Design mandatory and non mandatory	

elements text to be finalised; **9.3. Question 16:** The risks referred to in the dashboard presented to the November Project Steering Board and other risks which arise will be reviewed as part of the Pre ITPD KSR; **9.4. Question 19:** The majority of the issues on Effective Delivery will be addressed in the context of the development and finalisation of the ITPD documentation and will be assessed at the pre ITPD KSR; **9.5. Question 33 :** The documentation for issue along with the ITPD is to be collated by the Board and this issue will be checked at the Pre ITPD KSR; **9.6. Question 36 :** The ITPD documentation is to be further developed and final version on financing solutions should reflect the position of the market at that time; **9.7. Question 40 :** The ITPD documentation will be reviewed in its final form, and to ensure compliance with SFT's guidance, as part of the Pre ITPD KSR; **9.8. Question 41 :** the ITPD should reflect the position, on ensuring a level playing field, going forward**;** **9.9. Question 65 :** Derogations will be dealt with prior to the pre ITPD KSR; **9.10. Question 67:** Calibration of the payment mechanism and synchronisation with the service specification is to be included in the ITPD documentation and considered at the Pre	

ITPD KSR; **9.11. Question 68:** Priorities reflected in the incentives delivered by the service specification : to be included in the ITPD documentation and considered at the Pre ITPD KSR; **9.12. Question 70:** Management of the financing aspects of the project : to be included in the ITPD documentation and considered at the Pre ITPD KSR; **9.13. Question 71:** Compliance with ESA 95: to be considered at the Pre ITPD KSR.	
Signature of Primary Reviewer	**Signature of Secondary Reviewer**
Date:	**Date:**

Procuring Authority Declaration	**I confirm that I am not aware of any information that would materially change the assessment and review of the project.**
Name and Position:	**Date and Signature:**

RHSC and DCN at Little France

Bidders' Day 13 December 2012

Tim Davison, Chief Executive, NHS Lothian

Welcome and introduction – Slides 1 to 4

- Thank everyone for coming
- Important project for Lothian and Scotland
- The first major NPD health project
- Commitment to improving the quality and standards of care and meeting the needs of our changing population
- This project is a significant step in shaping future care in Lothian by bringing children's, maternity and adult services together on the same site
- Creating a centre of excellence and a major trauma centre
- Extensive lists of benefits, in particular allowing our teams to share experience and expertise
- Proximity to the University of Edinburgh and the BioQuarter bringing research to the bedside
- Looking for a private sector partner who shares our commitment to quality and patient care
- Programme:
    - Susan Goldsmith, Director of Finance to provide overview of the project
    - Peter Reekie, Director of Finance, Scottish Futures Trust insight into the wider NPD pipeline
      and
    - Brian Currie, Project Director, to provide you with more detail on the project, the reference design and the procurement process.

Susan Goldsmith, Director of Finance, NHS Lothian

Overview – Slides 5 - 20

Slide 5 – overview

- Overview of how we got to this point
- Putting the project into the wider context of NHS Lothian
- Commitment to safe, effective, person centered care.

Slide 6 – second largest

- NHS Lothian created in 2001 as an umbrella organisation
- Tasked with breaking down the artificial barriers that had existed between the former health authority and the region's three former NHS trusts
- Single system approach - providing coordinated care, working in partnership with local authorities
- The second largest health board in Scotland and a regional centre providing tertiary care for patients from across the south and east of Scotland.

Slide 7 – population

NHS Lothian serves a growing population of almost 850,000.

Slide 8 – primary care

82% of the population will visit their GP or practice nurse each year

Slide 9 – A&E

We have one of the busiest emergency departments in the UK, seeing almost 250,000 people each year.

Slide 10 – acute care

Around 200,000 people use our acute hospital services.

Slide 11 – maternity

Our maternity unit, the Simpson Centre for Reproductive Health, is the busiest in Scotland with around 6,500 births a year. We have the skills and facilities to respond to very complex births and to care for the most unwell neonates.

Slide 12 – staff

We have 24,000 staff across the region many of whom are highly skilled in specialist care.

Slide 13 - RHSC

- Historic and much loved 150 year old institution
- Based at its current city centre location for almost 120 years
- Site of many medical advances, leading the way in paediatric surgery from late 1800's to pioneering key-hole surgery in children at the end of the 20th century
- Provides one of Scotland's two Paediatric Intensive Care Units
- Service development constrained by the age and restrictions of the building
- Families and staff will be sad to leave but recognise the need for a new building that is designed for the healthcare of today and tomorrow.

Slide 14 - DCN

- Based at the Western General Hospital
- Provides specialist neurological care for people from across the south and east of Scotland
- Current DCN, built more than 50 years ago, bringing together neurology, neurosurgery, interventional neuroradiology into a single service
- Also pioneering - unique theatre design was considered world leading
- Tradition we are keen to continue with the new development.

Slide 15 - CAMHS

- Regional centre for child and adolescent mental health currently based at the Royal Edinburgh Hospital which is home to a range of mental health services.
- Caring for young minds
- Move recognises need to provide physical and psychological care at the same time.

Slide 16 – We need this building…..

- Bringing together maternity, children's and adult services on the same site
  - new born babies requiring an operation will no longer need an ambulance transfer across the city
  - significant benefits both in sharing technology, experience and expertise
- Providing modern healthcare in modern facilities that meet national guidelines – national policy for Paediatric Intensive Care Unit sited at two hospitals for children and young people.
- Creating a major trauma centre providing surgical specialities on the same site, for example neurosurgery and orthopedics, and again reducing the need for emergency transfers
- Providing age appropriate facilities in welcoming and therapeutic spaces - looking for an innovative building that can address the varying needs of all those who will be using it and ensure a positive environment for our staff to work in.

Slide 17 – our new building will….

- Open in 2017
- Have 233 beds and 9 theatres
- Be easy to navigate – patient flows needs to be clear to help limit waiting and transfer times and to reduce additional stress and anxiety
- Have a welcoming external landscape and provide appropriate and discrete environments for patients - each distinct service should have its

own identity within this integrated clinical facility, in which the safety of all users is paramount

- Create a long term partnership with our NPD partner – looking for a positive working relationship with joint goals that put the patient at the centre
- Build on our partnership working with the University of Edinburgh and the BioQuarter – develop further opportunities for research and learning.

Slide 18 - involving people

- Significant engagement and consultation up to this point
- Patient fora including:
  - DCN patient reference group
  - RHSC Family Council
  - Young People's group
- Clinical and support staff been involved through out
- All actively involved in shaping the reference design based on redesigned pathways of care
- Stakeholder project board has been established to keep these and other interested parties informed and this will continue to meet until the project is completed.

Slide 19 - Affordability

- In approving the outline business case SG Health and Social Care directorate confirmed terms for financial support
- Board confident that these terms can be satisfied and that this will be managed through financial planning process with revenue funding from SG and support from other NHS health boards and partners
- The project will be fully financed by the successful NPD partner inclusive of design, construction and maintenance
- However, the Board reserves the right to consider alternative financing and or contractual arrangements

- Development will be home to a number of national speciality services and will received revenue support from NHSScotland and other health boards.

Slide 20 – key milestones

- Getting to this point has taken a number of years and the project has developed during this process
- This has allowed the investment of significant time and energy in a reference design that meets our clinical needs and incorporates our aspirations for age appropriate spaces in a combined facility
- The design as it stands was granted planning permission in principle by the City of Edinburgh Council in April.
- In order to achieve our preferred option and for the project to go ahead on the site in front of us, changes have been required to the original PFI agreement for the Royal Infirmary of Edinburgh. These were agreed in the summer
- Project only progressed to OJEU once SFT completed the comprehensive key stage review. SFT have also scrutinised invitation to tender documentation.

Peter Reekie, Scottish Futures Trust to set the project in the context of the wider NPD programme. Slides 21 – 26.

Brian Currie, Project Director

The Project – Slides 27 – 49

Slide 27 – The Project

- Almost unique in the UK, as far as we know, where the intention is to develop a new NPD/PPP hospital within an existing PFI hospital and campus.
- Determined to normalise this situation and provide a site and Project and an opportunity which does not present challenges beyond what would be typically expected.

- Prior to going to market.
- Reached that point evidenced by our compliance with a rigorous governance process both internally and externally to the Board.

Presentation will highlight aspects of IM/PQQ documentation emphasising the importance of:

- Enabling and Interface Works
- Reference Design
- Sustainability + Community Benefits
- Operations (not of the medical kind!)

Presentation will expand on the programme, process and project management aspects of the project.

Slide 28 – Wider site

- North to top
- Dalkeith Road – A7 leading to A68 and The Borders
- SE Wedge – one of last remaining development zones
- Residential – Niddrie + Craigmillar to North. Moredun to South
- Emerging Bio Quarter + further housing to East
- Little France Drive – cross connection
- The Tram
- Site nestling in valley of Niddrie Burn
- Craigmiller Castle prominent to North

Slides 29 & 30 – The site

- “normalisation” process - determined to create equal opportunity for all bidders to compete on a “level playing field”.
- proposition where no one bidder is either advantaged or disadvantaged has been achieved - by specifying that although there will be a physical link between the new facility and the RIE at ground and first floor levels, in

all other respects the development will be delivered as a standalone new build facility.

- links, driven by necessity, will ensure clinical functionality and efficiencies, particularly between the emergency departments, theatres and critical care departments on site.
- minor operational links between the new facility and the RIE in respect of connecting services mainly in terms of infrastructure associated with ICT, pneumatic tube system and fire alarm systems.
- in all other respects the facility is fully autonomous with a dedicated energy centre, standby power generation and FM goods yard. Public utilities are also independent of the existing RIE PFI facility.

Slides 31-36 – Enabling Works

RIE Campus also needs enabled to accommodate the new facility. Consort Healthcare, on behalf of the Board, is undertaking certain 'enabling' works on the Little France site in preparation of the Project.

External enabling works relate to the following and are due to be substantially complete prior to financial close.

- Enhancement to Existing Flood Defences within and out with RIE
- Revision of Road Infrastructure and creation of new Bus Terminus
- Relocation of Medical Gas Plant (VIE – Vacuum Insulated Evaporator)
- Creation of Link Building to the current RIE and alterations to Existing Emergency Dept.
- Diversion of existing Trunk Sewer
- Disconnection and Removal of existing services in Car Park B.

Slide 37 – Clinical enabling

- Clinical enabling works within the RIE include changes in critical care, pharmacy and laboratory services and will be completed prior to the new facility opening.
- All required the completion of a Supplemental Agreement to modify the existing Project Agreement at the RIE with Consort Healthcare.
- This remains to be completed.

Slide 38 – Interface Works

- The new facility will interact with its neighbours both during and after construction
- The existing RIE was procured as a PFI contract (1st Generation) between the former Royal Infirmary of Edinburgh NHS Trust and Consort Healthcare (ERI) Ltd.
- The Project Agreement for the RIE was signed in August 1998 and covers a 25 year operational period until February 2028.
- The RIE was financed, designed and built by Consort Healthcare, and a range of soft and hard facilities management services are provided through the RIE Project Agreement.
- The site is leased from Scottish Ministers to Consort Healthcare for a term of 130 years, thus any site development requires Consort Healthcare approval together with appropriate changes to the RIE Project Agreement.
- The Board has concluded negotiations on a Supplemental Agreement (SA6) to the RIE Project Agreement which includes the land transfer of the site earmarked for the Project and also covers:

- access during construction
- wayleaves for utilities
- land provision associated with a new sub station
- oversail rights
- right to connect to the RIE

- The DBFM contract will reflect these provisions.

Slide 39 – Reference design

To clarify what we really mean by a Reference Design.

What were the attractions given the departure from previous PPP/PFI projects where an "exemplar" design was the norm?:

- assists with the OBC and accuracy of pre-procurement costing.
- provides greater certainty over the final design solution.
- assists significantly in defining a quality threshold.
- optimises the input required from stakeholders and in particular clinicians and clinical management teams.
- utilises programme time available as a result of essential parallel activities prior to commencement of procurement.
- reduces risk and bidding costs to bidders, we would contend.
- shortens the competitive dialogue phase.

Slide 40 – Ground Floor site plan

A glass half full (not half empty)

Half full part is the Mandatory and Compulsory requirements, the other, empty part, the Indicative or Non Prescriptive requirements which the bidders will require to fill.

Mandatory Requirements

Comprises the information that defines Operational Functionality* and is indicated in:

- Interdepartmental Layouts (1:500)
- Departmental Layouts (1:200)
- Room Layouts (1:50) for Key and Generic Rooms

Compulsory Requirements

- Planning in Principle as granted by The City of Edinburgh Council.
- Interface, access/egress and infrastructure provisions enshrined in (SA6 + SA Enabling)

- Clinical, D+C and FM Output Specs.

The Reference Design drawings are a diagram or graphical representation of these requirements.

**We refer to Operational Functionality as opposed to Clinical Functionality since some of the mandatory areas of the Reference Design will cover non-clinical functions such as Supplies, Storage, Distribution and Waste Management (Soft FM) and ICT Requirements).*

Operational Functionality means:

- *The point of access to and within the development, buildings and departments.*
- *The adjacencies between different departments.*
- *The adjacencies between rooms within the departments.*
- *The quantity, description and areas of those rooms and spaces shown on the Schedule of Accommodation.*

Slide 41 – sections
The level of design development can be described as approximating to **RIBA Plan of Work Stage C +** (Concept Design) and covers 52% of all spaces at 1:50 scale including the key and generic rooms.

Bidders will be required to generate up to 10 other room types at 1:50 scale for final tender with the remainder being concluded before Financial Close.

Room Data Sheets
Standard format Room Data Sheets have not been prepared by the Board for the Project instead specific room requirements are detailed in a combination of the following documents:

- General Requirements
- Clinical Output Spec

- Environmental Matrix
- Schedule of Operational/Design Notes
- Equipment Schedule
- Schedule of Accommodation
- Operational Functionality elements of the Reference Design

Note: Bidders will be required to develop Room Data Sheets as part of their proposals. The full set of RDS will be completed from appointment of Preferred Bidder to Financial Close.

Schedule of Accommodation
The Schedule of Accommodation, based on the Reference Design drawn layouts, along with the Target or Model (Minimum) Schedule of Accommodation will be issued to Bidders.

This “Drawn” Schedule of Accommodation for Plant Rooms and Hard FM Rooms is indicative only and should certain other rooms vary in area terms from the Model Schedule this is acceptable on a specific room only basis.

Slide 42 – *Stacking Diagram*
Indicative Requirements
Bidders will be encouraged to propose innovative solutions in response to:

- Information that has been developed to verify the feasibility of the Reference Design in terms of architecture and engineering.

- Information developed for issue to Bidders in regard to site and servicing information.

Bidders must however refer to the Board’s Construction Requirements for the detailed requirements for all such indicative elements of the Reference Design for which they may ultimately carry the risk.

Note: The Board's Construction Requirements will always take precedence over the Reference Design for matters which do not define Operational Functionality.

Innovation

Whilst there is an absolute requirement to maintain Operational Functionality, Bidders will have latitude and will be encouraged to develop innovative solutions for the external and internal architectural expression and site layout for the facility promoting their unique approach to an appropriate architectural language and ambition.

We would hope this would consider:

- expression and representation
- order
- conformity and contrast
- integrity and honesty
- detailing and materials etc.

whilst complying with mandatory and compulsory requirements.

This should apply equally to the:

- layout and disposition of facilities
- pattern of site planning
- scale of the pieces
- relationships with differing site boundaries

but again within the mandatory and compulsory design requirements.

As an example, features such as curved walls and the external landscaping forming part of the Reference Design are indicative only given that these have no influence on the Operational Functionality.

Other Indicative elements are:

- Circulation and Communication space (however minimum dimensions specified will be treated as mandatory).
- Structural engineering solutions.
- Building Services engineering solutions.
- Architectural Expression
- Hard FM solutions and space allocations.

Bidders will be encouraged to apply a unique design strategy founded on sound architectural principles whilst complying with the mandatory elements of the Reference Design and other Compulsory Requirements.

Following the close of Competitive Dialogue, and the appointment of the Preferred Bidder, the Reference Design will be replaced with the Preferred Bidder’s affordable and commercially acceptable design solution.

No Variant Bids
In accordance with the OJEU notice, Candidates should be aware that no variant bids will be permitted.

Slide 43 – Sustainability
Sustainability is a priority for the Board as it is for the NHS generally.

Bidders will be required to adhere to the extensive guidance outlined in the BCRs and to demonstrate that any proposals developed will be sustainable and in line with current policy and practice.

Bidders are required to adopt an integrated approach to the social, environmental and economic well-being of the area served, now and for future generations, as part of their approach to sustainability.

The requirements and policies of the City of Edinburgh Council will also need to be met and applied in the proposals that will be submitted for Planning Permission.

The key requirements to be met by Bidders in regard to sustainability include:

- Achieving a BREEAM 2011 rating of ‘very good’ as a minimum.
- Minimising waste during construction and operation and exploit all recycling opportunities.
- Using Greencode and implementing an Environmental Management System.
- Respect the local landscape and protect natural habitat and species.
- Avoid any design features associated with sick building syndrome.
- Achieve an energy usage rating for the facility within the stated target.

Slide 44 – Community benefits

The Board recognises the very significant training and employment opportunities delivery of this Project can create for the wider community and beyond.

The Board also recognises that the Project has the potential to drive significant initiatives relating to regeneration, sustainability and social benefits.

The Board is therefore incorporating a range of social considerations or Community Benefits Requirements into its procurement which will ultimately form contractual requirements.

The requirements consist generally of the following -:

- Targeted Recruitment and Training /Employment and Skills Plan
- Supply Chain Development in relation to SME’s and Social Enterprises.

Supply Chain Development: SMEs

- The long term sustainable development of the SME base is vital to driving sustainable economic growth within Lothian, Scotland and beyond.
- The Board recognises the need to support the development of the SME sector by developing a procurement approach which ensures their exposure to procurement opportunities related to the Project.

Supply Chain Development: Social Enterprises

- The Board supports the Scottish Government's policy on Social Enterprise and believes that Social Enterprises have a distinct and valuable role to play in helping to create a strong, sustainable and socially inclusive economy.
- As such, the procurement process must ensure that Social Enterprises are made aware of supply chain opportunities offered by the Project.
- Social Enterprises are involved in a wide range of industries, from recycling, community transport, landscaping, catering, employment and training to event management.

Other Community Benefits

Bidders will also be required to set out any additional Community Benefits that they would be willing to provide over the period of the contract, for example:

- undertake educational initiatives with community, voluntary and charitable organisations relevant to the Project
- support or contribute in some other way to the work of community, voluntary and charitable organisations associated with the Project.

Slide 45 – Traffic Management

During construction activities for the Project, the RIE shall continue to operate and function as a 24 hour working hospital facility.

Accordingly, it is of paramount importance to the Board that construction activities by Project Co at the RIE site are respectful of the existing operational needs of the RIE for safe traffic management.

The Board wishes to minimise construction traffic using Little France Crescent and intends that the primary construction access to the site will be via a dedicated construction access from Old Dalkeith Road or Little France Drive (i.e. rather than over Little France Crescent).

If such a dedicated access is not technically feasible, would not represent value for money or if construction access is otherwise required over Little France Crescent then access over Little France Crescent will be available.

However, it should be noted that where construction access is required over Little France Crescent, Bidders shall be required as part of Competitive Dialogue to prepare and submit to the Board a Traffic Management Strategy for approval.

Slide 46 - Access
Likewise, it is of paramount importance to the Board that safe vehicular and pedestrian access to the RIE is maintained at all times.

Accordingly, in addition to a traffic management strategy, where permitted works (eg, to install services) are to be undertaken out with the site and may impact upon access to RIE, Bidders shall be required, as part of the competitive dialogue, to again prepare and submit to the Board for approval an access strategy to allow for the continued access and egress of pedestrians and vehicles to and from the RIE during the relevant construction period.

Slide 47 – H&S
Project Co. will be a member of the Little France Campus Working Group and actively participate in the planning and management of Health + Safety issues

within the RIE Campus. They will be joined by NHSL, Consort Healthcare and the University of Edinburgh.

This Group will allow all partners to come together to cooperate, share information and work together to provide a safe working environment ensuring that works concerned with the Facility do not impact adversely on the day to day operation of the RIE campus.

The Group will:

- oversee the Day to Day management of Health and Safety within the RIE campus.
- monitor and review the program of works ensuring that correct procedures are adhered to, including but not limited to:
    - Local policies and procedures.
    - Method statements
    - Safe systems of work, permits etc
    - Health & Safety inductions
- liaise with clinical departments and communicate mitigation measures in the interests of maintaining operations and a safe site.

The Group will report up to the RIE Health and Safety Group who in turn report to the Acute Hospitals Health and Safety Committee.

Slide 48 – Facilities Management
Project Co will be required to provide a lifecycle replacement, hard FM service with associated helpdesk facilities including grounds maintenance, utilities procurement and management, pest control and external fabric cleaning.

It is planned that soft FM services will be provided by a combination of the Board and third party providers. There will be a number of operational interfaces not only with the Board’s team but also the FM staff working within the RIE.

Slide 49 - Equipment
Project Co will be responsible for the procurement, installation, maintenance and lifecycle replacement of all Group 1 equipment and, the installation of certain Group 2 equipment.

Slides 50 – 63 - Programme, Process and Project Management
SFT has provided a suite of contractual documents, comprising a NPD Project Agreement and articles that will be adopted for use in this Project, appropriately amended for project and NHSL specific issues.

The DBFM contact between the Board and the NPD partner will reflect the SFT Standard NPD Project Agreement.

In particular, the NPD payment mechanism will be revised to reflect the fact that the facilities will be required on 24/7 basis.

Risks will be allocated as per SFT Standard NPD Project Agreement.

Slide 51 – Programme Dates

Slide 52 – Pre-qualification process

The PQQ and IM have been prepared by the Board for the purpose of providing an application procedure for Candidates interested in tendering and to assist Candidates in making their own evaluation of the potential opportunity.

The PQQ document sets out the completion and submission requirements of PQQ responses, the conditions for participation and the methodology to be used by the Board relative to the pre-qualification and selection process.

Note: Companies interested in bidding for the NPD contract have noted their interest through the Public Contracts Scotland website. The presentation and *information from this event will be uploaded there for parties unable to attend today. All queries and contact with NHS Lothian about the contract should be directed through the PCS portal, and all responses will be received through that route.*

PQQ Process:

- Compliance and completeness check.
- Preliminary assessment to evaluate the “Pass/Fail” questions. (Candidates should note that the preliminary assessment will include an assessment of each remaining Candidate’s financial standing submission(s) and any Candidate’s PQQ submission assessed as failing the financial standing evaluation will be rejected by the Board).
- Detailed assessment to evaluate the scored questions.

Evaluation guidance is provided in the PQQ for each question that will be scored.

Unless otherwise indicated, responses to each question will be scored out of 10 and based on the degree to which the response covers the range of factors specified in the relevant evaluation guidance and as appropriate to the question, depth of understanding of the issues and/or quality of examples and experience provided.

Board intends to shortlist three Candidates who will be taken through to the competitive dialogue stage as Bidders.

Slides 53 – 57 – Competitive Dialogue
It is proposed that the competitive dialogue process will comprise of a series of five dialogue meetings prior to submission of the draft final tender.

Initially the dialogue meetings will focus on the strategic direction of the Project and development of the Candidate’s proposals, including technical, financial and legal proposals.

Informal and non-evaluated submissions will be required in advance of the dialogue meetings to support the Candidate's proposals.

As the dialogue process proceeds the technical, financial and legal proposals will be looked at in more detail. This will require a more formal submission, focusing on key issues including affordability.

Feedback will be given to each shortlisted Candidate at every stage of dialogue and will inform the basis for the remaining dialogue prior to submission of the draft final tender.

Slide 58 – Programme

- 7 months to close dialogue
- Further 3 months to appoint Preferred Bidder
- Final 7 months to achieve Financial Close

Following the fifth dialogue meeting Bidders will be asked to submit their final proposals in draft form based on an agreed contractual position. Draft proposals will be reviewed for compliance and to ensure they are presented correctly to allow full evaluation to take place at the final tender stage.

Only limited dialogue is anticipated after submission of draft final tenders. This will allow the Board to engage with each Bidder to clarify, specify or fine tune their tender.

Dialogue will formally close when the Board is comfortable that one or more solutions are capable of meeting its needs. An Invitation To Submit Final Tender (ISFT) will then be issued.

Following the detailed evaluation of the final bids, a final evaluation report will be prepared to recommend the Preferred Bidder. This recommendation will be based on the bid that represents the most economically advantageous tender* (MEAT).

It is envisaged that the Board and the Preferred Bidder shall then proceed towards a position where the DBFM contract can be entered into and signed.

At this time the Preferred Bidder shall not be entitled to make material changes to any aspect of its final bid. During this period the Preferred Bidder will apply for and obtain detailed planning approval of the detailed components of the Project, through applications for approval of matters specified in the conditions attached to the planning permission in principle.

In parallel, activity will take place to complete the full business case for the Project and gain all necessary approvals to allow financial close to take place.

** not purely one of price, it must be one of price and quality in combination. A bid with a higher price can be selected if it buys additional 'economic advantage' - in the Boards approach, this means buying additional quality as we can attach a value to that.*

Slide 59 - 62 – Team Structure
The Board has a fully resourced in-house team dedicated to the delivery of the Project, supported by a team of specialist, technical, legal and financial advisers.

NHSL members of the Core Evaluation Team – the main interface with Bidders.

Our advisers - all of these people are ably assisted by an extensive NHSL and Advisory Support Team.

A project office at 56 Canaan Lane has been up and running since April and has all necessary facilities to host the forthcoming procurement process

Slide 63 – Conclusion

Four key outcomes for the project:

We hope for good design

- Fit for purpose
- Sustainable
- Efficient
- Coherent
- Flexible
- Responsive to context
- Good looking and a clear expression of the brief

We must be able to afford it

- In these very tight economic times it is hardly surprising that more than ever the Board must work within an expenditure cap.
- This drives us strictly along a path of realising our "needs" not our "wants"
- Value for Money is everything

We expect deliverability

- We consider we have created a strong platform to spring from through the work already done on the Enabling Works + Reference Design.
- All participants should be forward looking and seek to maintain momentum at all times.
- Let's get it built

We wish to foster and maintain a long lasting partnership with ProjectCo

We look forward to evaluating your submitted PQQ

SCOTTISH
FUTURES
TRUST

Project Assurance

May 2013

Table of Contents

1. Project Assurance

All major Scottish Government sponsored projects have been subject to independent assurance for over a decade now and over the period there has been a number of changes to the assurance processes, the way in which they are applied and how they interface. The purpose of this paper is to outline the two main forms of assurance, explain the rational and background to current application to projects, and clarify how SFT delivers assurance.

2. Background to Project Assurance

Project Assurance or Validation are project management activities and behaviours promoted across both public and private sector organisations in order to monitor project delivery performance and thereby improve chances of successful project delivery and the realisation of expected outcomes. Project assurance is achieved though a number of formal and informal methods e.g. formal business cases or stage based reviews and audit processes, or including people with experience of similar projects in the project teams. Irrespective of the means, project assurance is about effecting that projects have a solid foundation in terms of governance, resources and clarity in relation to expected outcomes. It also seeks to ensure that best practice is applied and that lessons learnt from previous projects are taken into account, and that arrangements are in place for the continuous review of process and performance against appropriate benchmarks.

3. Current Project Assurance Models

In respect of Scottish Government funded projects and programmes, in addition to each project sponsoring body's internal processes, the two main models of independent project assurance are Gateway Reviews and Key Stage Reviews. Assessment for Gateway Review is mandatory for all programmes and projects with a total budget of £5M+ inclusive of fees and VAT delivered by organisations covered by the terms of the Major Investment Section of the Scottish Public Finance Manual. Those projects assessed as potentially high risk will be considered for SG Gateway Review support. Gateway Reviews are managed by the Scottish Government's Programme and Project Management Centre of Expertise (PPM CoE). Key Stage Reviews (KSRs) managed by SFT and apply to revenue funded projects (both Non-Profit Distributing and hub Design-Build-Finance-Maintain (DBFM) projects. Both processes support the Scottish Government Infrastructure Investment Board's remit of ensuring that project delivery is appropriately monitored and supported.

Gateway Reviews were developed by the UK Office of Government Commerce in response to the failure of some high profile public sector projects to deliver the desired benefits to time and budget. A Gateway Review examines a programme and project at key decision points in their lifecycle. They are short, focused reviews that occur at key decision points in the lifecycle of the Programme/ Project. The Reviews are conducted on behalf of the programme/project's Senior Responsible Owner (SRO) by a team of experienced practitioners, independent of the Programme/Project Team. The Review is a snap-shot of the programme/project as it is at the point at which the review takes place. As such, recommendations are based on the evidence presented and on the interviews that take place. The review is intended to be supportive and forward looking and will take future plans into account but only as future intentions, rather than actualities.

Preparation for Gateway Review follows a structured process of assessment and planning. Reviews are carried out in advance of the key decision points within a project's lifecycle. There are 5 key decision points in a project. These are:

Business Justification - Gateway Review 1
Delivery Strategy - Gateway Review 2
Investment Decision - Gateway Review 3
Readiness for Service - Gateway Review 4
Operations Review and Benefits Realisation - Gateway Review 5

Additionally there is a 'Strategic Assessment - Gateway Review 0' specifically designed for programmes, and it can be repeated as often as necessary across the life of the programme.

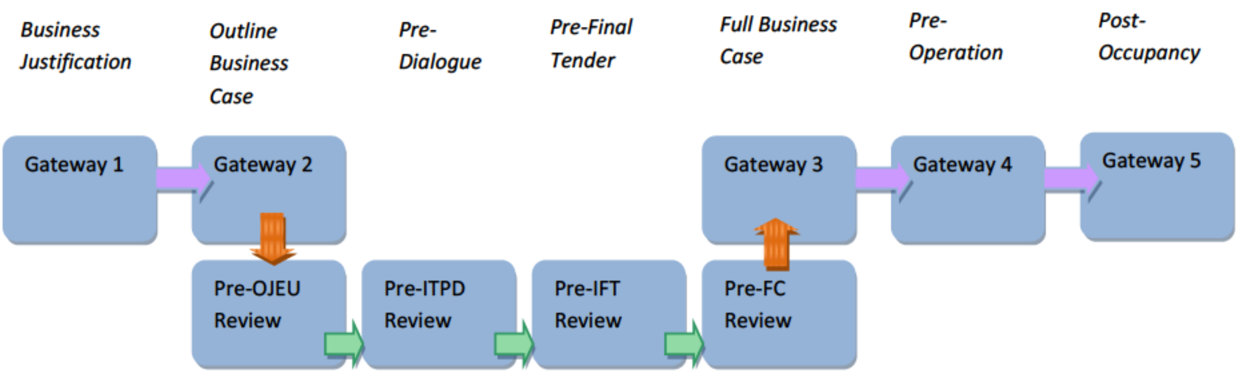
Key Stage Reviews (KSRs) were developed in response to the introduction of large, long term, output specification based revenue funded projects. Unlike traditional capital projects, the promoter is procuring a service normally for a 25-30 year period using the EU Negotiated Procurement procedure, and more recently the Competitive Dialogue procedure. That method of project assurance places much greater importance onto ensuring that projects have: a) developed comprehensive specifications, b) a robust procurement and evaluation strategy, and c) appropriate resources and project information in place before the tender process is commenced. KSRs also ensure that proposals are sufficiently developed and commercial parameters agreed before final tenders are called thereby avoiding cost increases post competition. KSRs are designed to specifically provide assurance during the procurement phase and, as the name suggests, are tailored around the key decision points providing project promoters a checklist based tool to review readiness before a decision to proceed to the next procurement stage is taken. Although revenue funded projects delivered through the competitively procured 'hub' are not subject to a further public tender process, the 'hub' New Project Request procedure incorporates similar key decision points. In that instance KSRs are applied in slightly amended format. The following lists the various stages of KSRs (both for hub and non hub revenue funded projects).

Key Stage Reviews

NPD Projects:	hub DBFM Projects:
Pre Issue of OJEU notice / advert	Pre New Project Request
Pre Invitation to Participate in Dialogue	Pre Stage 1 Approval
Pre Close of Dialogue	Pre Stage 2 Approval
Pre Preferred Bidder Appointment	
Pre Financial Close	

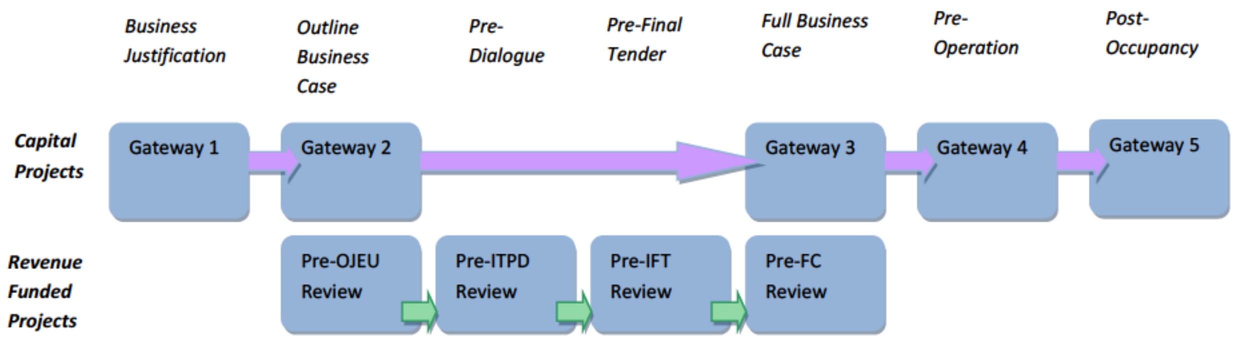
4. SG Independent Assurance Framework (IAF)

Originally Gateway and KSRs were mutually exclusive processes and often carried out on the same projects in parallel. This resulted in a considerable burden on the public sector and a slowdown in the delivery of projects. However, due to the differing merits of each assurance model, the Scottish Government's Infrastructure Investment Group 'IIG' (later Infrastructure Investment Board 'IIB') was keen to extend the remit of both reviews to cover all large infrastructure projects over £50m. This resulted in delay particularly during the pre-procurement stage where centrally supported projects were required to go through both a Gateway and a KSR review in accordance with the Scottish Government Finance Manual and / or due to specific funding requirements. The original assurance "landscape" (showing the interaction of the Gateway Review stages and the KSRs) is shown below:



This original model was subject to criticism from project teams and sponsors who had to deal with the requirements of two kinds of independent validation at the start (Gate2 and pre-OJEU KSR) and the end of procurements (Gate3 and Pre-Financial Close KSR) which sometimes caused significant delay. There was also little room for consideration of each projects' characteristics and the procuring body's experience. In order to introduce a more streamlined approach to project assurance, to remove duplication, and to better match review requirements to projects varying in size and complexity, SFT with the Scottish Government Infrastructure Investment Unit and the PPM CoE piloted, over a three year period, the Independent Assurance Framework (IAF). The pilot is scheduled to be completed in autumn 2013 and so far has been a success. The IAF process seeks to identify upfront the most appropriate validation plan for each project recognising the nature and needs of specific projects programmes, ensuring, where possible, that reviews provide maximum benefit and are a minimum burden.

IAF applies to large scale capital and revenue funded projects. It is a mix of Gateway and KSRs with any overlap between the models having been eliminated by incorporating relevant aspects of both assurance tools into a single review. Throughout the development process the IIB was kept informed and it had, in turn, been keen to ensure that there are no gaps in the validation of capital and revenue funded projects under a more streamlined approach. To that effect, SFT carried out a full gaps and overlap analysis comparing each Gateway review template to the corresponding KSR checklist and changes were made to the KSR list where gaps had been identified. The IAF pilot was formally adopted by the Infrastructure Investment Board in 2011 and consists of the following stages:



5. SFT's Role in Project Assurance

Before SFT was established in 2008, the KSR process was managed by the former Scottish Government Financial Partnerships Unit and reviews were undertaken by Partnership UK as it was recognised that Scottish Government did not have the necessary commercial expertise to provide in-depth validation. Whilst Partnerships UK was able to provide a "stop-start point in time" review, the lack of on-going involvement in, and therefore detailed background knowledge of, each project resulted in KSRs requiring considerable effort and resources from both the project team and the review team. Such point in time" reviews could often not influence the development of projects at an early stage when adjustments would be most effective and cause least delay or minimum abortive work.

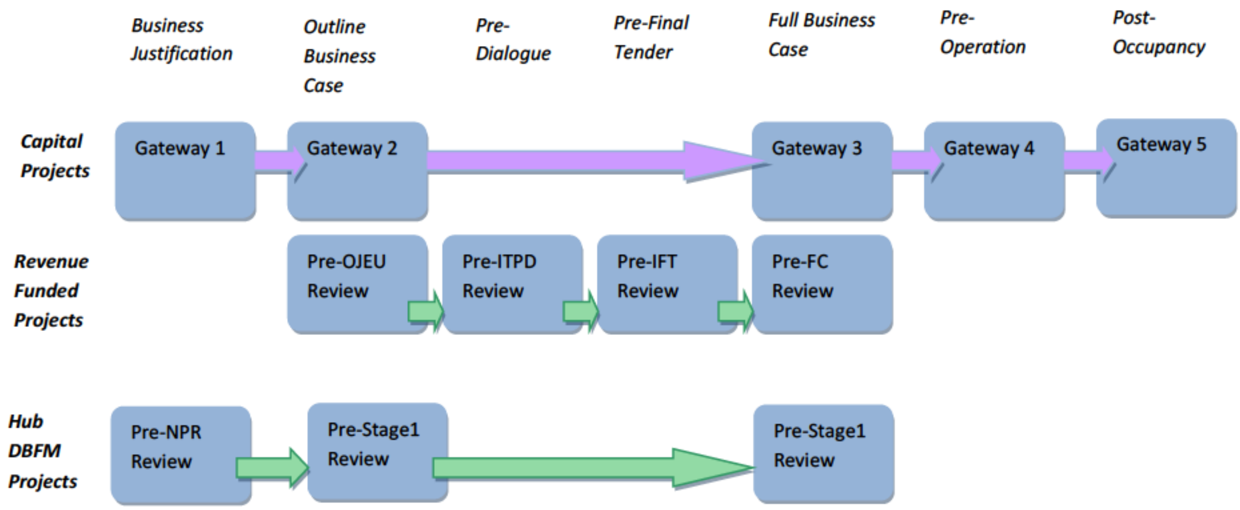
When SFT was set up, the validation of revenue funded accommodation and transport projects was incorporated as a key element into SFT's overall role of supporting infrastructure delivery in Scotland. SFT is also resourced to act as the centre of expertise for large scale infrastructure projects with a particular focus on the Scottish Government's revenue funded programme and is therefore uniquely placed to provide validation from its internal resources. Due to its wider role SFT is in a position to directly apply "cross learning" among projects through the collection, dissemination and incorporation of lessons learnt across the sectors. As part of SFT's wider role, validation of long term revenue funded infrastructure projects forms a cornerstone in ensuring that projects have the best chances of successful delivery and continue to deliver value for money throughout the contract life.

In addition to carrying out checklist based reviews on projects, SFT usually also takes a formal seat on the Project and / or Programme Board. This dual role allows SFT to ensure that the recommendations and follow up action plans identified in the KSRs are duly considered at Board level. SFT also supports the delivery of local authority waste treatment infrastructure procurements, however since these are not part of the SG revenue funded programme, there is no formal requirement to undertake KSRs. Nevertheless, SFT has undertaken a number of reviews at the request of local authorities. These reviews follow the general timing and scope of KSRs.

6. IAF Roll-out

IAF is being piloted in the M8 NPD project which entered procurement in March 2012 and is expected to move to preferred bidder appointment by early autumn. In addition, in line with the increasing number of revenue funded projects coming to procurement, there has been a growing concern among project teams and sponsors particularly Scottish Government Health Directorate over the need to undertake both Gateways and KSRs in respect of large revenue funded health projects. In order to consider wider roll out of IAF, SFT and the PPM CoE working with the Health Directorate completed a review of how IAF could be applied across the revenue funded investment programme relating to health projects in early 2012. This review sought to map the IAF process against the existing Scottish Government Health Directorate mandatory Scottish Capital Investment Manual (SCIM) requirements to make the overall investment decision making process fully joined up, by removing any duplication and incorporating review elements at the earliest and most appropriate stage in the overall process. Similarly, although there is no overlap with the Gateway process, the requirements of the 'hub' specific review have also been assessed against SCIM requirements. Following this methodology it is intended that the Department's internal business case approval process automatically covers key aspects of the Gateway and KSR reviews; thereby removing the need to separately assess these at a later stage, reducing the volume of work involved in assurance overall, and ensuring that assurance reviews do not routinely revisit previously signed-off elements. Following a short consultation with project teams the Health Directorate formally rolled out IAF in July 2012.

In addition to revenue funded health projects, a similar overlap of reviews potentially affected revenue funded college projects promoted by the Scottish Funding Council (SFC). In parallel with the roll-out of IAF across health projects, a similar assurance review process has been carried out against SFC's project approval guidance integrating assurance elements into the existing project approval framework. Currently the integrated assurance model is applied to all revenue funded projects. Under the agreed arrangements, IAF provides a clear validation map for both revenue and capital funded projects which places the responsibility for dealing with the interface between validation processes on the Sponsoring Department, Gateway and SFT review teams. These teams also have to ensure full follow up of agreed action plans and continue to review applied methodologies. The option remains for the SRO, Accountable Officer or IIB to instigate a Gate 0 assessment should serious concerns arise over any project.



7. SFT Resourcing of KSRs

As outlined above, KSRs provide a formal checklist for project teams to consider in relation to their project and also provide a benchmarking opportunity to test the readiness of projects in advance of key milestones in the procurement process. They are designed to require the reviewer, as well as the reviewee, to consider whether the project teams: a) have sufficient clarity over the requirements of the competitive dialogue process, b) have the necessary information and resources available for the tender process to be run efficiently and c) are satisfied that the project will produce a good value for money outcome. In order to ensure a degree of separation between the immediate project team and project sponsoring department and to incorporate external commercial expertise, KSRs were traditionally undertaken by PUK based on the review of paper submissions completed by the project team.

Following its establishment in late 2008, SFT has grown into a fully resourced organisation and now directly employs a dedicated team with both commercial and technical expertise previously unavailable within the public sector. As a result the need to bring in external expertise (at additional cost) as part of the KSRs has disappeared and instead SFT resources KSRs by assembling a small team internally to undertake each review. These review teams normally consist of individuals not directly involved with the specific project. This approach ensures that KSRs are carried out with no external cost to SFT or the project sponsor. In addition, in line with SFT's evolving approach to supporting the revenue funded investment programme the approach to carrying out validation was remodelled during 2011 to remove the burden on project teams in providing additional background information together with completed KSR checklists to reviewers unfamiliar with the specific circumstances of each project. These KSR checklists are now completed by the relevant SFT staff member as part of his or her ongoing project support role. This reduces the overall delay impact of reviews and ensures that the review process is integrated into the overall project development. It also allows relevant aspects of the review to be considered on an ongoing basis.

In order to preserve the integrity of independent assurance each KSR report is separately reviewed and signed off by a member of the SFT senior management team unconnected with the project. Consequently the KSR pro-forma checklists have been updated and relevant guidance made available to project teams as well as SFT staff members undertaking KSRs.

The approach has now been fully operational for 12 months and feedback from project teams and sponsors has been entirely positive.

8. Further Information

Further information and current review documentation are available from SFT 0131 510 0800 or form SFT's website www.scottishfuturestrust.org.uk under section Programme Support and Assurance.

SFT
May 2013

4.3

NHS LOTHIAN

Finance & Performance Review Committee
9 August 2010

Chief Operating Officer

ROYAL HOSPITAL FOR SICK CHILDREN REPROVISION PROJECT UPDATE

1 Purpose of the Report

1.1 The purpose of this report is to update the Committee on the status of the Royal Hospital for Sick Children (rhsc) re-provision.

2 Recommendations

The Committee is invited to:

2.1 Consider the progress since the last meeting.

3 Summary of the Issues

3.1 Programme

Delivery of target price remains generally on programme to deliver target price in January 2011 with submission to NHSL Board thereafter and ultimately to SCIG on 8 March 2011.

Completion of 1:200 Scheme Design Stage is slightly behind as is the application for Town Planning Consent. This is due to the requirement to involve Architecture and Design Scotland prior to the formal planning submission. This should not adversely effect the end dates of this stage, as above.

Construction The difficulties experienced with Scottish Enterprise and the complex negotiations for the purchase of plots 14-16, combined with the legal advice confirming the requirement on the Board to tender the procurement of the car park construction works have added delay to the project. Work is also underway to allow changes to be made to the Partnership agreement to support operation of the car park on plots 14-16 and Consort Lawyers have advised that this may take up to 4 months to complete. These things taken together mean that the Jan 2011 start date for construction is now not possible. The revised date for the hospital being fully operational is mid 2014.

3.2 Costs

Budgeted costs for both clinical and non-clinical enabling works have now been received from Consort. These are significantly higher than anticipated and are currently being reviewed by Thomson Gray in conjunction with the Project Team and Consort. Over and above this is the effect of the changes in VAT which will also impact on the costs. Recognising the commitment to deliver the RHSC reprovision within the agreed budget a number of options are being explored to reduce the costs.

3.3 Quality

Two design reviews of the building's envelope have been held and a clear direction from NHSL has been given in terms of concept, architectural expression and materials (Nightingales / BAM to present at Steering Group).

Clinical design to complete the 1:200 stage has been challenging but good. Progress has been made to deliver the reduced footprint.

The Project Brief is now effectively complete with the exception of Facilities Management and interface issues. This has not prevented the design progress. Clinical briefs are in place and will continue to evolve as more detail becomes available.

A second Achieving Excellence in Design Evaluation Toolkit (*A*EDET) Review is planned shortly followed by an Architecture + Design Scotland (AD+S) Design Review prior to the Town Planning Application.

Brian Currie
Project Director
3 August 2010

Isabel McCallum
Project Clinical Director

Royal Hospital for Sick Children and Department of Clinical Neurosciences at Little France

ACTION NOTES

Commercial in Confidence – not disclosable under the Freedom of Information (Scotland) Act 2002

Meeting Title: RHSC + DCN – Little France – PROJECT BOARD #2

Date/Time: 13th May, 2011 / 1.00pm

Location: Board Room 1, RIE, Little France

Attendees:

Jackie Sansbury	Chief Operating Officer – NHSL – (Chair)
Brian Currie	Project Director – NHSL
Iain Graham	Director of Capital Planning and Projects – NHSL
Susan Lloyd, Partnership Lead	Partnership Lead – NHSL
Mike Baxter	Deputy Director (Capital + Facilities), SGHD
Donna Stevenson	Scottish Futures Trust
Andrew Bruce	Scottish Futures Trust

NOTES

Item		
1.	**INTRODUCTIONS/APOLOGIES:-**	**Lead**
	Susan Goldsmith, Director of Finance – NHSL Eddie Egan, Employee Director - NHSL	
2.	**Strategic Programme**	
	A “Dashboard” Report was tabled and the following views expressed and actions agreed regarding proposed strategic programme dates: As presented the programme is unacceptable to NHSL, SFT and SGHD given the estimated slippage in operational date from the previous Treasury funded project. Need for Town Planning Pre Application Consultation Period to be challenged by NHSL. BC to write formally to CEC Planning. “Land Transfer Agreement” to be known as “Conclusion of SA6 and Key Requirements with Consort Healthcare” and moved forward to June 2011. Action by BC. Mike Baxter confirmed that issue of PQQ can commence on NHSL Board Approval of OBC. Action – BC. Reference Design Phase whilst already reduced to two rounds of clinical interface at each design stage is to be reviewed again with a view to shortening it as far as is practically possible. Action – BC SFT and SGHD expressed a strong view that the period indicated for “Competitive Dialogue” did not reflect the production of a reference design and was based on an exemplar design. This period, in their view, needs review with a considerable reduction in duration likely. Action – BC SFT and SGHD also commented that the period from “Selected Bidder” to Financial Close” was also too long and there is gain considerable scope for reduction. _ Action – BC. Both SFT and SGHD are to review and provide feedback on the NPD activities and timelines tabled. Action – MB, DS + AB	**SGHD (MB) SFT (DS +AB)**

Royal Hospital for Sick Children and Department of Clinical Neurosciences at Little France

NHS Lothian

ACTION NOTES

Commercial in Confidence – not disclosable under the Freedom of Information (Scotland) Act 2002

Item		
	The actual construction duration time requires review and previous advice given by BAM Construction challenged. Action – BC. It was agreed that in order to progress an amended programme asap a meeting should be arranged with NHSL their Technical Advisors and SFT / SGHD. Action - BC	**NHSL (BC)**
3.	**Project Team**	
	A team structure chart or organogram was discussed and some doubt arose as to the benefit of two distinct work streams labelled "procurement" and "commercial". Both SFT and SGHD are to comment further.	**SFT SGHD**
4.	**Stakeholder Management**	
	Mike Baxter sanctioned an approach to the Project Director at the New South Glasgow Hospital to obtain copies of **single bedroom layouts** and any other common facilities. Action – BC.	**NHSL (BC)**
	NHSL are to give consideration to a **RHSC part time Clinical Director** role to assist the project team during the reference design phase. Jackie Sansbury to review practicality of backfilling Janice Mackenzie Chief Nurse to free her for this role.	**NHSL (JKS)**
	Letters to be drafted outlining **SEAT Boards** new terms of engagement. Action – BC and JKS.	**NHSL (JKS + BC)**
	Further development work to be progressed on **"Charities" involvement**. Action – NHSL Finance Dept and Project Team.	**NHSL (CP)**
	NHSL confirmed that following a letter from SFT, dated 27th April, 2011, **Gordon Shirreff of SFT** is to participate in the development of the project's procurement strategy and assist in the preparation of the OBC. Gordon is to join the project team on the basis of committing two days per week for a period of three months. It was suggested that Gordon should attend the strategic programme review meeting as discussed above in (2).	**SFT**
5.	**ANY OTHER BUSINESS**	
	Draft letter is being prepared for issue to Consort Healthcare on Friday 20th May in advance of NHSL / Consort Board meeting on the 26th May, 2011. A draft is to be reviewed at next weeks Working Group meeting on Thursday and then with Stephen Gordon of Consort on Friday 20th prior to release.	**NHSL (IG + BC)**
6.	**DATE & TIME OF NEXT MEETING**	
	10th June, 2011 – Board Room 1 - RIE	**All**

SCOTTISH HOSPITALS INQUIRY
Bundle of documents for the Oral hearing commencing on 9 May 2022