



Briefing 08/35 July 2008

Taking forward the Scottish Futures Trust

To: All Chief Executives, Main Contacts and Email Contacts (Scotland)

CC: All Chief Executives, Main Contacts (England, Northern Ireland and Wales)

A report by the Scottish Government

Key issues:

The Scottish Government has published a report setting out a strategic business case (SBC) to support the creation of a Scottish Futures Trust (SFT) as a vehicle for ensuring better value for money in funding public sector infrastructure projects

It is suggested that the SFT is likely to be a direct funder of projects in the short term

The Scottish Government expects to generate £100-£150 million p.a. of savings through SFT to invest in Scotland's capital infrastructure.

The SBC sets out implementation steps with the aim of establishing the SFT in 2009/10

1. Introduction

The Scottish Government has produced a Strategic Business Case (SBC) supporting the creation of a Scottish Futures Trust (SFT). This briefing sets out the main points in the report and follows from briefing 08/16 (Scottish Futures Trust in infrastructure investment in Scotland) previously issued.

The stated aim of the SFT Initiative is to support the effective planning, funding and delivery of public sector infrastructure investment across Scotland, providing a better deal for taxpayers as a result. The Scottish Government has set out its proposal for the SFT as an alternative to PPP/PFI. This encourages greater use of public bond issues providing access to lower-cost borrowing with public assets being held in trust for the Scottish people.

The SFT initiative will be supported by a new organisation established in the public sector, intended to have broad governance representative of central and local stakeholders in public sector infrastructure development. The document can be viewed in full at: <http://www.scotland.gov.uk/Publications/2008/05/19155435/0>

The proposal for the SFT Initiative has been developed in the light of a new funding relationship between central and local government, the recommendations of the McClelland report, and the drive across the public sector for shared services, efficiencies and the delivery of quality public services.

Under the Scotland Act 1998 there is no provision for the Scottish Government to change the fiscal rules governing government borrowing. However, scoping work in the autumn of 2007 identified a number of potential areas across the public sector where the overall aim of the SFT initiative might be achieved through slightly different arrangements. In December 2007, the Cabinet agreed to issue a public consultation exercise on that basis, and to commission a SFT business case.

The report sets out three principal aims for the SFT being to:

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

2. The Strategic Business Case (SBC) issues for SFT

The SBC document sets out a number of issues considered in developing the SFT initiative:

- Firstly, if the overall infrastructure need and associated impact on the supplier base is poorly planned, individual projects are late in delivery, unreliable, over-budget or expensive to maintain through their life cycle, it can create inefficiencies far outweighing any differential in cost of finance.
- Secondly, a core objective of SFT will be to pursue the principles of Non Profit Distribution (NPD) and other routes to increased efficiency of finance, while maximising overall value for money for the tax payer.
- Thirdly, local government can through the prudential borrowing regime access funding via the Public Works Loan Board (PWLB) or commercial lenders. So providing that borrowing is affordable and loans can be repaid there is strong alignment with any proposals which drive efficiency to make available resources go further.
- Fourthly, the need to ensure that whilst assets are provided on an affordable basis there is a need to consider “whole life costs” in terms of maintaining and operating the assets post the construction phase.
- Fifthly, whilst the SFT will be a “not for profit” vehicle aimed at reducing the high levels of public debt associated with PPP/PFI, it is not the involvement of the private sector that the SFT is seeking to remove, but rather the traditionally high costs associated with PPP/PFI procurement.
- Finally, as infrastructure is seen as an important aspect of national economic growth it is a way of channelling investment in social an economic infrastructure through the Scottish Government’s capital investment programme.

3. Added Value of SFT

The Scottish Government states that the new trust must be subject to rigorous budgeting and monitoring of its own cost-effectiveness. Accordingly, a decision to proceed with SFT will trigger development of a detailed business plan against which the performance of SFT can be measured. Some preliminary estimates of costs and target benefits of the SFT initiative have been made which will allow a decision to establish SFT.

Following consideration of impact across the investment programme, it is considered a reasonable aggregated target benefit is within the range of 3-5%. This target benefit will be derived from a Scottish investment programme of circa £3.5bn per annum, and approaching £40bn over 10 years. Based on these assumptions, and recognising a lead-in period during 2008/09 and 2009/10, it is suggested that the targeted net benefit across the public sector could build to £100 to £150m per annum. It is envisaged that a key role for SFT will be to strengthen public sector capability in infrastructure planning, procurement and delivery through the provision of expertise and financial resources.

4. Recommendations to the Cabinet Secretary for Finance and Sustainable Growth

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

- Establish a significant projects review group as a first step towards better quality and more consistent assurance of infrastructure investment
- Commence programme delivery of hub pathfinders, for community based infrastructure
- Establish programme support arrangements for residual waste investment
- Establish programme development arrangements for any future schools investment
- Provide guidance, structuring and compliance for ongoing NPDPMP programmes
- Commence development/delivery of a Local Authority bond issue
- Undertake further detailed development of innovative asset provision models in the appropriate sectors
- Commence development and piloting of a funding and aggregation model for the housing and Further Education sectors
- Coordinate and promote the development of tax incremental financing and asset backed vehicle models in the regeneration sector
- Budget requires to be identified to support the creation and running of SFT

It is further suggested that an Infrastructure Board for Scotland (IBfS) should be considered once SFT is established, possibly chaired by the Cabinet Secretary, with board membership representative of the "delivery map" set out in the SBC itself. The IBfS would be an oversight board for the SFT initiative. Transition arrangements would be required as part of the business planning stage and there are a number of private sector market interests affected by SFT. Therefore if the SFT is to be a viable alternative for the delivery of public assets it will have to ensure that incentives for investors still provide the public sector with good value for money whilst not excluding the involvement of the private sector.

5. APSE comment

Whilst the strategic business case for the SFT may offer an opportunity to access capital funding at a more affordable cost than PPP/PFI, it is difficult to envisage under the current fiscal rules set out by the Treasury that SFT will provide a practical route to access capital funding for local authorities in the short-term. However, the Government is currently looking at redefining public sector debt and a move to International Financial Reporting Standards (IFRS) may result in PFI/PPP debt being re-categorised as public sector debt. If the rules governing public sector debt are revised then this may mean that the SFT business case becomes more compelling. In any event some local authorities in Scotland have used prudential borrowing as an

alternative to PPP/PFI in order to fund much needed capital investment in infrastructure.

APSE has long argued that the costs of PPP/PFI arrangements do not offer value for money to the public purse when compared with more traditional forms of procurement. In addition local authorities are tied into 25-30 year contracts that in a number of cases have been shown to be inflexible. However, it has to be recognised that this has provided access to capital resources for much needed investment in public infrastructure such as schools and hospitals which would otherwise not have been available. APSE welcomes the ongoing debate about the role that SFT can play in providing an alternative to PPP/PFI and supports the concept of establishing a vehicle which would make capital investment in public infrastructure more affordable and represent better value for money.

The Strategic Business Case for SFT sets out a recommended implementation timetable with dialogue on wider stakeholder involvement and the possible establishment of an Infrastructure Board for Scotland by the end of 2008 and the establishment of SFT in 2009/10. APSE looks forward to seeing more detail about how the Scottish Government intends to implement the proposed trusts in due course.

APSE would welcome any comments on the Scottish Government's strategic business case (SBC) for the SFT, which should be sent to:

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