

Annex A: Public Body Risk Review 2024

Public Body	Scottish Futures Trust
Classification	Executive NDPB
Is the current make up of the Board sufficient and is there Board succession planning in place? (Red or Green)	Green
Has a Board Evaluation been completed in the last 12 Months? (Red or Green)	Green
Have the Board and Accountable Officer completed all relevant training on Governance Hub? (Chair should seek assurance from Board)	Green
Is there an up to date Framework Document in place which has been signed off by the Board and Minister? (Red or Green)	Green
Is the body performing against their performance targets and are they delivering on outcomes? (Red or Green)	Yes, 6-month review and annual report demonstrated good progress against the outcomes identified in their corporate plan.
Has the body required consent from the SF Remuneration Group for any pay policy or other benefits outwith the normal limits?	No. Pay increases for staff and board members have been within pay policy limits (albeit SFT are not on Pay Policy).
Has the sponsor team reviewed legacy policies and are they content that they are still relevant in light of current challenges relating to public finance?	Framework document, articles of association, and funding model have been reviewed as part of the development of next Corporate Plan. Each will be updated as appropriate when Corporate Plan is finalised.
Has there been any requirements to approve or note decisions that were taken out with policy guidelines retrospectively? If yes, what action was taken?	No
Does the body have the right leadership in place to guide through current challenges?	Yes. New Chair appointed in April 2024. Recruitment for 2 new board members to begin (replacing members stepping down in April 2025) including Audit Committee Chair. Senior Leadership actively engaged with Corporate Plan development.
Is the body performing well against their performance targets and are they delivering on outcomes?	Yes. 6-month review and annual report demonstrated good progress against the outcomes identified in their corporate plan.
To what extent is the body delivering on the FMs 4 priorities (eradicating child poverty, growing the economy, invest in Net Zero, PSR)?	SFT is critical in supporting portfolios to deliver net zero investment. Infrastructure investment is also recognised as an important enabler for growing the economy. SFT also supports delivery of policy in areas such as free school meals, health, and education. This will support the eradication of child poverty.
Is the body operating within its budget? (Red or Green)	Green
Has there been a qualification to the Annual Accounts? (Red or Green)	Green
How is the current relationship between SG and the public body?	Excellent. Strategic Partnership Assurance exercise has shown SG/SFT relationship to be Medium-High with areas of improvement identified and clearly understood. SG-wide portfolio engagement undertaken to review relationships and this has been fed-back to SFT to shape improvement. Proactive, open, and constructive relationship.

Has there been regular engagement between body and SCS in the last 6 months?	Yes, 6-month review with Director Public Spending took place on 22nd May 2024. Director also meets bi-monthly with CEO. DD's meet with CEO fortnightly.
Is there a positive working relationship between body and SG?	Yes. Strategic Partnership Assurance exercise recorded relationship to be Medium-High with agreed actions for improvement.
Is there a positive working relationship between the Chair and Chief Executive?	Yes. Positive relationship following appointment of new Chair with key induction meetings planned/taken place. Chair and CEO working collaboratively with Sponsors on member recruitment and Corporate Plan development.
Has the Chief Executive been in post for longer than 10 years? If so, is there anyone working in the sponsor team for a similar length of time?	DG Alyson Stafford has worked with SFT since they were established.
Are you aware of any culture issues at the body?	No.
Do you have processes in place that would enable the sponsor team to be alive to potential issues at the body?	Director Public Spending holds bi-monthly meetings with the CEO. DD's have fortnightly meetings with the CEO. Sponsorship Manager has regular and open communication with Senior Leadership at SFT. RAG and Partnership Assurance activities provide an opportunity to highlight issues.
Has the body completed a staff survey exercise in the last 12 months?	SFT undertake a staff survey every two years. Last survey took place in March 2024.
Are there any issues arising from the staff survey?	No
Has a S.22 report been carried out on the body in the last 24 months? (Red or Green)	Green
Have lessons learned been shared following any S.22/23 reports?	N/A
Are there any planned S.22 reports? (Red or Green)	Green
Are there any major projects planned or underway?	Development of 2025-2030 Corporate Plan; Review of Funding Model.
Are there any upcoming events that could impact on the operations of the body?	Outcome of Corporate Plan development and review of funding model will require a review of the Framework Agreement.
Are there any live issues?	No
Has there been any significant negative press coverage?	No
Overall RAG Rating (Red, Amber or Green)	Green

Annex B: Strategic Partnership Assurance 2024

Ref	ASSURANCE	Good Practice Questions		Effectiveness Confidence (Low/medium/high)	Evidence	Improvement Opportunities
	GOVERNANCE					
G1	How effective are governance arrangements for partnership working – specifically scrutiny and accountability arrangements?	Have the vision, purpose, and objectives for the partnership been agreed and do they align with NPF/PfG? Are they clear and succinct?	Yes	Medium - High	Collaborative work has been undertaken between SFT and Sponsor to develop the next 5-year Corporate Plan. Vision, purpose, and objectives have been discussed in detail as part of that as well as respective roles and responsibilities. There is joint understanding that visions and purpose needs to be clearer and further defined. There are ongoing discussions around shared purpose.	The development of the next Corporate Plan, alongside Public Service Reform activities, provide an opportunity to clarify purpose within the infrastructure delivery landscape in conversation with other public bodies. The new Infrastructure Division also allows greater alignment for both sponsor and body.
		Have appropriate actions been identified to deliver intended outcomes in line with NPF/PfG?	Yes	High	NPF and PfG have been discussed alongside the development of Corporate/Business Plans. SFT regularly reports on its work and the alignment of its outcomes to NPF.	Discussions are continuing around the nature and form outcomes take and the way in which they are reported as part of Corporate Planning.
		Have clear roles, lines of accountability and communication in relation to partnership working been established? Do these clearly set out the roles and responsibilities of all those who have accountability in both the public body and SG?	Yes	Medium - High	Roles and responsibilities have been shared in the context of the new Infrastructure Division and Public Spending Directorate. Roles and responsibilities have further been discussed in Corporate Planning process. These are also clearly set out in the Framework Document.	New Chair will need introduced to current lines of communication and seek opportunities for alternative/improved ways of working/accountability. New Sponsorship Manager provides an opportunity to improve communication and working across the SG. Changing roles and

Ref	ASSURANCE	Good Practice Questions		Effectiveness Confidence (Low/medium/high)	Evidence	Improvement Opportunities
						responsibilities from the Corporate Planning process will need communicating to stakeholders.
		How clear is its role in the partnership's approach to challenge, scrutiny and complaints?	N/A	Medium -High	Framework document is clear on role and responsibilities re challenge and scrutiny. Feedback from portfolio engagement demonstrate SFT's willingness to accept and respond to feedback and challenge. The Sponsor Team is aware of its role in collating and communicating feedback.	Engagement sessions that have been received positively by portfolios should continue. Efforts should be made to ensure 6-month reviews and Chair engagement are undertaken at appropriate times.
		Is there sufficient partnership leadership capacity?	Yes	Medium -High	SFT have strong Senior Leadership Team that regularly communicates with DDs, Directors and the DG through regular meetings and 6-monthly reviews. Senior Leaders are available on an ad-hoc basis. The Sponsor Team has capacity through a new Sponsorship Manager, C2 Team Leader and two proactive DDs.	New Public Spending Director will be required to establish new relationships across SFT leadership. Early meetings and introductions will be an opportunity to outline expectations and agree appropriate level of engagement required.
G2	Does partnership working provide openness, trust, respect, mutual support and constructive challenge in working relationships?	Is there appropriate senior leader engagement across the partnership?	Yes	High	DDs ID meet regularly with CEO of SFT, Director Public Spending and DG SE meet with Chair and CEO. SFT Senior leadership also engage regularly with leadership in the sponsorship team on key issues.	It has previously been a challenge to schedule meetings and review with the Chair. Work needed to ensure meetings are in diaries well in advance.
		Do leaders articulate the shared vision and sense of purpose?	Yes	Medium-High	Sponsorship team help shape SFT Corporate plan. Discussions on the next Corporate Plan have	Corporate Plan, new Infrastructure Division and Public Spending Directorate

Ref	ASSURANCE	Good Practice Questions		Effectiveness Confidence (Low/medium/high)	Evidence	Improvement Opportunities
					focused on aligning further a shared purpose between SFT and Infrastructure Division.	represents an opportunity to refine our shared vision and purpose.
		Does the partnership support joint policy making, implementation and delivery of outcomes?	Yes	Medium	Engagement on shaping SFT's Corporate supports ID policy objectives. SFT also works closely at a portfolio level to support policy development and implementation.	SFT tend to work more directly with portfolios/programmes on policy making, implementation, and delivery. Increased sharing of work undertaken with portfolios and across the SG will enable the Sponsor Team to support and drive delivery of shared outcomes.
	RISK MANAGEMENT					
RM1	Do Risk Management arrangements support partnership working and achievement of outcomes?	<ul style="list-style-type: none"> Is there an agreed/aligned risk management framework, e.g. SG Risk Management Policy, in place? 	Yes	Medium	SFT regularly updates their Audit Committee and Board on risk and risk management and there is a standalone audit committee in place. However, sponsor teams only receive an update on risk at 6-month reviews leaving potential for a disconnect between SFT and sponsor.	Possible work in 2024/25 to develop shared risk appetite statement to sit below the framework document. This should include a clear risk escalation process.
		<ul style="list-style-type: none"> Do partners have an aligned risk appetite statement in place? 	No	Medium	As above.	As above
		<ul style="list-style-type: none"> Is there an agreed risk escalation process in place? Is this effective? 	For Discussion	Medium	As above.	As above.

Ref	ASSURANCE	Good Practice Questions		Effectiveness Confidence (Low/medium/high)	Evidence	Improvement Opportunities
		<ul style="list-style-type: none"> Is risk management used to help identify opportunities as well as risks? 	Yes	Medium	Opportunities to reduce risk are identified at 6-monthly reviews and at different stages throughout the year including budget planning and management.	Review of the Corporate Plan, Funding Model, and Framework Agreement offers an opportunity to address structural risk – such as funding sustainability.
		<ul style="list-style-type: none"> Are risk registers updated regularly? Are decisions on actions being clearly communicated and recorded to all involved? 	Yes	Medium	As above.	As above.
	PERFORMANCE					
P1	Has your area agreed a set of measures and targets to track progress and demonstrate impact of partnership working, and how good are its arrangements with partners for managing and reporting performance ?	<ul style="list-style-type: none"> Have agreed measures been established to track progress? 	Yes	Medium-High	SFT annually publishes outcome reports. Planned activity and workstreams to progress these outcomes are set out in the business plan and reported against in the 6-monthly reviews.	Discussions through the development of the Corporate Plan have shown how these can be improved going forward.
<ul style="list-style-type: none"> Is the organisation able to demonstrate impact through its performance system? 		Yes	Medium-High	As above – as well as a strong accompanying communication strategy.	Continuing to develop relationships with portfolios will enable the body to continue to demonstrate impact and value for money to funders.	
<ul style="list-style-type: none"> Does the organisation use performance information to proactively manage and 		Yes	Medium-High	Feedback from portfolios and sponsor division has been used to address a range of issues and will continue to be used in framing the Corporate Plan and Funding Model.	It will be useful to share improvements, based on feedback, with portfolios at a Sponsorship meeting – ‘you said, we did’.	

Ref	ASSURANCE	Good Practice Questions		Effectiveness Confidence (Low/medium/high)	Evidence	Improvement Opportunities
		Improve performance?				
		<ul style="list-style-type: none"> Do you get feedback from Stakeholders on performance reporting? 	Yes	High	There are opportunities for feedback throughout the year including one-to-one feedback supported by the sponsorship division and sponsorship meetings. Workstream leads also seek informal feedback. Feedback has been sought on both SFT and the Sponsor Division's performance.	Continue to build on stakeholder engagement and take on the suggestions of portfolios including undertake 'roadshows' of SFT's activities to share activities (and receive feedback).
		<ul style="list-style-type: none"> Is reporting aligned with NPF? 	Yes	High	SFT strongly report against NPF in their outcome reporting and business/corporate planning.	
	ENGAGEMENT					
E1	Are there good Formal and Informal Relationships within the partnership?	<ul style="list-style-type: none"> Is there regular informal contact between parties, even just to 'check in'? 	Yes	High	Deputy Director's meet with CEO every couple of weeks. Sponsorship Manager is available at any time to respond to questions. Sponsor team is in regular contact with CEO and Directors on an informal basis.	
		<ul style="list-style-type: none"> Do relationships allow for free and frank discussion that is supportive and open? 	Yes	High	Corporate Planning process has demonstrated an ability for both Sponsor and SFT to have frank conversations and deliver feedback in a candid way. Various challenges, such as funding, has benefited from open and supportive relations.	Continue to foster open discussions and the sharing of feedback between SFT and Sponsor team.
		<ul style="list-style-type: none"> When formal contact is required is this still 	Yes	High	Positive relationship between Senior Leadership at SFT and Sponsor division ensures that	Work on the relationship between the new SFT Chair and DG to ensure formal

Ref	ASSURANCE	Good Practice Questions		Effectiveness Confidence (Low/medium/high)	Evidence	Improvement Opportunities
		supportive and open?			formal issues can be addressed in a supportive and open environment. Contact with Director and DG ensures formal contact, and resolution of issues, is regular.	relationships remain open and supportive.

Annex C: Chair and Board Pay Analysis

Summary

- Scottish Futures Trust (SFT) is considering increasing their Daily Fee for Board and Chair remuneration.
- As of 31 March 2022, SFT pay £325 per day for board members and there hasn't been an increase since SFT's inception in 2009.
- From 2017-2021, Ian Russell was paid £512 per day as Chair. From 2021-24, this fee was increased to £537.12 per day. Ian Russell has waived his remuneration.
- Since 2017, Public Sector Pay Policy outlined annual uplifts in pay which SFT did not enact.
- The early pay policy available is 2012/13
- Had the Daily Fee increased annually from 2017, in line with Public Sector Pay Policy, an appropriate daily fee for:
 - o SFT Chair - £541.92
 - o Board Members - £353.17
- For Chair, this Daily Fee is above the Maximum, but below the ceiling. For Members, this is within the Maximum as outlined in the Daily Fee Framework.
- For existing bodies, current and previous annual increases inline with pay policy can be approved by the Sponsor team once the Public Sector Pay Policy team have signed-off the proposals.

Public Sector Pay Policy

Scottish Government decisions on pay is published in the annual public sector pay policy. In 2023/24, it was published in the Public Sector Pay Strategy. The annual policy covers daily fees paid to Chairs and Members appointed by Scottish Ministers to public bodies. These pay parameters apply equally to the introduction of remuneration for Public Appointments or where annual uplift, review, or change to remuneration is required. When Ministers have agreed that an appointee should be remunerated, the Daily Fee Framework must be used to determine the appropriate fee. The Daily Fee Framework Tiers are uplifted annually in line with pay policy.

Daily Fee Framework Tiers

Each standard public appointment is allocated to one of the tiers by reference to the significance of the body – based on its size (staff numbers) and the resources managed (budget/grant), as well as consideration of its likely public profile.

- Tier 1 bodies include a small number of the most significant Scottish NDPBs and public corporation.
- Tier 2 includes the majority of executive NDPBs and significant ad hoc bodies and appointments.
- Tier 3 includes the smaller NDPBs, advisory bodies and most short-life and ad hoc groups.

Advice on the appropriate tier of a public body must be sought from the Public Sector Pay Policy Team.

Tier 1	£335	£495	£553
Tier 2	£217	£369	£438
Tier 3	£149	£234	£320

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	£262	£387	£507
Tier 1	£240	£357	£450
Tier 2	£182	£269	£339
Tier 3	£98	£190	£272

2019-20 Public Sector Pay Policy

For daily fees that are £307 and above an increase of up to £6 can be applied.

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	£329	£550	£700
Tier 1	£327	£487	£544
Tier 2	£211	£361	£430
Tier 3	£145	£227	£312

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	£254	£379	£499
Tier 1	£233	£349	£422
Tier 2	£177	£261	£331
Tier 3	£95	£184	£264

2018-19 Public Sector Pay Policy

For daily fees that are £307 and above an increase of up to £6 can be applied.

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	£323	£544	£694
Tier 1	£321	£481	£538
Tier 2	£207	£355	£424
Tier 3	£142	£223	£306

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	£249	£373	£493
Tier 1	£228	£343	£436
Tier 2	£174	£256	£325
Tier 3	£93	£180	£259

2017-18 Public Sector Pay Policy

For daily fees a 1% cap.

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	£317	£538	£688

Tier 1	£315	£475	£532
Tier 2	£203	£349	£418
Tier 3	£139	£219	£300

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	£244	£367	£487
Tier 1	£224	£337	£430
Tier 2	£171	£251	£319
Tier 3	£91	£176	£254

2016/17

1%²

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	314	533	681
Tier 1	312	470	527
Tier 2	201	346	414
Tier 3	138	217	297

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	242	363	482
Tier 1	222	334	426
Tier 2	169	249	316
Tier 3	90	174	251

2015/2016

1%³

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	311	528	674
Tier 1	309	465	522
Tier 2	199	343	410
Tier 3	137	215	294

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	240	359	477
Tier 1	220	331	422
Tier 2	167	247	313
Tier 3	89	172	249

² [00497166.pdf \(webarchive.org.uk\)](#)

³ [00475950.pdf \(webarchive.org.uk\)](#)

2014/2015

1%⁴

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	308	523	667
Tier 1	306	460	517
Tier 2	197	340	406
Tier 3	136	213	291

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	238	355	472
Tier 1	218	328	418
Tier 2	165	245	310
Tier 3	88	170	247

2013/2014

0%⁵

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	305	518	660
Tier 1	300	455	512
Tier 2	193	337	402
Tier 3	134	209	285

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	234	351	467
Tier 1	214	325	414
Tier 2	161	241	305
Tier 3	86	166	243

2012-2013

Chair – 0%⁶

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	305	518	660
Tier 1	300	455	512
Tier 2	193	337	402
Tier 3	134	209	285

Member's Tier	Minimum	Maximum	Ceiling
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⁴ [00438217.pdf \(webarchive.org.uk\)](#)

⁵ [Pay Policy for Senior Appointments \(webarchive.org.uk\)](#)

⁶ [00388445.pdf \(webarchive.org.uk\)](#)

Tribunal	234	351	467
Tier 1	214	325	414
Tier 2	161	241	305
Tier 3	86	166	243

2011/2012

0%⁷

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	305	518	660
Tier 1	300	455	512
Tier 2	193	337	402
Tier 3	134	209	285

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	234	351	467
Tier 1	214	325	414
Tier 2	161	241	305
Tier 3	86	166	243

2010/2011

0%⁸

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	305	518	660
Tier 1	300	455	512
Tier 2	193	337	402
Tier 3	134	209	285

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	234	351	467
Tier 1	214	325	414
Tier 2	161	241	305
Tier 3	86	166	243

2009/2010

1.50%⁹

Chairs Tier	Minimum	Maximum	Ceiling
Tribunal	305	518	660
Tier 1	300	455	512
Tier 2	193	337	402
Tier 3	134	209	285

⁷ [Public Sector Pay Policy for Senior Appointments 2011-12 \(webarchive.org.uk\)](http://webarchive.org.uk)

⁸ [Public Sector Pay Policy for Senior Appointments 2010-11 \(webarchive.org.uk\)](http://webarchive.org.uk)

⁹ [Public Sector Pay Policy: Policy for Senior Appointments 2009-10: Chief Executives Chairs and Members \(webarchive.org.uk\)](http://webarchive.org.uk)

Member's Tier	Minimum	Maximum	Ceiling
Tribunal	234	351	467
Tier 1	214	325	414
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Suggested Pay

Tables 1 and 2 show how pay would be if reflecting the annual increase:

Chair Uplift Starting 2009/2010

Tier 1	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Policy		1% Cap	Max £6	Max £6	Max £8	Max £3	Max £1.92
Daily Fee	512	517	523	529	537	540	£541.92
Ceiling	£527	532	538	544	552	555	557
Maximum	470	475	481	487	495	498	500
Minimum	312	315	321	327	335	338	340

Board Member Uplift Starting 2009/2010

Tier 1	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Policy		1% Cap	Max £6	Max £6	Max £8	Max £3	Max £1.92
Daily Fee	325	328.25	334.25	340.25	348.25	351.25	353.17
Ceiling	426	430	436	442	450	453	455
Maximum	334	337	343	349	357	360	362
Minimum	222	224	228	233	240	242	244

Based on ¹⁰

Facilitating Change in Pay

The Daily Fee should be agreed between the public body, the Public Sector Pay policy team, and the Sponsor team, and recorded formally in a letter of appointment issued to the appointee. Relevant Scottish Government approval must be sought prior to implementing any proposals, including, making any annual uplift, changing the tier of the body, or introducing, reviewing, or changing the remuneration package such as daily fee or pension arrangement. If proposals are simply the annual uplift in pay policy, then a Chair's and Member's proforma should be either completed by the Sponsor

¹⁰ [Scottish Futures Trust - Appointments - Chair - history of Sir Angus Grossart's appointment - 23 May 2016 details - Objective ECM \(scotland.gov.uk\)](#)

team and sent to the Public Sector Pay Policy Team, or, completed by the Public Body and sent to the Public Sector Pay Policy Team, copied to the Sponsor Team. For existing bodies, current and previous annual increases inline with pay policy can be approved by the Sponsor team once the Public Sector Pay Policy team have signed-off the proposals.

Comparable Pay at other Public Bodies

[Full list of public appointments by public body - gov.scot \(www.gov.scot\)](http://www.gov.scot)

Annex D: Public Body RAG Rating 2023

Public Body	Scottish Futures Trust
Classification	Executive NDPB
Is the current make-up of the Board sufficient and is there Board succession planning in place? (Red or Green)	Green
Have new Board Members received a full induction? (Red or Green)	Green
Has a Board Evaluation been completed in the last 12 Months? (Red or Green)	Green – Carried out in Feb 2023 and reporting to the Board in March 2023.
Have the Board and Accountable Officer completed learning modules on Governance Hub? (Red or Green)	Green – CEO will attend in-person training on 7 November 2023. NXDs have all completed training.
Is there a Framework Document in place which has been signed off by the Board and Minister (Red or Green)	Green
Has the Public Body Central Repository been updated? (Red or Green)	Green
Is the body performing against their performance targets and are they delivering on outcomes?	Yes - 6 month review demonstrated good progress against 2023-24 business plan.
Is the body operating within its budget? (Red or Green)	Green
Has there been a qualification to the Annual Accounts (Red or Green)	Green
Has there been regular engagement between body and SCS in the last quarter?	6 month review with DG SE took place on 12 October. Director B&PS and DD IID meet regularly with CEO
Is there a positive working relationship between body and SG?	Yes
When did the Minister last meet the Chair?	DFM attended SFT Board meeting on 20 June.
Is there a positive working relationship between the Chair and Chief Executive?	Yes
Has the body completed a staff survey exercise in the last 12 months?	Green - SFT undertake a staff survey every two years. Next survey will take place in in early 2024
Are there any issues arising from the staff survey?	No
Has a S.22 report been carried out on the body in the last 24 months? (Red or Green)	Green
Have lessons learned been shared following any S.22/23 reports?	N/A
Are there any planned S.22 reports? (Red or Green)	Green
Are there any major projects planned or underway?	Office move to Thistle House. Corporate planning for 2025-2030, consideration of future Hub programme. Chair recruitment
Are there any upcoming events that could impact on the operations of the body?	Handover to new chair expected Q1/Q2 2024; Budget 2024-25
Are there any live issues?	No
Has there been any significant negative press coverage?	No
Overall RAG Rating (Red, Amber or Green)	Green

Transport Scotland - Major Projects

A9 Dualling Programme

**Addendum to the Outline
Business Case -
Commercial and Financial
Cases update for the
Delivery Plan**

April 2024

Business Case Owner: [REDACTED]

Business Case Inception Date:



Business Case Version Control

Title	Version	Stage of Development of Programme	Date of Issue	Author(s)
Addendum to Outline Business Case	1		April 2024	

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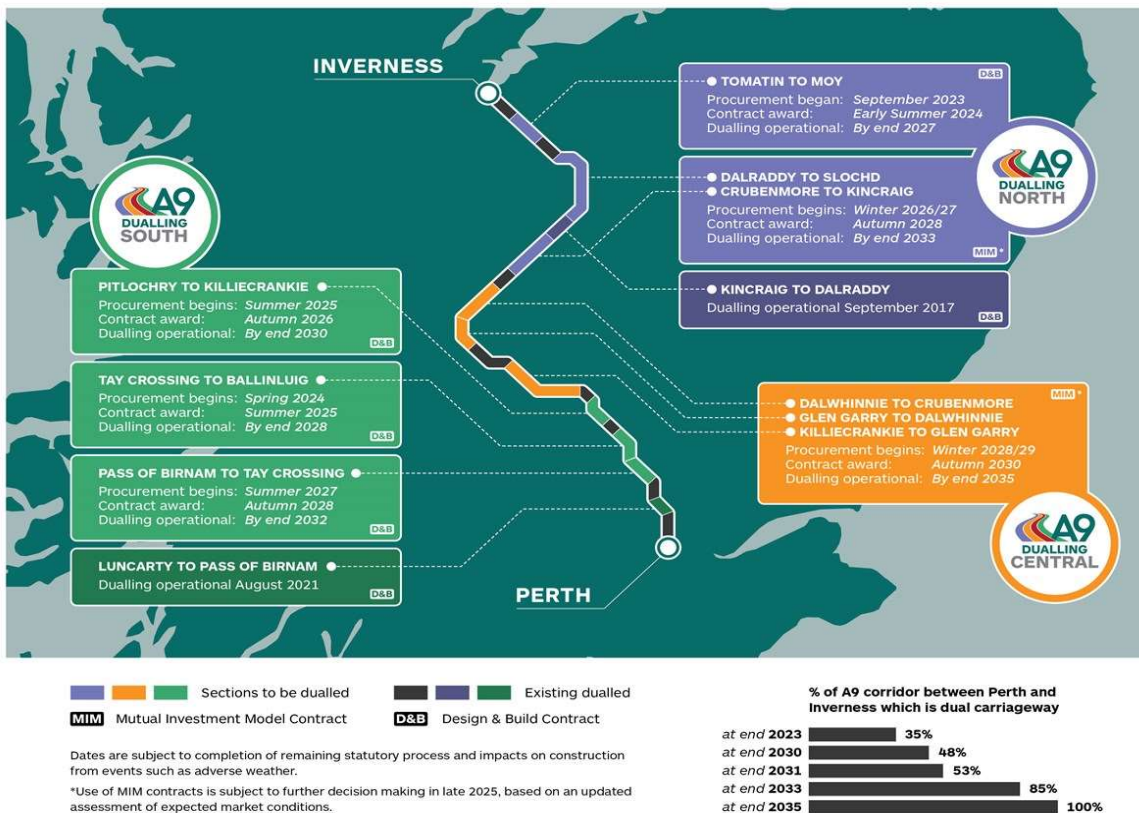
1 Introduction

This addendum to the A9 Dualling Programme Outline Business Case (“Programme OBC”) dated 19 December 2023 has been prepared to set out the Commercial Case and Financial Case, the commercial evaluation and financial assessment, respectively, of the delivery plan announced by the Cabinet Secretary on 20 December 2023 for completion of the remainder of the Programme (“the Delivery Plan”).

The Delivery Plan is broadly similar to the Hybrid Option set out in the Programme OBC, although the scheduling of the Delivery Plan differs from the scheduling of the Hybrid Option. This addendum sets out the equivalent analysis of the Delivery Plan as is provided for each of the options in the Commercial Case and Financial Case of the Programme OBC.

The scheduling of the Delivery Plan is shown in Figure 1 below.

Figure 1: Map depicting the route and timetable for delivery of the A9 Programme Delivery Plan



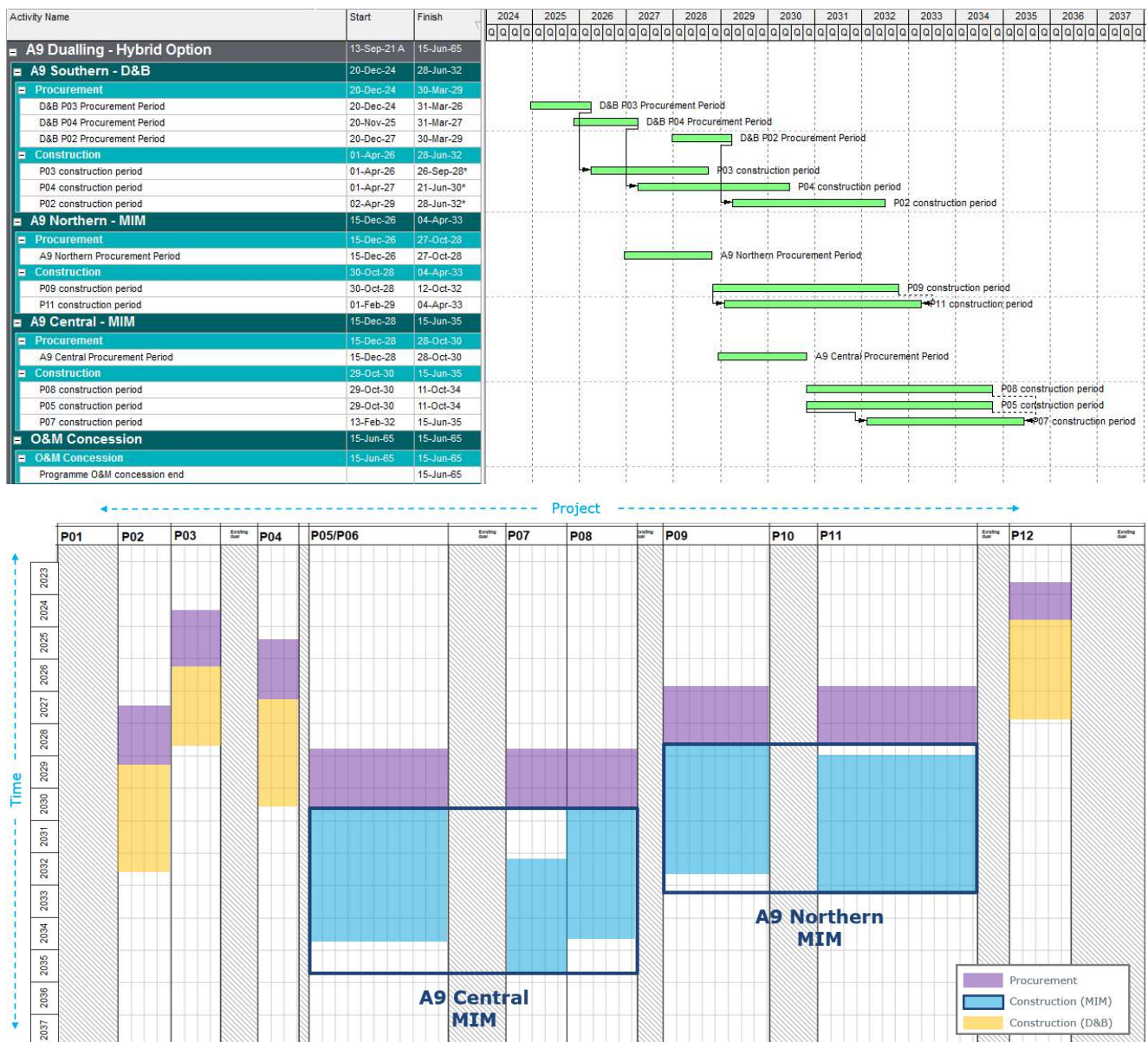
2 Commercial Case – Delivery Plan

2.1 Schedule

The following timeline has been developed for the Delivery Plan based on projects P3, P4 and P2 being delivered as Design & Build (“D&B”) contracts, and A9 North (previously Package 2) and A9 Central (previously Package 1) being delivered as Mutual Investment Model (“MIM”) contracts.

Figure 2: Indicative schedule and time-chainage diagrams for Capital and Resource funded Delivery Plan

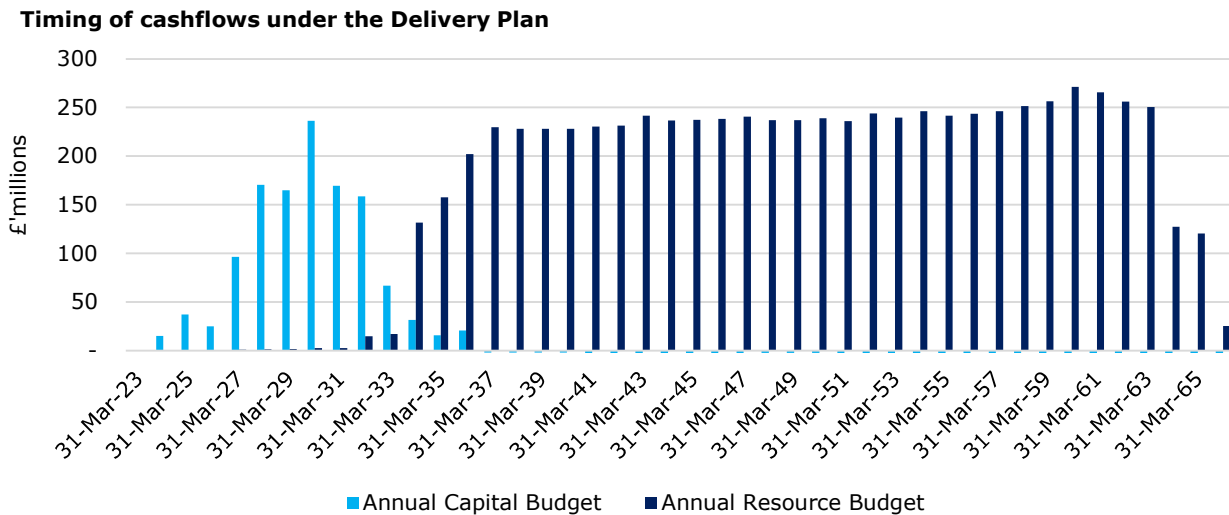
(Note: on the time chainage diagram the vertical axis represents time and the horizontal axis represents distance, with the southernmost project on the left and the northernmost project on the right.)



2.2 Financial Implications

Timing of cash flows and net present value of costs of the Programme under the Delivery Plan are shown below. The cashflows for this option have been prepared on the same basis as the three options within the Programme OBC.

Figure 3: Timing of cash flows under the Delivery Plan



Overall budgetary impact and capital/resource budget profiles to the end of the construction period of the Delivery Plan are set out in Table 1 and Table 2 below. The detailed breakdown of the full capital and resource budget profiles over the period adopted for the Delivery Plan is set out in Appendix A.

Table 1: Budgetary impact of the Delivery Plan

Model option	Capital Budget Requirement (Nominal)*	Resource Budget Requirement (Nominal)**	Total Budget Requirement (Nominal)	NPV as at 1 April 2023* (discount rate: 5.8805%)
Delivery Plan	£1,097.3m	£7,336.6m	£8,433.9m	£2,611.0m

*Inclusive of SG equity investment costs and returns

**Inclusive of benefits from SPV corporation tax

Table 2: Capital and resource budget profile of the Delivery Plan to end of construction.

FY (01 Apr – 31 Mar)	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36
Total capital budget* (£m)	15.0	37.1	24.8	96.6	170.6	164.9	236.4	169.5	158.7	66.8	31.4	15.7	20.6
Annual resource budget** (£m)	-	-	0.1	0.9	1.3	1.7	2.5	2.7	14.7	17.1	131.5	157.6	202.2

*Inclusive of SG equity investment costs and returns

**Inclusive of benefits from SPV corporation tax

2.3 Public Sector Equity Stake

As per the MIM Option and the Hybrid Option in the Programme OBC, the NPV figure quoted in Table 1 above includes both the cost of equity investment in the MIM contracts and the return forecast on that investment assuming a 15% public sector equity investment in each MIM contract. Normal market returns for such investments in PPP projects are in the range of 10-12% nominal Internal Rate of Return. However, recent increases in UK interest rates may lead to investors requiring higher returns. As noted in the Programme OBC, decisions on the scale of equity investment and the identity of the investing body are not considered in this assessment.

2.4 SFT Guideline Affordability Ratios

Table 3 below presents the value of the SFT affordability ratios for the two MIM contracts forming part of the Delivery Plan (these tests are not relevant to the D&B funded contracts). This analysis indicates that the currently modelled costs of the MIM contracts included in the Delivery Plan result in ratios that are slightly above the guideline estimates identified by SFT.

Table 3: SFT affordability test results (based on resource costs including irrecoverable VAT)

	Delivery Plan	SFT guideline estimates
Cost multiplier ratio	3.96	3.70
Revenue commitments ratio	12.6%	9-12%

As noted in respect of the MIM and Hybrid Options, for the MIM contracts included in the Delivery Plan there is some additional pressure on resource commitments versus capital cost for the Programme due to the inclusion of O&M/lifecycle spend on existing dual sections within the MIM contracts, which do not have a corresponding underlying construction cost. Removing this factor from the calculation would have a slight downward impact on the ratios, however they would remain above the guideline estimates.

As also noted in the Programme OBC, the SFT guidance notes that “the ratio ranges take into account sensitivity analysis on movements in inflation and the cost of private finance noting that the previous revenue funded programmes were contracted at a time of historically low underlying market funding rates”. The guidance also recommends that ratios are monitored at key stages of a project in order that the overall sustainability of resource funded commitments remains affordable and sustainable.

2.5 Risk Considerations

Risk considerations to be taken into account in adopting the Delivery Plan reflect those previously noted in respect of the Hybrid Option in the Programme OBC. In addition, a risk specific to the Delivery Plan is set out below:

Risk	Description
<p>Decision on MIM delivery model for A9 North and A9 Central subject to future confirmation</p>	<ul style="list-style-type: none"> • The adoption of the MIM contract for the delivery of both A9 North and A9 Central is subject to confirmation at the end of 2025. • This may result in the market confidence or appetite for the A9 MIM contracts that had been developed to date being lost, potentially leading to a loss of competition in these MIM procurements (in favour of other UK Civil Engineering Programmes (Highways England, HS2, Nuclear programme)).

2.6 Value for Money Analysis of the Delivery Plan

Appendix B sets out a detailed qualitative and quantitative analysis of the Delivery Plan. This analysis has been undertaken in accordance with government guidance including the HM Treasury Green Book. The findings of this analysis are summarised below.

2.6.1 Qualitative Analysis

Appraisal of the “Critical Success Factors” identified in Box 9 of HMT Green Book suggests that in overall terms the Delivery Plan is a viable delivery option and performs slightly better than the D&B Option, the MIM Option and the Hybrid Option set out in the Programme OBC as a result of better overall alignment with budgetary resources.

As noted in the Programme OBC, the availability of sufficient funding is a significant issue affecting all options with resolution of this issue ultimately depending on Ministerial views on the priority to be given to the A9 Dualling Programme relative to other programmes and projects and views on the preferred funding source. The assessment of Critical Success Factors “Strategic fit and meets business needs” and “Potential Affordability” notes that the Delivery Plan enables progress to be made with D&B contracts, with the use of MIM contracts for A9 North and A9 Central subject to further decision making in late 2025. Following consideration of the options available, in December 2023 Ministers decided to adopt the Delivery Plan for completion of the A9 Dualling Programme.

2.6.2 Quantitative Analysis

The quantitative analysis compares the capital and resource costs of each option and is summarised in Table 4 below. This indicates that the estimated NPV of the Delivery Plan is around 5.8% lower than the NPV of the MIM Option and 2.9% lower than the Hybrid Option. It is however 9.3% higher than the D&B Option, compared with the Hybrid Option which is 12.5% higher than D&B Option.

Table 4: Quantitative comparison of capital and resource costs of the Delivery Plan, the D&B Option, the MIM Option and the Hybrid Option (as per the Programme OBC)

	NPV of D&B Option (£000)	NPV of MIM Option (£000)	NPV of Hybrid Option (£000)	NPV of the Delivery Plan (£000)	Difference (£,%) MIM vs D&B	Difference (£,%) Hybrid vs D&B	Difference (£,%) the Delivery Plan vs D&B
Capital Budget	2,034,126	311,675	797,090	810,073			
Resource Budget (Unitary Charge incl irrecoverable VAT ¹)	354,369	2,563,158	1,963,575	1,855,602			
Sub-Total	2,388,495	2,874,833	2,760,665	2,665,675			
Corporation tax payable to public sector by MIM SPV ²	N/A	(77,869)	(56,134)	(47,513)			
Sub-Total (pre public sector equity)	2,388,495	2,796,964	2,704,530	2,618,162	408,469 17.1%	316,035 13.2%	229,667 9.6%
Add: public sector equity investment (15%)	N/A	24,184	17,523	16,333			
Less: public sector equity distribution (15%)	N/A	(47,222)	(34,466)	(23,535)			
Total	2,388,495	2,773,927	2,687,588	2,610,960	385,432 16.1%	299,093 12.5%	222,465 9.3%

¹ The proportion of VAT on the UC estimated as being irrecoverable has been based on analysis undertaken in respect of the position agreed with HMRC on other similar projects.

² HMT Green Book (2020) Annex A4, p103 (A4.8) notes that when comparing a PPP option to the PSC, adjustments should be made to reflect the distortions caused by "differences in effective tax rates between the public and private sector". It is recommended that "as far as possible estimates of the effective tax rate based on tax paid" are used. The adjustment applied reflects the forecast tax paid in the shadow bid model using tax treatment considered typical for projects of this type. No equivalent tax adjustment is necessary for the PSC.

2.7 Conclusions

A conclusion of the full assessment of the MIM Option, D&B Option and the Hybrid Option can be found within the Programme OBC. Conclusions that relate specifically to the Delivery Plan are set out below:

- As use of MIM contracts for A9 North and A9 Central is subject to further decision making in late 2025, there is an additional risk that there may be a loss of market appetite for these contracts in the intervening period.
- The Delivery Plan is considered to perform slightly more favourably in terms of NPV of Cost than either the MIM Option or the Hybrid Option described in the Programme OBC, while being less favourable on this basis than the D&B Option.
- The Delivery Plan is estimated to be capable of achieving completion of the Programme in a similar timescale to the D&B Option, which is around 2 years later than is the case for the MIM Option and the Hybrid Option.

Appendix A – Capital and Resource Budget Profile

Capital and Resource budget profile of the Delivery Plan to end of operations (to nearest £1m per annum)

Cost Element	Nominal Total (£m)	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	36/37	37/38	38/39	39/40	40/41	41/42	42/43	43/44
Capital Budget	1,183	-	15	37	25	97	171	165	236	169	159	67	18	18	7	-	-	-	-	-	-	-	-
SG Equity Investment	32	-	-	-	-	-	-	-	-	-	-	-	17	-	16	-	-	-	-	-	-	-	-
SG Investment Distributions	(118)	-	-	-	-	-	-	-	-	-	-	-	(3)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)
Subtotal Capital Budget	1,097	-	15	37	25	97	171	165	236	169	159	67	31	16	21	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)
Unitary Charge	6,702	-	-	-	-	-	-	-	-	-	13	15	125	149	188	212	213	214	214	215	215	216	216
Initial Service Payments	5	-	-	-	-	-	-	-	1	1	1	1	0	-	-	-	-	-	-	-	-	-	-
Irrecoverable VAT	377	-	-	-	-	-	-	-	-	-	1	1	6	8	10	12	12	12	12	12	12	12	12
Corporation Tax	(165)	-	-	-	-	-	-	-	(1)	(2)	(4)	(6)	(5)	(6)	(5)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(5)
Package 3 D&B Resource Budget	418	-	-	-	-	1	1	2	3	4	4	7	6	7	8	10	7	7	7	8	9	18	13
Subtotal Resource Budget	7,337	-	-	-	-	1	1	2	3	3	15	17	132	158	202	230	228	228	228	230	231	242	237
Subtotal Budget Requirement	8,434	-	15	37	25	97	172	167	239	172	173	84	163	173	223	228	226	226	226	228	229	239	234

	44/45	45/46	46/47	47/48	48/49	49/50	50/51	51/52	52/53	53/54	54/55	55/56	56/57	57/58	58/59	59/60	60/61	61/62	62/63	63/64	64/65	65/66
Capital Budget	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SG Investment Distributions	(3)	(3)	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(8)	(15)	(6)	(14)	(4)
Subtotal Capital Budget	(3)	(3)	(3)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(8)	(15)	(6)	(14)	(4)
Unitary Charge	217	218	218	219	220	220	221	222	222	223	224	225	225	226	227	228	229	229	230	116	115	24
Irrecoverable VAT	12	12	12	12	12	12	12	12	13	13	13	13	13	13	13	13	13	13	13	7	7	2
Corporation Tax	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-4	-4	-4	-2	-2	-0
Package 3 D&B Resource Budget	13	13	15	11	10	12	8	15	10	16	10	11	13	17	22	35	29	18	11	7	-	-
Subtotal Resource Budget	237	238	241	237	237	239	236	244	239	246	242	244	246	251	257	271	266	256	250	127	121	25
Subtotal Budget Requirement	235	235	238	234	235	237	233	241	237	244	239	241	243	249	254	269	263	248	235	121	107	21

NOTE: Due to rounding to nearest £1m, nominal totals for Capital and Revenue Budget may not be accurate, however, the Total Resource Requirement is accurate.

Appendix B – Commercial Value for Money

Please refer to the Programme OBC for the initial qualitative and quantitative analysis undertaken to assess the comparative commercial Value for Money (VfM) of the D&B Option, the MIM Option and the Hybrid Option. This Appendix B includes analysis of the Delivery Plan.

1 Appraisal Results

1.1 *Qualitative Appraisal – Commentary against Critical Success Factors identified in the Green Book*

The table below includes the review of the Delivery Plan against the Critical Success Factors noted in Chapter 4, Box 9 of the Green Book. A simple Red/Amber/Green rating has been included to help compare the performance of each option, defined as follows:

- Green – assessment of the evidence indicates the option compares well against the considerations specified and may have some relative advantages;
- Amber – assessment of the evidence indicates the option compares reasonably against the considerations specified but may have some challenges and relative disadvantages; and
- Red – assessment of the evidence indicates the option compares poorly against the considerations specified and may have some relative disadvantages.

NOTE: Please assume the rating for the Hybrid Option in the Programme OBC applies to the Delivery Plan, unless otherwise stated below.

Critical Success Factors and description (as taken from Chapter 4, Box 9 of Green Book)		A9 Specific commentary against Green Book questions	D&B Option	MIM Option	Hybrid Option	Delivery Plan
Strategic fit and meets business needs	<p>How well the option:</p> <ul style="list-style-type: none"> meets the agreed spending objectives, related business needs and service requirements provides holistic fit and synergy with other strategies, programmes and projects 	<ul style="list-style-type: none"> None of the options can progress to the earliest achievable timescale in the absence of guarantees regarding funding availability. Taking any option forward would require prioritisation of funding against other programmes and projects. The MIM Option and Hybrid Options are consistent with Scottish Government’s objectives to utilise innovative financing mechanisms where privately financed revenue funded models may be appropriate. Use of the MIM Option or the Hybrid Option would provide additionality of funding and provide an opportunity for capital budgets to be used for programmes or projects less suitable for private finance (e.g. net-zero transition). MIM is the recommended investment model for privately financed revenue funded projects in Scotland, based on an options appraisal carried out by SFT. However neither the MIM Option nor the Hybrid Option provide the lowest NPV of Cost, and the MIM contracts involved in these options are expected to exceed the guideline ratios identified by SFT. The D&B Option would create an opportunity to align with wider Scottish Government procurement 				

		<p>strategies in relation to splitting larger requirements into smaller lots/contracts, although the scale of these contracts remains large and this has implications for the timescale to completion.</p> <ul style="list-style-type: none"> • The Hybrid Option would provide a mix of both D&B and MIM contract opportunities for the construction market. • The Delivery Plan enables progress to be made with D&B contracts, with the use of MIM contracts for A9 North and A9 Central subject to further decision making in late 2025. 				
<p>Potential value for money</p>	<p>How well the option: optimises social value (social, economic and environmental), in terms of the potential costs, benefits and risks</p>	<ul style="list-style-type: none"> • The MIM contracts in the MIM Option and the Hybrid Option have the potential to provide a larger scale of social value benefits over their longer contract life than the D&B Option, although it is noted that social value could be achieved via the successor contracts applying following the D&B contracts. • Although the NPV of Cost is higher for the MIM Option and the Hybrid Option than for the D&B Option, the outcomes may be different were low likelihood/high impact risks to occur, given the greater level of risk transfer provided by MIM contracts compared to D&B contracts. • Market consultation indicated the MIM option is likely to appeal to large international contractors who 				

		<p>expressed an interest in bringing global best practice in low carbon construction and innovation to the A9 in line with a wider focus on Environmental Social and Governance (ESG) issues. Funders also indicated a strong attitude to delivery of robust ESG outcomes providing additional focus on these issues and, in some cases, indicating potential to make additional (grant) funding available to support these outcomes as well as “optimised” funding costs.</p>				
<p>Supplier capacity and capability</p>	<p>How well the option:</p> <ul style="list-style-type: none"> • matches the ability of potential suppliers to deliver the required services • appeals to the supply side 	<ul style="list-style-type: none"> • Recent experience of tendering major roads projects has shown a reduced market appetite for Transport Scotland’s standard terms and conditions. Although it is anticipated that modified terms and conditions will be offered to the D&B market, it is considered that there is likely to be a stronger market appetite and capacity for the MIM Option than for the D&B Option. • Many of the projects, if procured as D&B contracts, would require construction joint ventures to be formed due to the scale and value of the contract, thus limiting the potential pool of bidders for individual procurements. • Recent success and competitive interest in the A465 MIM project and Silvertown Tunnel PPP project indicates a good level of market interest in privately financed delivery models among potential suppliers. 				

		<p>This level of interest is also demonstrated by the number of consortia that have formed to pursue potential MIM contracts on the A9 Dualling Programme.</p>				
<p>Potential affordability</p>	<p>How well the option:</p> <ul style="list-style-type: none"> can be financed from available funds aligns with resourcing constraints 	<ul style="list-style-type: none"> None of the options can progress to the earliest achievable timescale in the absence of guarantees regarding funding availability. Taking any option forward would require prioritisation of funding against other programmes and projects. The D&B Option is considered to have the lower NPV of Cost. The D&B Option requires large levels of capital funding across its 11 year construction programme. The MIM Option requires large levels of resource funding across the approximately 26 year period that the Unitary Charge is payable in full across all three MIM contracts. The Hybrid options require lower capital funding than the D&B Option and lower resource funding than the MIM Option however still require significant capital and resource funding over the respective construction and operational periods. As noted above in relation to “Strategic Fit”, the MIM contracts in the MIM Option and in the Hybrid Options have higher NPVs of Cost and are expected to exceed the guideline ratios identified by SFT. It is considered unlikely that adoption of either the MIM Option or the Hybrid Options for the A9 Dualling 				

		<p>Programme would see the 5% cap on investment commitment being breached.</p> <ul style="list-style-type: none"> The Delivery Plan enables progress to be made with D&B contracts, with the use of MIM contracts for A9 North and A9 Central subject to further decision making in late 2025. 				
<p>Potential achievability</p>	<p>How well the option:</p> <ul style="list-style-type: none"> is likely to be delivered given an organisation's ability to respond to the changes required matches the level of available skills required for successful delivery 	<ul style="list-style-type: none"> Transport Scotland has significant experience in the delivery of PPP contracts of the type included in the MIM Option and the Hybrid Option. Although Transport Scotland also has significant experience in the delivery of D&B contracts, as the form of such contract expected to be included in the D&B Option is likely to change significantly from Transport Scotland's historic approach, this is likely to require significant additional resource and extensive training to deliver, and presents a greater delivery risk. Securing these resources and undertaking this training over the period required to support the D&B Option presents a further risk. Although governance arrangements can be established to support effective delivery of any of the options the nature of the changes in risk allocation anticipated as required by the D&B Option are likely to increase governance requirements and, in the event of low likelihood/high impact risks occurring, could lead to significant adverse cost outcomes affecting achievability. 				

1.2 Qualitative Appraisal – Commentary against the Box 28 “Qualitative Issues to Consider”

The Programme OBC assesses the alignment of potential MIM contracts against the “Qualitative Issues to Consider when Considering PPP Options” taken from Annex 4, Box 28 of the Green Book. This analysis remains unchanged for the Delivery Plan, with the use of MIM contracts for the A9 Dualling Programme aligning well with the issues identified for consideration and therefore the Delivery Plan is considered to be a viable and attractive delivery option.

1.3 Qualitative Appraisal Summary

Appraisal of the “Critical Success Factors” suggests that in overall terms the Delivery Plan performs better in certain respects (strategic fit and business needs and potential affordability) than the MIM Option, the D&B Option and the Hybrid Option assessed in the Programme OBC. However, the availability of sufficient funding is a significant issue affecting the ultimate deliverability of all options.

Resolution of this issue ultimately depends on Ministerial views on the priority to be given to the Programme relative to other programmes and projects, and views on the preferred funding source.

1.4 Quantitative Appraisal

The key assumptions and sources of information for the Delivery Plan that inform this assessment are as set out earlier in this Addendum and are per the Programme OBC unless otherwise stated.

The table below summarises the outcomes of the quantitative analysis undertaken. All figures are expressed in 1 April 2023 prices.

	NPV of MIM Option (£000)	NPV of D&B Option (£000)	NPV of Hybrid Option (£000)	NPV of Delivery Plan (£000)	Difference (£,%) D&B vs Delivery Plan
Capital Budget	311,675	2,034,126	797,090	810,073	
Revenue Budget (Unitary Charge incl irrecoverable VAT ³)	2,563,158	354,369	1,963,575	1,855,602	
Sub-Total	2,874,833	2,388,495	2,760,665	2,665,675	

³ The proportion of VAT on the UC estimated as being irrecoverable has been based on analysis undertaken in respect of the position agreed with HMRC on other similar projects.

	NPV of MIM Option (£000)	NPV of D&B Option (£000)	NPV of Hybrid Option (£000)	NPV of Delivery Plan (£000)	Difference (£,%) D&B vs Delivery Plan
Corporation tax payable to public sector by MIM SPV ⁴	(77,869)	N/A	(56,134)	(47,513)	
Sub-Total (pre public sector equity)	2,796,964	2,388,495	2,704,530	2,618,162	(229,667) (9.6%)
Add: public sector equity investment (15%)	24,184	N/A	17,523	16,333	
Less: public sector equity distribution (15%)	(47,222)	N/A	(34,466)	(23,535)	
Total	2,773,927	2,388,495	2,687,588	2,610,960	(222,465) (9.3%)

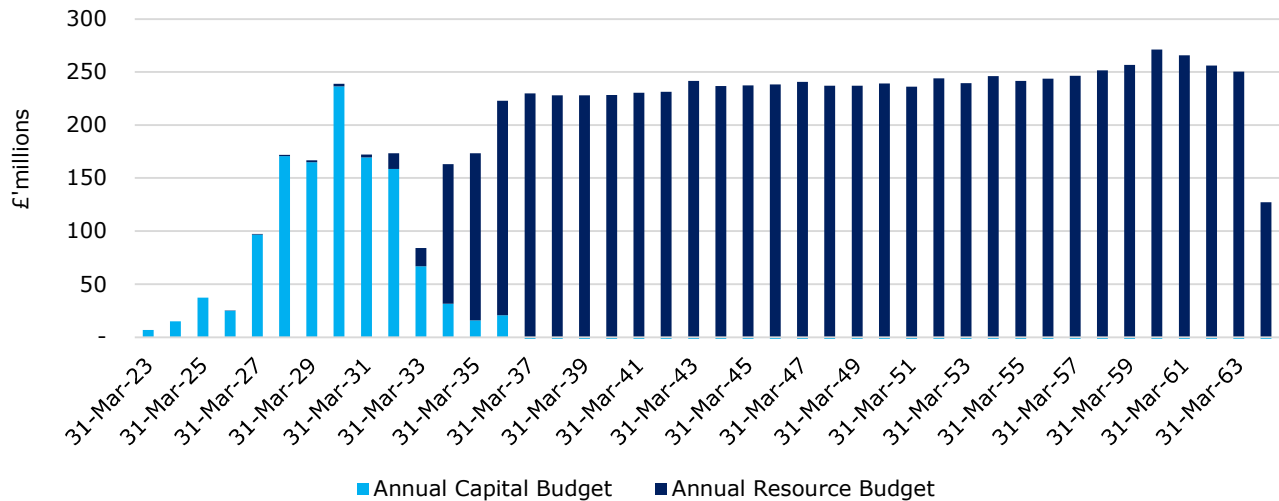
The figures above indicate that:

- The Delivery Plan has a lower NPV of cost than the MIM Option or the Hybrid Option, but has a difference in cost compared to the D&B Option of c. £222m (9.3%) in April 2023 prices, when corporation tax receipts and public sector equity investment and return are included.

⁴ HMT Green Book (2020) Annex A4, p103 (A4.8) notes that when comparing a PPP option to the PSC, adjustments should be made to reflect the distortions caused by "differences in effective tax rates between the public and private sector". It is recommended that "as far as possible estimates of the effective tax rate based on tax paid" are used. The adjustment applied reflects the forecast tax paid in the shadow bid model using tax treatment considered typical for projects of this type. No equivalent tax adjustment is necessary for the PSC.

In addition to the difference in costs when considered in terms of NPV, the nominal costs differ significantly due to the timing of the cash outflows from the Scottish Government for delivery of the Programme under each option.

Timing of cashflows under the Delivery Plan



2 Conclusions

The qualitative and quantitative analysis of the comparative commercial VfM offered by the Delivery Plan has identified the following findings:

- Like the other options, the Delivery Plan faces significant issues in relation to the availability of sufficient funding, the resolution of which ultimately depends on Ministerial views on the priority to be given to the A9 Dualling Programme relative to other programmes and projects, and views on the preferred funding source.
- The assessment of the Critical Success Factors “Strategic fit and meets business needs” and “Potential Affordability” notes that the Delivery Plan enables progress to be made with D&B contracts, with the use of MIM contracts for A9 North and A9 Central subject to further decision making in late 2025.
- The assessment of the Critical Success Factor "Potential Achievability" notes that the Delivery Plan is expected to present similar resourcing risks as the Hybrid Option, these being considered to be lower than the resourcing risks presented by the D&B Option but higher than the resourcing risks presented by the MIM Option.
- Overall, the Delivery Plan performs slightly better in respect of Critical Success Factors as a result of better overall alignment with budgetary resources.
- In terms of NPV of Cost, the D&B Option offers a potential quantitative benefit of 13.9% when compared with the MIM Option, including corporation tax and equity investment costs and returns, 11.1% when compared to the Hybrid Option, and 8.5% when compared to the Delivery Plan on the same basis.
- Although the Delivery Plan entails lower capital funding than the D&B Option and lower resource funding than the MIM Option, it still requires significant levels of funding over the period assessed. In this regard the Delivery Plan is similar to the Hybrid Option.

3 Financial Case – Delivery Plan

3.1 Overview

For comparability to the analysis in the Programme OBC, the key base case assumptions underpinning the financial model for the Delivery Plan are as per the other options in the Programme OBC, unless stated otherwise below.

3.2 Timing

The table below sets out the key dates assumed in the analysis.

Milestone	A9 Central MIM	A9 North MIM	D&B Project 2	D&B Project 3	D&B Project 4
Financial close	31 Oct 2030	27 Oct 2028	N/A	N/A	N/A
Construction start date	01 Nov 2030	28 Oct 2028	01 Apr 2029	01 Apr 2026	01 Apr 2027
Construction completion date	15 Jun 2035	04 Apr 2033	28 Jun 2032	26 Sep 2028	22 Jun 2030
Full operations phase start date	16 Jun 2035	05 Apr 2033	29-Jun-2032	27-Sep-2028	23-Jun-2030
Full operations phase end date	15 Jun 2065	04 Apr 2063	28-Jun-2062	26-Sep-2058	22-Jun-2060

3.3 Construction Costs

Input cost assumptions for the Delivery Plan are per the Programme OBC, unless stated otherwise below.

The table below sets out the resulting breakdown of construction costs assumed in the Delivery Plan's base case.

Capital construction cost (base date Q3 2019) ⁵	Total (£m)	A9 Central MIM Cost (£m)	A9 North MIM Cost (£m)	D&B Projects 2, 3 and 4 Cost (£m)
Core capex (real, excluding side roads)	1,309.0	442.4	494.2	372.4
Project risk	194.7	50.1	54.2	90.4
Total (real terms, Q3 2019)	1,503.7	492.5	548.4	462.8
Inflation (per assumptions noted in Programme OBC)	999.4	392.6	353.7	253.1
Total (nominal terms)	2,503.1	885.1	902.1	715.9

⁵ Capital cost source: Copy of Copy of A9PZZ-ZZZ-GEN-Z_ ZZZZZ_ ZZ-BQ-ZZ-0020 (003) Option 1 ONLY Rev A.xlsx dated 19-Mar-2024. As a simplifying assumption for financial modelling purposes, and to align with financial years, inflationary uplifts are assumed to arise on each 01 April commencing 01 April 2021.

As the Programme proceeds greater certainty will be achieved in respect of capital costs for individual elements enabling individual OBCs and FBCs to be prepared at appropriate stages for individual contract procurements.

3.4 Financing Costs and Assumptions

The base case shadow bid model for the MIM components of the Delivery Plan reflect the private finance structure and key terms for bank and bond finance as set out in the Programme OBC. The only change in financing terms relates to the reference rates which are based upon the assumed financial close dates for the Delivery Plan MIM contracts as set out below.

Senior Debt Financing Assumptions	Senior bank debt	Bond finance
Reference rate	<i>A9 Central: 4.10%</i> <i>A9 Northern: 4.10%</i>	<i>A9 Central: 4.69%</i> <i>A9 Northern: 4.71%</i>

Given the rapidly changing macroeconomic environment, bank reference rate assumptions adopted in the base case have been based on the forward market rates, taken as at 28 September 2023, for the SONIA 6m sterling swap curve forecast at the following dates for the Delivery Plan MIM contracts:

- 27 October 2028 (A9 North Financial Close); and
- 31 October 2030 (A9 Central Financial Close).

It is not possible to obtain a forward rate for gilts, but the bond rates adopted in the base case reflect the current price of the gilts maturing closest to the dates of the forward swap prices. As these are current rates, they build in the market expectation of higher short-term rates and so have been discounted by the same difference that exists between today's swap price and the forward swap prices for the bank debt to get a proxy 'forward rate' for bonds on the assumption that gilt prices follow the downward trend of swaps. This is an assumption for modelling purposes and not a prediction of future gilt prices and there is no guarantee that gilts will follow swaps or vice versa.

It is noted that future reference rate movements and debt pricing are uncertain and could be either upward or downward over the forecast time horizons to financial close for the respective MIM packages. An interest rate sensitivity of +1.0% and +/- 0.5% is therefore set out in section 3.7 to illustrate the potential impact of developments in finance markets over time from the assumed market terms set out above to inform budgetary planning and contingency.

3.5 Phasing of the Unitary Charge

In line with market practice, and in order to improve cash flow and accordingly reduce financing costs, a proportion of the Unitary Charge (UC) can be paid as key sections of the road are completed and available for use rather than waiting until full completion before any payments are made. Whilst the sections of the road, and therefore proportion of UC paid upon their

completion, within each MIM contract in this analysis is as per the Programme OBC, the sequence of completion of those sections and phasing of UC payments under the Delivery Plan differs from the Programme OBC.

3.6 Indexation of the Unitary Charge

A proportion of the UC is indexed in line with CPI assumed at 2.0% for the life of the MIM contract in line with the formal Bank of England inflation target. The proportion of the UC subject to indexation has been set at a level which reflects the split between underlying costs in the model that are unindexed (being the cost of servicing and repaying debt) and indexed (being O&M and Lifecycle costs). This is intended to achieve a “natural hedge” for the contractor against future movements in inflation by matching its indexed income to its indexed costs and is consistent with market practice.

Based on this approach, c.10% of the UC is subject to indexation in the base case models for each package.

3.7 Results and Sensitivities

This section sets out the outcome of the Base Case shadow bid model analysis of resource budget costs associated with the MIM unitary charges as well as the estimated capital budget costs outside of the UC for the Delivery Plan.

A selection of upside and downside sensitivities to the shadow bid model, intended to demonstrate the impact of changing key financial assumptions, have also been provided to indicate potential variability in the UC given the timescales to Financial Close and potential uncertainty around the assumptions made prior to procurement.

3.7.1 The Delivery Plan Resource Budget

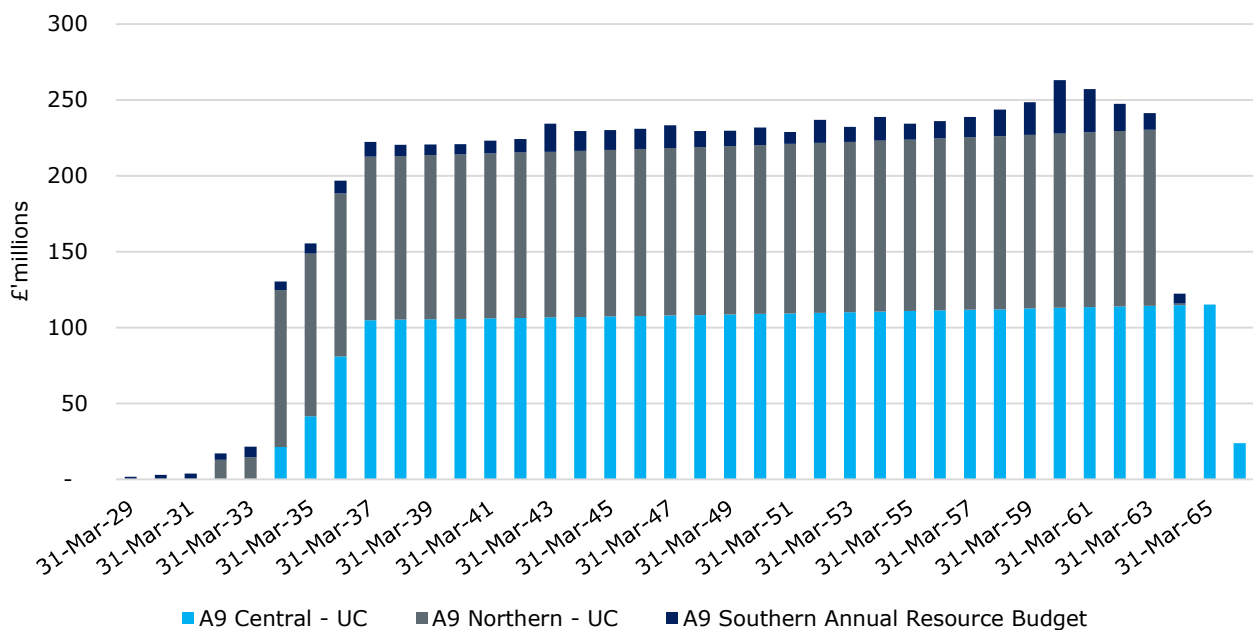
The resource budget costs for the Delivery Plan as a whole and its key components are as set out below:

	Delivery Plan Total (£m)	A9 Central MIM (£m)	A9 North MIM (£m)	Projects 2,3,4 D&B (£m)
Resource Budget O&M & Lifecycle costs (nominal outturn)	417.6	N/A	N/A	417.6
Annual Unitary Charge (p.a. real terms, 01 Apr 2023)	206.2	101.5	104.7	N/A
Annual Unitary Charge (nominal – first full financial year per package)	N/A	104.8 (FY36/37)	107.2 (FY34/35)	N/A

	Delivery Plan Total (£m)	A9 Central MIM (£m)	A9 North MIM (£m)	Projects 2,3,4 D&B (£m)
Total Annual Unitary Charge (nominal - FY36/37 – first full operational year for A9 Programme)	212.4	104.8	107.6	N/A
Net present Value of Unitary Charge (including ISP and excluding irrecoverable VAT, base date Apr 2023, discount rate 5.8805%)	1,661.2	782.1	879.1	N/A
Net Present Value of Irrecoverable VAT on UC (base date Apr 2023, discount rate 5.8805%)	92.7	49.2	43.5	N/A
Net Present Value of total resource budget requirement (UC, VAT and O&M & Lifecycle Costs) (Unitary Charge plus ISP and irrecoverable VAT, base date Apr 2023, discount rate 5.8805%)	1,855.6	831.3	922.6	101.7

The figure below sets out the profile of the forecast UC over time, excluding VAT, based on an assumed forecast inflation rate of 2% p.a. applied to the indexed portion of the UC for each package.

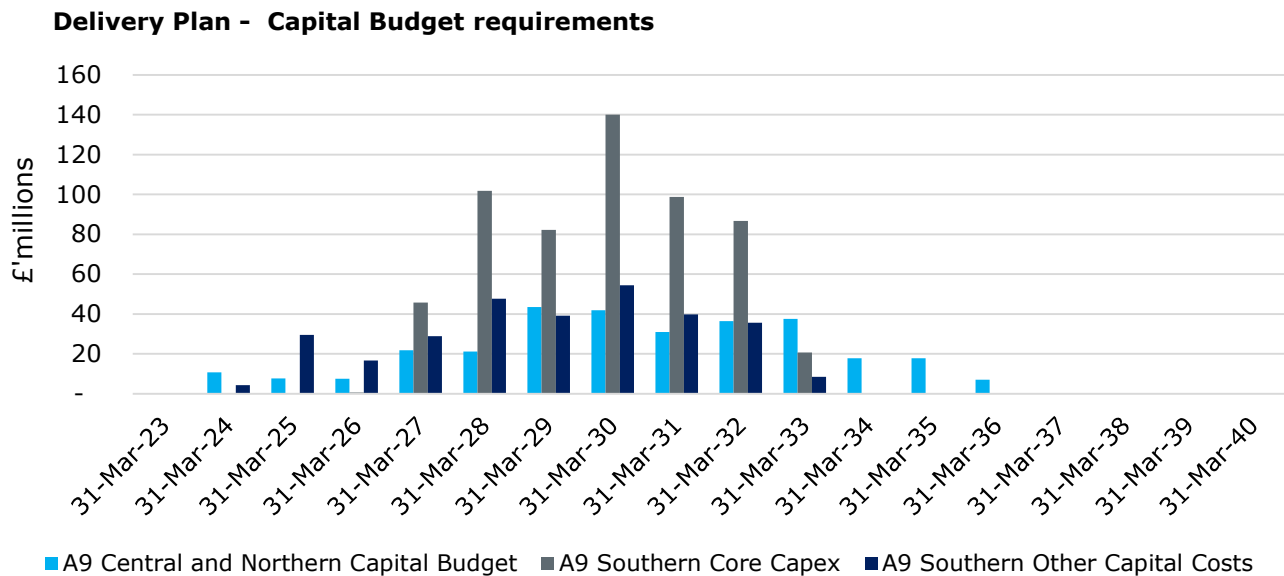
Delivery Plan - A9 North and A9 Central Unitary Charge (nominal terms, 2% indexation) plus A9 Southern Resource Budget



UC payments for the Delivery Plan commence in FY31/32 (£12.8m) with the first full year of UC in FY36/37 of £212.4m. The indexed portion of the UC (c.9 - 10.5%) increases at 2% per annum and peaks in FY62/63 at £230.3m.

3.7.2 Delivery Plan Capital Budget

Total capital budget costs for the Delivery Plan comprise the capital costs that are not delivered by the MIM contractor and therefore not incorporated in the UC for A9 North and A9 Central MIMs (e.g. advance works) plus the capital costs of constructing the projects P2, P3 and P4 as three D&B contracts. Total capital budget costs in nominal terms are £1,104m (including irrecoverable VAT) and are substantially incurred between 2024 and 2036. The Net Present Value of these costs is £816.8m (base date Apr 2023, discount rate 5.8805%). The graph below summarises the profile of the Capital Budget of the Delivery Plan Base Case over the full period.



3.7.3 Unitary Charge Sensitivities

A range of sensitivities has been presented below in respect of the UC estimates forecast by the shadow bid model for the Delivery Plan (A9 North and A9 Central MIM packages only). The sensitivities presented consider movements both:

- **Pre-Financial Close:** changes in the base input cost and cost of finance assumptions to the shadow bid model prior to financial close. This recognises that market conditions may change as the procurement develops given the elapsed time from now until financial close for each MIM contract; and,
- **Post-Financial Close:** while most underlying cost risk is expected to transfer to the ProjectCo at financial close, the cost of the project to Scottish Ministers will be affected by the impact of inflation applying to the indexed portion of the UC.

Like the Hybrid Option, the Delivery Plan's sensitivities presented show only the impact of changes in the specified assumptions on the UCs for the A9 North and A9 Central MIM

contracts. The capital and resource budget sensitivities associated with taking forward the three southern projects as three D&B contracts are not presented below as these can be assessed outside of the shadow bid model as required.

Pre-Financial Close (pre fixing of UC)

Debt Interest Rate Sensitivity Analysis	Interest rate (senior bank / bond)	Base UC A9 North and A9 Central (excl. ISP and Irrecoverable VAT on UC) (real - Apr 2023) (£m)	Net Present Value of A9 North and A9 Central UC (£m, Apr 2023, excl. Irrecoverable VAT on UC)
Delivery Plan Base	A9 Central: 4.10% / 4.69% A9 Northern: 4.10% / 4.71%	206.1	1,658.3
+1.0%	A9 Central: 5.10% / 5.69% A9 Northern: 5.10% / 5.71%	230.5	1,844.7
+0.5%	A9 Central: 4.60% / 5.19% A9 Northern: 4.60% / 5.21%	219.0	1,756.9
-0.5%	A9 Central: 3.60% / 4.19% A9 Northern: 3.60% / 4.21%	196.9	1,588.1

Capital Cost Sensitivity Analysis	Capital Costs (nominal terms) (£m)	Base UC A9 North and A9 Central (excl. ISP and Irrecoverable VAT on UC) (real – Apr 2023) (£m)	Net Present Value of A9 North and A9 Central UC & Capital Budget Costs (£m, Apr 2023, excl. Irrecoverable VAT on UC)
Delivery Plan Base	1,863.0	206.1	1,658.3
+20%	2,228.4	244.4	1,950.2
-20%	1,497.5	171.4	1,393.7

O&M and Lifecycle Cost Sensitivity Analysis	O&M Costs (nominal terms) (£m)	Base UC A9 North and A9 Central (excl. ISP and Irrecoverable VAT on UC) (real - Apr 2023) (£m)	Net Present Value of A9 North and A9 Central UC and Resource Budget Costs (£m, Apr 2023, excl. Irrecoverable VAT on UC)
Delivery Plan Base	1,012.5	206.1	1,658.3
+20%	1,215.0	215.4	1,728.5
-20%	810.0	200.7	1,711.9

Post Financial Close (i.e. after UC is fixed)

Inflation Sensitivity Analysis	Inflation	Base UC (excl. ISP and Irrecoverable VAT) (real - Apr 2023) (£m)	Net Present Value of UC (£m, Apr 2023, excl. Irrecoverable VAT on UC and ISP)
Base	2.0%	206.1	1,658.3
+1.5%	3.5%	206.1	1,759.4
-1.5%	0.5%	206.1	1,589.1

3.8 VAT Considerations

The UCs presented in this Addendum are exclusive of VAT unless otherwise indicated.

Under a MIM contract, it is assumed that ProjectCo will be able to recover the VAT incurred on the majority of its input costs (including construction and O&M costs). ProjectCo will be required to charge VAT on the UC at the current rate of VAT of 20%. It is anticipated, based on the experience of other similar projects, that a proportion of the VAT levied by the contractor on the UC will be recoverable by Scottish Ministers. Detailed analysis of VAT recoverability will be required as part of the business case process and upon receipt of final contractor tenders.

Initial analysis of the Delivery Plan has been undertaken to assess the potential recoverability of VAT and it is currently estimated that up to 67-75% of VAT may be recoverable across the A9 North and A9 Central MIM contracts.

The key assumptions underpinning this estimate, based on experience from other similar projects, are:

- VAT is assumed to be recoverable on the proportion of the UC associated with O&M and that HMRC will accept using the IFRS financial asset accounting assumptions as a proxy for the proportion of the UC relating to O&M. It is estimated, on this basis, that c. 39-44% of the UC relates to O&M costs across the two different MIM contracts.
- VAT is assumed to be recoverable on capital costs that are incurred within the existing boundary of a road. Analysis undertaken by TS's Design Consultants suggests that, on an apportionment of cost basis, c. 41-59% of capital costs will be incurred on land within an existing road boundary.
- The total recoverability of the VAT ranges from 67% to 75% across the two MIM contracts.

The table below provides a breakdown of this analysis.

Item	Source / calculation	A9 Central (%)	A9 North (%)
% of total IFRS financial asset value relating to capex (proxy for % of UC related to capex – partially recoverable) (A)	Taken from financial model	56%	61%
% of total IFRS financial asset value relating to O&M (proxy for % of UC related to O&M – recoverable) (B)	1-A	44%	39%
Design Consultant estimate of Recoverable VAT as a % of total VAT on Capital Costs (C)	DCs	41%	59%
Estimated VAT recoverable on % of UC relating to capex (D)	A*C	23%	36%
Recoverable VAT (E)	B+D	67%	75%
Irrecoverable VAT	1-E	33%	25%

3.9 Affordability and Sustainability

The Scottish Futures Trust report on options appraisal to examine profit sharing finance schemes (“SFT report”) sets out two ratios to test the affordability and sustainability of the MIM model for infrastructure projects in Scotland across various sectors. These ratios are:

- **Cost Multiplier ratio** - Calculated as the ratio of ‘total revenue commitment over the entire contract length period’ to ‘total construction cost’; and
- **Revenue Commitments ratio** - Calculated as the ratio of ‘First Year Revenue Commitment’ to the ‘total construction cost’ of the Programme.

The table below sets out these ratios for the Delivery Plan, based on current cost estimates, against the guideline estimates suggested in the SFT report for road sector projects. As can be seen from the table, the ratios are slightly above the SFT guideline estimates.

SFT Affordability and Sustainability Ratios	SFT guideline estimates	Delivery Plan
Cost multiplier ratio*	3.70	3.96
Revenue commitments ratio*	9-12%	12.6%

*Note: irrecoverable VAT has been included in calculating the ratios.

It should be noted that the inclusion of existing dual sections within the A9 North and A9 Central MIM contracts means that there are sections of road that will require O&M/lifecycle

spend but which do not have a corresponding construction cost spend. As a consequence, the figures for these ratios are higher for the Delivery Plan than would be the case were sections of existing dual carriageway not included in the MIM contracts.

In addition to the ratio tests above, the SFT report also notes the “Scottish Government’s self-imposed revenue finance investment limit of 5% of the Scottish Government budget”. The report estimates that, in Financial Years 2023/24 and 2024/25, the Scottish Government’s share of long-term commitments under resource financed investments will be c.3%.

Based on current cost assumptions, analysis suggests that the Unitary Charge for the Delivery Plan will equate to c.0.6% of the Scottish Government’s forecast resource budget in Financial Year 2036/37 (which is the full first year of operations for the two MIM contracts).

As set out in the Programme OBC, assuming no new material resource financed investments since the date of the Programme OBC, and year on year growth in the total resource budget in line with general inflation at c.2.0% p.a., this ratio would steadily decrease in the subsequent years of the contract, as only a proportion (c.9-10.5%) of the Unitary Charge for the MIM contracts is subject to inflation.

It is therefore considered that, based on the current estimates of future Scottish Government resource budget commitments together with current cost estimates for the A9 Programme, adopting the Delivery Plan for the A9 Programme is unlikely to see the 5% cap on investment commitment being breached.