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Thank you for your letter of 22 June 2010 concerning the Finance Committee's inquiry into capital funding.

We are more than happy to assist the Committee in its inquiry, which is most timely given the future challenges on the public finances facing governments across the UK. These challenges will be especially large in relation to capital spending, which is why the Scottish Government is committed to maximising the impact of and the value for money from our infrastructure investment programme.

I am grateful to you for highlighting the Committee's specific areas of interest in relation to the Scottish Government's capital programme. My officials have prepared responses to the questions you have set out, and these responses are annexed to this letter.

I trust that this information is helpful. We will of course be happy to provide further material to the Committee should you require it.

Yes indeed

JOHN SWINNEY

ANNEX: RESPONSES TO QUESTIONS ON THE SCOTTISH GOVERNMENT'S APPROACH TO CAPITAL INVESTMENT

How was the decision taken to operate a ten year capital plan, and what was the rationale behind this approach?

The Infrastructure Investment Plan (IIP) was published in March 2008 and was set firmly in the context of the Government Economic Strategy and Scottish Spending Review, both of which were published in November 2007. The IIP set out the Scottish Government's investment plans over a ten year horizon, including over the 2007 Spending Review period. The rationale for publishing the Plan was:

- to help inform the allocation of future infrastructure investment in Scotland;
- to set out the Government's strategic priorities for infrastructure in terms of strengthening capacity in the public services and contributing to Government's core Purpose of sustainable economic growth;
- as far as possible to provide certainty to the construction sector about the future pipeline of major infrastructure projects in Scotland; and
- to provide the private sector in general with clear signals about the Government's economic priorities and its planned investments in public infrastructure.

Given that funding allocations are only known three years ahead (at most), how is the issue of uncertain funding levels addressed in relation to managing a ten year plan, particularly considering the current climate with the prospect of reductions to capital budgets?

The IIP set out the Government's future pipeline of public infrastructure investments and it is our intention over successive Spending Reviews to deliver the projects set out in the Plan.

Since the publication of the IIP in early 2008 there has been a major, worldwide economic downturn, a reduction in market appetite for private infrastructure finance and the prospect of steep and sustained reductions in public capital budgets. We are responding to this changed environment in preparing our plans for the forthcoming Spending Review period. The principal impact of falling capital budgets is likely to be on the timing for delivery of specific projects within the IIP. However it should be noted that in securing agreement to its 2010-11 Budget the Scottish Government had to cancel one planned project that was identified in the IIP (the branch line element of the Glasgow Airport Rail Link project) in order to ensure the sustainability of the wider capital programme.

Is the Scottish Government's total capital budget centralised, or do departments hold their own capital budgets – how does this fit with the Plan?

The Scottish Government delivers a large share of total capital spend through Executive Agencies – Transport Scotland, NHS Scotland and the Scottish

Prison Service; and through Non-Departmental Public Bodies (NDPBs) – Scottish Funding Council and Scottish Enterprise. Separately, the Scottish Government allocates just over a quarter of the total Capital DEL budget to local government. These public bodies are responsible for the management of budgets and the delivery of specific capital projects.

Coordinating these delegated arrangements, the Scottish Government Finance Directorate has oversight and management responsibility of the total Capital DEL budget, and also coordinates the development of annual Budgets and Spending Review plans across all portfolios. The Finance Directorate conducts detailed monthly monitoring of the Capital DEL budget across the Scottish Government and is able to track and manage variances in-year across the whole capital budget.

If departments hold their own capital budgets, what are the procedures for taking forward capital projects within departments? How are the individual projects/programmes monitored and evaluated?

The agencies and NDPBs with responsibility for major areas of portfolio spend – Transport Scotland, NHS Scotland, Scottish Funding Council, Scottish Prison Service and Scottish Enterprise – each have dedicated finance functions and robust governance arrangements to ensure sound management of budgets and effective delivery of infrastructure projects and programmes. In particular, each body has a dedicated investment board with clear terms of reference and delegated limits. These boards scrutinise proposals for large-scale capital investment within a particular portfolio area and authorise the progress of projects through the business case process. The Scottish Government has implemented a central Infrastructure Projects Database, coordinated by the Finance Directorate, which captures detailed information on the progress of all projects with a capital value above £5 million.

The Scottish Government uses the OGC's Gateway Review tool to validate the quality of project management and delivery at key milestones in order to ensure value for money on our major capital investments. The Scottish Government is also committed to conducting post-project evaluation for major capital projects to verify the benefits delivered and ensure that learning can be applied in the development of future projects.

What proportion of total capital spend is included in the Plan?

In total the 2008 IIP set out investment plans across all Ministerial portfolios and local government with a combined value of approximately £35 billion. These investments were to be delivered through a range of funding mechanisms, with capital investment providing the bulk of total funding.

The total volume of capital investment allocated in the 2007 Spending Review was £10.5 billion over three years from 2008-09 to 2010-11; or an average of £3.5 billion per year.

How are decisions taken in terms of what programmes/projects are to be included in the Plan?

The content of the 2008 Infrastructure Investment Plan was initially developed from proposals by individual portfolios based on their assessment of future investment needs; their fit with the Government's economic strategy and priorities for the public services; and the likely availability of future capital funds (and, where appropriate, sources of private finance). Proposed projects and programmes were then reviewed by individual Cabinet Secretaries within portfolio areas, and the content of the IIP signed off collectively by Cabinet.

Given the existence of the long term Investment Plan, how does this allow for flexibility to respond to emerging demands? How is the overall Investment Plan monitored and evaluated?

The ten year Infrastructure Investment Plan is a valuable tool for the medium-term management and programming of the Scottish Government's infrastructure investment pipeline. However it is important that the Plan is reviewed and refreshed over the course of its life to ensure it remains closely aligned to the Government's economic strategy and priorities for infrastructure and the public services.

An Infrastructure Investment Plan was first published in February 2005, and a new plan published in March 2008; both shortly after the conclusion of a Comprehensive Spending Review. It is our expectation that a new IIP will be published next year following the conclusion of the 2010 Spending Review.

What efforts are made to include social clauses and promotion of local business within infrastructure investment?

The Scottish Government is working to ensure that public procurement in general, including the infrastructure investment we undertake, can benefit communities across Scotland. In February 2008, jointly with local authorities, we published guidance on securing community benefits from public procurement. This guidance document and other information on this policy area are available here:

<http://www.scotland.gov.uk/Topics/Government/Procurement/policy/procurecombenefits>

More widely, the Scottish Government is committed to ensuring rigorous compliance with EU procurement rules and to ensuring a level playing field for all participants in the procurement process. We have created a single public portal, Public Contracts Scotland, to ensure transparency and equal opportunity for all suppliers. The Scottish Government's Public Procurement Advisory Group is working with industry to identify and help remove any perceived barriers, again with the aim of ensuring full transparency and equal access to public procurement opportunities for all suppliers.