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The Convener
Public Audit and Post-legislative Scrutiny Committee
The Scottish Parliament
Edinburgh
EH99 1SP

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Dear Convener

MAJOR CAPITAL PROJECTS

I refer to email correspondence from the Clerk to the Committee on 14 December 2016 following the Committee's evidence session on 24 November relating to the Scottish Government's Major Capital Projects progress update.

The email of 14 December raised three points. Please find our responses below.

Point 1

UK Autumn Statement consequentials and profiling

The CDEL consequentials for Scotland announced in last November's UK Autumn Statement totalled £821.2 million and are split by year as follows:

Year	£m
2016-17	1.9
2017-18	125.1
2018-19	197.3
2019-20	239.5
2020-21	257.4

The additional capital consequentials for 2017-18 were included in the Draft Budget published on 16 December. They form part of the funding that will deliver the Scottish Government's infrastructure investment programme next year, including affordable housing, digital, energy efficiency, transport, and health projects.

Scottish Growth Scheme

The Scottish Government is continuing to work with the financial community, business organisations, the UK Government and the Scottish Parliament to agree the arrangements

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for the Scottish Growth Scheme (SGS). The scheme will target SMEs that have significant growth potential, in particular those that are technology intensive and which struggle to obtain finance through conventional means. It will provide up to £500 million over three years of investment guarantees, and some loans, up to a maximum of £5 million per eligible business.

Recent progress includes reaching agreement with the UK Government on the budgeting treatment of SGS guarantees, through provision of additional non-cash AME (Annually Managed Expenditure) cover for the guarantee element of the scheme. This confirms that only if a guarantee given under the scheme is called in by a lender will Departmental Expenditure Limit (DEL) cover be required. CDEL cover will of course be required for loans. Next steps include securing agreement to adjustments to the parliamentary procedures associated with approving Scottish Government guarantees, so that, subject to scheme guidelines, guarantees can be given without releasing detailed and potentially commercially-sensitive information about the recipient firms.

Scottish Government expenditure on economic infrastructure as a percentage of GDP; impact of an additional £800 million

The UK Government has stated that its long-term investment decisions will be informed by the National Infrastructure Commission (NIC), which has been set a fiscal remit that UK Government investment in the subject areas advised on by the NIC, will exceed 1% of UK GDP by 2020-21. The NIC covers infrastructure for transport, energy, flood defences, water, waste and digital communications.

A comparable figure for Scottish Government investment in economic infrastructure as a percentage of Scottish onshore GDP is 0.87% in 2016-17 (investment of £1.3 billion in this year, not including capital grants to Local Government). Adding £800m to this investment, assuming the addition is spread evenly over 4 years, would add between 0.12-0.13 to the percentage, taking it to around 1%.

Point 2

Methodology behind the Scottish Government estimate that each additional £100 million of public sector capital spending supports approximately 800 full-time-equivalent Scottish jobs

The jobs estimate is derived using standard economic modelling methodology (the Input–Output Table Leontief final demand model), the details of which are available at www.gov.scot/input-output. Such models are commonly used to estimate the supply side (indirect) effects of changes in demand within an economy.

The change in final demand as a result of injecting additional public sector capital investment is estimated using combined industry average capital spending patterns derived from UK Gross Fixed Capital Formation by Industry Tables for relevant sectors – in this case Public Administration, Education, Health, Residential Care and Social Work. The model is then used to estimate the indirect, supply chain economic effects of this spending pattern and can break these down by sector. Of the total 800 jobs estimated to be supported by each £100 million additional investment, around 10% are in the manufacturing sector and around 45% are in each of the Construction and Services sectors.

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The jobs estimates are based on estimated typical spending patterns for all public sector capital projects. Actual impact will vary on a project by project basis. The estimates relate only to the economic activity associated with the delivery of the capital investment, during the period in which the spending takes place. Assuming £100 million spent in a single year, the jobs effect would also take place in that year. The model does not attempt to estimate any effects flowing from the future use of the capital asset created by the investment.

Point 3

Clarification on primary school projects in Dundee

The ‘Dundee Joint Campus’ project described in Annex A of the last Major Capital Projects progress update will bring together three primary schools and two nurseries and is one of three Dundee City Council school projects being delivered by the Schools for the Future programme. The other Dundee schools projects are the rebuilding of Harris Academy, which opened to pupils in June 2016, and Baldragon Academy which is currently in construction and is estimated to reach completion and open to pupils during 2017-18.

The two references to ‘South of the City, Dundee City Council’ in Annex B are typographical errors and should read ‘South of the City, Aberdeen City Council’ instead. I apologise for this mistake.

I hope that the Committee finds this additional information helpful.

Yours sincerely

ALISTAIR BROWN