

Mr Terry Shevlin
Clerk
Public Audit and Post-Legislative Scrutiny Committee
Scottish Parliament
EDINBURGH
EH99 1SP

27 February 2017

Dear Mr Shevlin

Major Capital Projects

Thank you for your letter of 17 February 2017, inviting me to comment on the format of the Scottish Government's update paper on the progress of major capital projects.

As you are probably aware, the Scottish Government began providing six-monthly update reports to the Public Audit Committee on the progress of major capital projects in 2009. In December 2013, the Scottish Government worked with Audit Scotland and the clerk to the Public Audit Committee to revise the format of the update. The Public Audit Committee first considered the new style of update at its meeting of 2 April 2014. I subsequently wrote to the Committee in May 2014 and November 2014 expressing my views on the new format.

Management of the Scottish public finances will fundamentally change as the new tax, spending and borrowing powers provided for in the Scotland Act 2016 are delivered. Scotland's budget is becoming increasingly complex, and subject to greater uncertainty and volatility than when the block grant from the UK Government was relatively fixed. This strengthens the case for effective monitoring of the implementation of the Scottish Government's financial plans. Information to support this includes both regular in-year government reporting – such as the six-monthly update on the progress of major capital projects – and audited information included in the annual accounts of the Scottish Government and other public bodies.

The six-monthly update provides a vital means of exercising accountability, openness and transparency over capital investment in Scotland. The revised format comprises:

- Annex A detailing all projects with a capital value of £20 million or more where the Scottish Government has a lead role in procurement or funding. Information is provided in respect of each project on the estimated total capital investment, how the project is being funded and procured, and the current project status, together with progress against key dates (project advertised to market, construction start, and operational/service start).
- Annex B detailing all projects within the Infrastructure Investment Plan that have progressed beyond outline business case. Information is provided on the progress of each project to date and its expected contribution to local economic development. As might be expected, all the projects listed in Annex B also appear in Annex A.

The revised format of the update has a number of advantages over its predecessors:

- The lower threshold value of £20 million is consistent with the Scottish Government's other reporting on the progress of major capital projects, and means that information on more projects than previously is being made available directly to the Public Audit and Post-Legislative Scrutiny Committee.

- More information is being made available about individual hub projects that previously. While the £20 million threshold means that some of the schools projects listed in the project pipeline report are excluded from the update, these are of relatively small value.
- In keeping with one of my recommendations in *Scotland's key transport infrastructure projects*, links are now provided to a Scottish Government [webpage](#) detailing the annual unitary payment charges to be paid by public sector bodies for services agreed for those revenue funded projects where contracts have been signed. This information will be particularly helpful in monitoring the Scottish Government's commitment to cap its future revenue payments from all revenue-financed investment projects to a maximum of five per cent of its expected annual capital and revenue DEL budget.

Having read the Official Report of the Public Audit and Post-Legislative Scrutiny Committee's meeting of 24 November 2016 where evidence on the latest update report was taken from the Scottish Government and others, I agree there is scope for the Scottish Government to go further in the level of detail provided in the update:

- In my letter of 26 November 2014 to the Convenor of the Public Audit Committee I considered there was scope to develop the public reporting of changes over the lifetime of major capital projects. While Annex B of the current update provides some information on changes to individual projects' costs and timetables compared to the previous update, I remain concerned that all changes to a project's cost, timing and scope are not necessarily captured in the same document.
- Certain of the projects listed form part of an overall programme of investment. For example, the A9 Kincaig to Dalraddy forms part of the overall A9 dualling programme. It may be helpful if, where relevant, the progress of individual projects could be set in the context of an overall programme by including more commentary on the wider progress of those programmes.
- Given the recent introduction of new borrowing powers for the Scottish Government and the possible implications arising from the Office for National Statistics' decision to reclassify the Aberdeen Western Peripheral Route as a public sector project, it may be helpful in the update report contained a summary detailing how projects are being financed. This would allow an assessment over time on whether the balance between different financing methods is changing.

I also note Alyson Stafford's offer to the Committee to look again at the scope to provide further information in the update report. I would like to suggest that Graeme Greenhill works with you and Scottish Government colleagues to consider how best this can happen.

More generally, financial reporting requires continuing development as new tax and spending powers are implemented. The Permanent Secretary has recently shared¹ the Scottish Government's immediate plans in this area with the Committee. There will be a need for information on the use of the Government's borrowing powers, and further consideration given to Parliament's information needs at all stages of the budget cycle. Such matters are likely to feature in the Budget Process Review Group's work.

I hope the Committee will find these comments useful.

Yours sincerely

Caroline Gardner
Auditor General for Scotland

¹ http://www.parliament.scot/S5_Public_Audit/2016_11_02_Perm_Sec_response.pdf