



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 13 March 2013

Session 4

---

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - [www.scottish.parliament.uk](http://www.scottish.parliament.uk) or by contacting Public Information on 0131 348 5000

---

**Wednesday 13 March 2013**

**CONTENTS**

<b>INFRASTRUCTURE INVESTMENT PLAN 2011 (PROGRESS REPORT).....</b>	<b>Col. 1519</b>
---	------------------

---

**INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE  
7<sup>th</sup> Meeting 2013, Session 4**

**CONVENER**

\*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

**DEPUTY CONVENER**

\*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

**COMMITTEE MEMBERS**

\*Jim Eadie (Edinburgh Southern) (SNP)

\*Alex Johnstone (North East Scotland) (Con)

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Margaret McCulloch (Central Scotland) (Lab)

\*Elaine Murray (Dumfriesshire) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Victoria Bruce (Scottish Government)

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

Committee Room 5



# Scottish Parliament

## Infrastructure and Capital Investment Committee

Wednesday 13 March 2013

[The Convener opened the meeting at 10:00]

### Infrastructure Investment Plan 2011 (Progress Report)

**The Convener (Maureen Watt):** Welcome to the seventh meeting in 2013 of the Infrastructure and Capital Investment Committee. I remind everyone to switch off their mobile devices, as they affect the broadcasting system.

Under the first item of business, we will take evidence from the Cabinet Secretary for Infrastructure, Investment and Cities on the Scottish Government's update to the "Infrastructure Investment Plan 2011"; the update was published in February this year.

I welcome Nicola Sturgeon, the cabinet secretary; Victoria Bruce, who is the policy manager for infrastructure investment policy in the Scottish Government; David Anderson, who is the head of planning and design in Transport Scotland; and Ian Waugh, who is the head of capital planning in the capital and facilities division of the Scottish Government.

I invite the cabinet secretary to make some opening remarks.

**Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities):** I welcome the opportunity to update the committee on the progress that is being made on the infrastructure investment plan.

Members are aware that we published a revised "Infrastructure Investment Plan 2011" in December 2011, which set out the priorities for investment and our long-term strategy for the development of public infrastructure. That plan set out why we invest, how we invest and what we intend to invest in from now until 2030. It identified key projects and programmes that we hope will deliver growth, support jobs and keep the economy moving. Importantly, it also seeks to provide the construction sector with certainty and transparency by outlining a clear pipeline of capital investments and giving it as much ability as possible to plan ahead.

On 4 February this year, I published a report on progress since publication of the plan in 2011. That report was published sector by sector. We

also announced newly updated and more detailed investment pipelines. Those pipelines contain 30 major programmes and more than 100—103, I think—individual live projects. We will continue to update that regularly on our website. I am sure that the committee will want to keep a careful eye on it.

During 2012, nine of the major infrastructure projects that were outlined in the 2011 plan, with a total value of more than £600 million, were completed and are now in use. We are also making good progress on major projects such as the Forth replacement crossing, the new south Glasgow hospitals project and Scotland's schools for the future programme.

Despite the cuts that we all know have been imposed on Scottish capital budgets—cuts of 26 per cent over the four years of the spending review—our clear intention is to maximise our capital spending so that we can support infrastructure investment and jobs. We will do that through our capital budget, the non-profit distributing model pipeline, resource accounting and budgeting, rail investment and switching resource to capital.

As a result of that, we are on course in this financial year to spend £3.1 billion on our capital investment programme. That is estimated, using the Government's input-output economic model, to support more than 40,000 jobs across the economy. That figure will rise, in the next financial year, to a total £3.4 billion of capital investment. We are determined to invest to the maximum in our infrastructure—our schools, roads and hospitals—to stimulate growth in the short term, which is extremely important, and to lay the foundations for the longer-term success of the economy. Our ensuring that we have continued momentum in that programme through the publication of progress reports and updated investment pipelines is, in my view, an essential part of that approach.

I look forward to answering the committee's questions this morning and would be happy to come back regularly, as we continue to refine the information that is available, to speak to the committee to keep it and Parliament updated.

**The Convener:** Does the Scottish Government have an overall estimate of the planned capital investment for the period that is covered by the IIP?

**Nicola Sturgeon:** Information regarding the profile of spend in any one year is included in the normal budgetary process. Based on what we know and what we anticipate about budgets in the future—we can have certainty about that only in terms of this spending review—we expect to spend somewhere in the region of £3 billion to

£4 billion every year on capital investment, which would encompass the range of sources that I spoke about: traditional capital, NPD, switching resource to capital where that is appropriate, and the RAB source of funding.

An amount somewhere between £45 billion and £60 billion over the next 15 years is the global estimate of the overall value of our capital programme. Of course, the information becomes more definite and more refined as we go through years of budget, and when we have the next spending review—which I think it was confirmed only yesterday will take place in June—there will be greater certainty.

**The Convener:** Okay. Can the Scottish Government provide an annual profile of planned investment that identifies individual programmes or projects that underpin the £3.1 billion figure for 2012-13?

**Nicola Sturgeon:** As I said, we provide information on the profile of spend on capital programmes as part of the annual budget process. You have level 2 information, which provides detailed spending plans for key areas of investment in every portfolio. In the infrastructure, investment and cities portfolio, there is a profile of spending on key areas such as roads. Further information on the more detailed spending plans under such headings, is given in level 3 budget figures. For example, the 2013-14 draft budget gives details of the expected spend on the Forth replacement crossing and on roads improvement over the three years from this financial year to 2014-15. That detailed profile is laid down in the normal budget process.

As I said, the £3.1 billion for this financial year breaks down across traditional capital funding, RAB, rail enhancements, capital receipts, NPD investment and resource-to-capital switching. The vast majority—about £2.7 billion—is traditional capital funding, NPD accounts for £20 million, RAB accounts for £82 million, receipts account for about £60 million, and resource to capital accounts for just over £200 million. That is a rough breakdown of the £3.1 billion.

**The Convener:** Okay. Can you confirm that the jobs that it has been estimated will be created from that investment relate to the construction phase of projects? Has the longer-term impact of the capital investment programme been assessed?

**Nicola Sturgeon:** First, I should be absolutely clear: the 40,000 jobs that I mentioned are jobs that are supported, not created. We arrived at the figure through the Government's economic input-output model, which estimates that every £100 million of public sector capital spending supports around 1,400 full-time-equivalent jobs in

the wider Scottish economy, including indirectly, in the supply chain. The figure—to answer the question—relates to the construction phase of projects.

We do not assess the longer-term impact of capital investment programmes, although it stands to reason that infrastructure investment, particularly in relation to transport, digital infrastructure improvements and energy, enables businesses to grow, so we expect it to have a significant positive impact on economic growth and support for jobs. However, we do not have an estimate for the longer-term impact of projects that is similar to the estimate that we can produce, through the input-output model, for the construction phase.

**The Convener:** Does the Scottish Government have evidence from completed projects to support its estimates of jobs that are created by capital investment activity? Were the jobs that it was anticipated would be created by previous projects actually delivered?

**Nicola Sturgeon:** I am happy to provide the committee with a range of information showing the actual jobs that have been supported through some of those projects. I will give edited highlights at the moment, if that would be helpful.

The first thing to say is that the input-output model to which I referred is based on real economic data, so that should give a fairly accurate overall picture. That improves all the time our ability to measure things such as community benefit and the impact on youth employment.

The health projects that have been supported include the Aberdeen emergency care centre, which is an important development in the convener's neck of the woods. At its peak, that project had 450 employees on site, of whom 50 per cent were staff who lived in or were based in the north-east. The new south Glasgow hospitals project has a number of employment targets, including for new entrants to the labour market. The project's target is to employ 250 new-entrant recruits, including 88 apprentices, and the project is on track for overall delivery of that target. As at the beginning of this year, the project had created 390 new jobs for people living in or around Glasgow. We know that the majority—just short of 80 per cent—of those jobs have gone to people from the NHS Greater Glasgow and Clyde area. Rather than my going through all the individual projects, it might be more helpful to provide the committee with written information on them.

My final point, which again relates to health, is on the framework Scottish national procurement exercise that is under way, which will conclude in the spring of this year. That will include an obligation on the principal supply chain partners to

monitor the creation of, and support for, new jobs both as direct and indirect consequences of the project work. That will be similar to the kind of monitoring information that is gathered on the new south Glasgow hospitals project.

What I am saying is that we do not have perfect science, but a lot of work is going on to ensure that we can gather, project by project, as much information as possible to give the back-up to the figures in the input-output model that I referred to. As I said, I am happy to provide more information to the committee on that.

**The Convener:** Are lessons learned from the projects? I have heard from some sources that we do not push enough in terms of the number of apprentices that could be employed on particular projects. Do we keep pushing the boundaries?

**Nicola Sturgeon:** Obviously, through the work of the Scottish Futures Trust and through the Government's own capital investment work, we are looking to learn lessons all the time. An important aspect of our capital investment is that we get not just the capital assets that will provide the longer-term benefit to the social and economic fabric of the country, but as much short-term economic benefit as possible out of that project spend. Obviously, the number of apprenticeships and other opportunities for people entering the labour market are important indicators. We work hard to improve not just the gathering of that information but the actual performance on those things.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** The Scotland Act 2012 provides for the Scottish Government to borrow up to £2.2 billion annually from 2015-16. What impact has the granting of borrowing powers had on the number, scale or timing of projects in the IIP?

**Nicola Sturgeon:** Not a great amount, given that the plan is a massive programme of capital investment over many years. As I said to the convener, the global estimate of our capital investment over the next 15 years is, at the upper end, in the region of £60 billion. Therefore, a borrowing facility of £2.2 billion will clearly not have a massive impact on that, and the programme that we are talking about today is certainly not contingent on those borrowing powers.

That said, it is clearly an important step forward for the Parliament to have borrowing powers. I think that the powers are woefully inadequate and that the Parliament should have full economic powers, including full powers to use its judgment on how much to borrow. Obviously, we will start to take decisions on the potential use of borrowing powers once we have, for example, information on the spending review, which will inform those

decisions going forward. The borrowing powers will become an important part of our future planning, but given the level at which they are set in the Scotland Act 2012, they will not have a massive impact in terms of the totality of our capital investment ambitions.

**Gordon MacDonald:** How does the £2.2 billion borrowing limit that has been granted to the Scottish Government compare with the borrowing limits granted to other devolved Parliaments?

10:15

**Nicola Sturgeon:** I can get precise information about the ranking. I am not saying that the borrowing limit itself is unimportant, or that we will not make full strategic use of it, if it is appropriate to do so, but in the context of the Scottish Government's global capital investment programme borrowing powers of that magnitude are fairly small. That is important with regard not just to what such powers enable us to do, but to the Parliament's overall financial and fiscal responsibility and accountability, which are still far more limited than I would like them to be.

**Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP):** Are there strings attached to the borrowing powers or restrictions on use of the capital that we can borrow? Your predecessor helpfully suggested that once we had those powers a host of options such as increasing the number of projects or bringing forward certain projects in the plan would be available to us. Are you any further forward in mapping out your use of the borrowing powers, come 2015-16?

**Nicola Sturgeon:** As part of the implementation process for the financial powers in the Scotland Act 2012, a joint Treasury and Scottish Government committee has been set up; John Swinney and I attended a meeting of it just a few weeks ago.

The strings—to use your terminology—that are attached to the borrowing powers are the annual limits and overall global limit that we are able to borrow. In my answers to Gordon MacDonald, I did not intend to suggest that we will not use these borrowing powers if it is appropriate to do so. Obviously, Government makes assessments of the correct route for financing projects based on a range of factors and the need to get value for money for the taxpayer. Having borrowing powers might in the future give us the ability to do things that we might not otherwise have been able to do or to accelerate projects that are already in the pipeline. However, we need an orderly process for taking those decisions; the spending review, which we will know about at the end of June, will be a key piece of information in setting the Government's traditional capital budgets for the

next few years, and will allow us, in turn, to make more strategic judgments about where the—albeit limited—borrowing powers will sit in our overall decision making.

**Adam Ingram:** I can think of one or two projects that I would quite like to be accelerated.

**Nicola Sturgeon:** I am sure that you can. I think that I can say with confidence that everyone around this table can think of one or two projects that they want to be accelerated.

**Adam Ingram:** Are you saying, then, that you will factor in the borrowing powers?

**Nicola Sturgeon:** Yes.

**Adam Ingram:** When is that likely to happen, as far as the spending review is concerned? I think that you said something about later in the summer.

**Nicola Sturgeon:** It will happen as we get the information about the spending review and as John Swinney factors that into his spending review decisions and the annual budget process.

It is also worth bearing in mind that we have set a 5 per cent limit on the proportion of our revenue budget that can be used to fund capital borrowing, NPD or RAB, and that even when we have borrowing powers we will still be required to come in below that cap. The powers are another tool in the toolbox. I am not saying that they are unimportant; however, that £2.2 billion has to be seen in perspective and in the global context of our capital ambition and our £60 billion or so capital programme over the period to 2030.

**Alex Johnstone (North East Scotland) (Con):** Notwithstanding the Government's apparent desire to acquire further massive crippling debt, I assume that in the meantime we are bearing in mind our current finite resources and ensuring that prioritisation remains a key element of the Government's decision-making programme. In the 2011 plan, the Government presented information on how its investment plans delivered against the infrastructure investment board's priorities. Do the same priorities continue to inform the Scottish Government's assessment of investment plans?

**Nicola Sturgeon:** I will leave the accumulation of "crippling debt" to Westminster Governments, which over recent years seem to have been very adept at running it up. Whatever powers it has, the Scottish Government will continue to take a responsible and prudent approach to the nation's finances—indeed, one way of exerting that kind of responsibility and discipline is the 5 per cent revenue cap that I have already mentioned—and I am confident that whatever powers we have we will use responsibly and in the broader interests of taxpayers. That will, of course, set us apart from our colleagues in other places.

Coming, as I should, to the specific question, I can tell Alex Johnstone that our four spending priorities are the same as they were in the plan that we published at the end of 2011: delivering sustainable economic growth, managing the transition to a low-carbon economy, supporting the delivery of efficient and high-quality public services, and supporting employment and opportunity across Scotland. Those priorities have informed all our decisions not just in the 2011 plan, but in the light of further opportunities to increase capital investment. On the four occasions on which John Swinney has announced increased capital investment and announced additional plans—February 2012, June 2012, September 2012 and December 2012—those decisions were informed by those priorities.

**Alex Johnstone:** Has the infrastructure investment board refined or updated its 2011 analysis against those priorities to reflect the current pipeline of programmes and projects?

**Nicola Sturgeon:** That is an on-going process. Obviously, the pipeline of projects and programmes in the updated plan released in February is similar to what was included in the 2011 plan, but we have added much more information about individual schools projects in the overall schools for the future programme and community hub projects of more than £5 million that are being taken forward through the hub. The identity of the projects in the plan has not radically changed, but we have increased the accuracy and detail in it. We do not envisage that the assessment of the contribution of projects to our prioritisation criteria will be very different to what was produced in the "Infrastructure Investment Plan 2011".

**Alex Johnstone:** Is that type of information likely to be made available to us—or, indeed, made more available to us than it is at the moment—to allow us to judge the fit between the priorities and the programme?

**Nicola Sturgeon:** I am happy to look at what further information we can provide to the committee, if that would be helpful. The February plan is a refresh with regard to the detail; the further down the line we get with projects, the more accurate the information, estimates and projections become. That is what has changed between the two documents; it is not that any of the projects are different. However, if the committee finds it helpful, I am happy to look at what further information we can provide to let members know what underpins our analysis of prioritisation and allow them to make their own judgments on whether what is in the pipeline fits our priorities.

**Alex Johnstone:** That would be very welcome.



**Adam Ingram:** Looking at the pipeline, I note that transport projects account for more than 50 per cent of the total capital value of £6.5 billion. What are your thoughts on the sectoral split in these capital plans and how does that reflect the Scottish Government's priorities?

**Nicola Sturgeon:** As you have said, transport projects account for about 50 per cent of the total capital value of the projects in the pipeline and I think that health accounts for about a quarter of the total. Both health and transport are major Government priorities; I refer Adam Ingram back to our four prioritisation criteria. Transport investment is clearly very important in delivering growth, and as for the delivery of efficient and high-quality public services, we all know—as I know from my background as health secretary—the importance of investing in the health service's capital estate and ensuring that we provide services in the best possible way. In that regard, the sectoral split certainly fits with the prioritisation that we have set.

We must be mindful of the fact that, when we break down the overall pipeline by value, it will be skewed—if that is not a pejorative word—by very big projects. For example, in transport, the Forth replacement crossing is a massive project. Likewise, in health, the south Glasgow hospitals project skews the figures to some extent. Also, as I have said on a few occasions, although the Scotland's schools for the future programme is lower in value, the impact that it will have on our areas of priority will be significant.

The sectoral split reflects our priorities, but you cannot get away from the fact that it is influenced by a small number of very large projects in one or two sectors.

**Adam Ingram:** You have mentioned the Scotland's schools for the future programme. Something like 19 school projects in that programme have no capital value attached. Why is that?

**Nicola Sturgeon:** Those schools were added at phase 3 of the programme. They are still in the development phase with the Scottish Futures Trust, and the maximum grant available to local authorities is being finalised. As I said in my opening remarks, the information on that pipeline of projects will be added to as we get it. It is a good example of an area on which information will be added as it becomes available.

One of the good things about the Scotland's schools for the future programme is that, by the time all three stages are completed, it will deliver more schools than we originally anticipated, partly—perhaps largely—through the efforts of the Scottish Futures Trust, which has got maximum value for money from the programme.

**Adam Ingram:** That is excellent.

Let us move on to procurement routes. Why are certain sectors more heavily dependent on revenue financing than others? The justice, culture and enterprise projects are all conventionally financed. Why are schools and further education, for example, more dependent on revenue financing?

**Nicola Sturgeon:** That comes down to the projects that are involved. The total NPD programme has a capital value of just over £2.5 billion, but there is a £1 billion of transport projects in there including the M8 bundle and the Aberdeen western peripheral route. There is £830 million for education projects and £750 million for health projects, including the sick kids hospital, is part of that total of £2.5 billion.

There are some sectors and areas in which NPD is probably less appropriate as a financing route. The use of revenue financing for investment in prisons, for example, is a bit more complicated because of the operation of the prison buildings, without adding in the custodial services element. The Government has also had a policy, since 2007, that all new prisons will be operated by the public sector. The differences between sectors will be partly the result of the fact that certain types of project lend themselves more to the NPD route than others. Also, some big projects that we are financing through NPD in certain sectors will skew the overall allocations between the different sectors.

**Adam Ingram:** How do you decide which procurement route to take?

10:30

**Nicola Sturgeon:** The decision is partly down to the availability of capital and the priority needs. For example, if we had not gone down the NPD route for the sick kids hospital—a project with which I am very familiar from my time as the health secretary—because of the cuts to our traditional capital budget, that project simply would not have been able to go ahead. It was a case of using revenue financing or not proceeding with the project at all. My view—and, I am sure, the view of everyone around this table—was that it is such an important project that it had to go ahead. Often, the decision will be driven simply by the availability of capital.

Secondly, revenue finance is more suited to larger projects with on-going maintenance needs, for example the sick kids hospital or roads projects, or situations in which we can aggregate different smaller projects into a much larger bundle. Those are the kinds of factors that influence our decision making. Interestingly, the smallest individually procured NPD project is the

new Edinburgh blood transfusion centre with a capital value of £36 million, which again gives an indication that it is a type of financing that is better geared to bigger capital projects, and those will often be in transport or health.

**Elaine Murray (Dumfriesshire) (Lab):** In relation to the NPD-financed projects, you will be well aware that there has been a significant discrepancy in the draft budget this year compared with the draft budget the year before, amounting to some £681 million less between 2012 and 2014 than was anticipated in the previous year's draft budget. Given that there has been that discrepancy over the period, how confident can you be that you will deliver £131 million of NPD-financed capital investment by the end of the spending review period?

**Nicola Sturgeon:** I challenge your use of the word "discrepancy", which suggests something untoward. From the inception of the NPD programme, we have provided estimates of the profile of spend. As we have progressed and the SFT has done the detailed, complex work that is required—we are talking about 50 complex projects, involving somewhere in the region of 30 different procuring authorities—those estimates have become more accurate. I think that that is the appropriate way to provide information to the Parliament and I do not think it is reasonable to describe that as a discrepancy. It is a case of information becoming more refined, more developed and therefore more accurate over time.

I am confident in the NPD programme. Clearly, as the work progresses and we see more projects go into procurement—we have a number of projects that will go into construction in the financial year that is about to start at the beginning of April—the figures and the information that is provided to the Parliament will become ever more robust and reliable. I am confident in the figures and I am absolutely confident that the £2.5 billion total will be invested in full and that the country will have the assets to show for that across the range of sectors that are impacted. That is a thoroughly good thing.

**Elaine Murray:** It is still £681 million less invested in the Scottish economy over two years than had been trumpeted in the draft budget the year before, so in my view it is a discrepancy. I want to look at the reasons for that. Do you accept that NPD is a form of public-private partnership?

**Nicola Sturgeon:** NPD is a form of revenue financing, yes, but as we have said, it is a form of revenue finance that is infinitely better than private finance initiative in many different ways. The United Kingdom Government, much later than the Scottish Government, has also woken up to the deficiencies of PFI and is now stating that it will make refinements and improvements to that.

NPD gets more value for money, for example in capping the profits to the private sector. To remind people, our capital budget is being reduced by 26 per cent; granted, that is less than the 33 per cent that Alistair Darling was planning to cut it by, but it is still a 26 per cent reduction. NPD is a way of ensuring that, in a time when our budget is being cut over the spending review, we can deliver projects that would not be possible otherwise. I have already mentioned the sick kids hospital, which was only made possible because of such routes. It allows us to do that in a way that does not have some of the glaring deficiencies of the PFI scheme that was so beloved of past Administrations.

**Elaine Murray:** PPP was a refinement of PFI and PPP also evolved over a period of time. Indeed, NPD was used by the previous Administration as well. Given the years of experience on what you like to describe as revenue-financed investment, I cannot understand what the problem has been that has resulted in a £681 million reduction over a period of two years in the investment being delivered through the model. What problem has the Scottish Futures Trust run into over the past year that has significantly changed that estimate?

**Nicola Sturgeon:** As I said, we are talking about 50 big and complex projects that involve 30 or so procuring authorities. In a moment, I will take you through some of the issues, project by project. I totally understand why you want to use some of the language that you are using, but I have to take issue with it, just as I took issue with the term "discrepancy". The term "reduction" implies that the investment will not happen whereas, although the profile of the investment or spend has changed, the investment will happen. In using such language, you give a misleading impression of the NPD programme, although I understand the factors that lie behind that.

I will take you through some of the projects. On the Borders railway, a decision was taken to deliver the project through RAB rather than NPD, which was one material change. On the M8 bundle, a decision was taken—I believe that it was sensible—to de-risk the project and to deliver the utilities first, financed through capital funding and separately from the main NPD contract. On colleges, we awaited the outcome of the 2011 spending review to give us more clarity on the availability of enabling funds prior to going to market with the projects. On schools, we have to understand that the procuring authorities are individual local authorities and that there are decisions to be taken on the location and timing of projects and the decision-making process. There are a range of issues at play.

The key point, which will be borne out, is that the time that has been taken to get the projects right in the early stages will mean that we deliver more value for money and shorter timescales in the procurement of the projects than would be the case if the SFT and the other authorities that are involved had not done that detailed work in advance. There is a lot to be said for that approach. I repeat that we are not talking about a “reduction” in the programme; if anything, the figure will be higher than the £2.5 billion that we promised at the start of the spending review period. The profile of the spend has changed, but the investment will still take place and the projects will be delivered.

**Elaine Murray:** Time will tell whether that is the case.

**Nicola Sturgeon:** Time will tell, yes.

**Elaine Murray:** In passing, I point out that I thought that the mechanism for funding the Borders railway changed because nobody was interested in taking up the NPD model for it.

**Nicola Sturgeon:** Yes, but it still changed. There was a material change in the timing.

**Elaine Murray:** Yes, but it did not change because of some judgment of the SFT; it was because the SFT could not get a partner for the project.

You talked about the cap. Can you advise us whether the 4 per cent cap for NPD and PFI payments relating to the revenue-financed investment and the 5 per cent cap—which includes debt repayments relating to things such as RAB and, I presume, the new capital borrowing powers—are still in place?

**Nicola Sturgeon:** We focus on the 5 per cent cap. As I said, that is still very much in place. We set that cap on the future revenue commitments that relate to capital investment. It is a maximum of 5 per cent of our expected future annual total departmental expenditure limit budget. The revenue commitments will include not just future debt repayments on any capital borrowing that we do in future and payments under the NPD model or RAB, but existing PFI commitments, which are inherited commitments from previous Administrations related to previous projects. The 5 per cent cap is the one that we focus on.

**Elaine Murray:** Is information on the assessment and the actual repayments likely to be published and in the public domain?

**Nicola Sturgeon:** Information is already in the public domain in relation to the current spending review period, so people can look at the figures for this year, next year and 2014-15. Revenue-financed investment will be 3.4, 3.5 and 3.9 per cent of resource DEL over those three years, and

3.1, 3.3 and 3.6 per cent of total DEL. Those figures are already published in the spending review document.

**Elaine Murray:** I found that it was difficult to find and compare the detail of projected spend on individual projects such as Borders rail, the Edinburgh to Glasgow improvement programme and so on. That information does not seem to be available in the budget. The budget documents go only as far as level 3 on some of those projects. Are there any plans to make that sort of information available?

**Nicola Sturgeon:** In the interests of transparency, I provide as much information to the committee as I can. We monitor our revenue commitments in terms of the overall 5 per cent cap, and the projections on where we are in relation to the cap will be published spending review by spending review. We have already published the information for this spending review and no doubt we will do the same in the next spending review.

**Elaine Murray:** Not having that sort of information available makes it difficult to monitor what is happening with the budget for some of the projects. Some of the figures are not published at level 4. I am sure that they exist at level 4, but we do not seem to have access to them.

**Nicola Sturgeon:** As with any request for information, I am more than happy to look at what other information we can provide to the committee.

I hope that all members would think that the cap is a welcome move in the right direction. To return to some of the comments that I made to Alex Johnstone, the cap is a device by which we can ensure that there is responsibility and discipline in our budget. All revenue forms of finance are in effect borrowing money to pay for projects; that money has to be paid back over a period, so we should borrow responsibly and not run up unsustainable levels of repayment.

The PFI legacy for the year-on-year revenue budgets for portfolios such as education or even health is significant, so it is really important that we ensure that that is at a sustainable level. The cap helps us to do that. It was a very sound judgment to have introduced it.

**Adam Ingram:** If we have got to a position of boosting capital spending, does keeping spending within a particular cap present a problem? I understand that there will be quite a heavy legacy of PFI payments. How much room for manoeuvre do you have with such a cap?

**Nicola Sturgeon:** We are forward planning for the pipeline that we are talking about today and we are confident that we can take the decisions that need to be taken to deliver that within the cap

that we set. It stands to reason and it goes without saying—although I am about to say it—that the PFI takes away some of the room for manoeuvre that we might otherwise have.

Clearly, any Government at any time can review the level at which it sets such a cap, but increasing it would have a real impact on budgets in the here and now. I will use the example of health, which I frequently use because I know it best. If you go over that cap—even for good reasons such as trying to boost the economy and spend more in the short term—less money can be spent in the here and now on the revenue needs of the health service. There needs to be a real sense of responsibility and discipline around the cap.

**Adam Ingram:** I want to follow up on the Scottish Futures Trust and how successful it has been in getting us more bang for our buck—to use that horrible expression. You mentioned that extra school projects were coming on-stream because of that. Might we be able to squeeze some more out of the NPD programme as a consequence of the SFT's work?

**Nicola Sturgeon:** The SFT is doing great work and will always look to see where it can squeeze more value, because the more value you can get out of projects, the more you have to invest. I mentioned the schools work. Because of the approach that has been taken there and the value of the savings that have been made, we can do more schools than we originally anticipated, which is fantastic.

The estimated overall saving that the SFT has delivered since 2008 is, I think, £370 million; £130 million of that was in 2011-12. It is having a significant impact that is allowing us—to use the phrase that we do not like—to get more bang for our buck. Getting as much value as possible is important at any time, but because resources are so constrained just now, the more that we can bear down on costs and be more efficient and get more value, the more we will be able to do.

10:45

**Margaret McCulloch (Central Scotland) (Lab):** Good morning, cabinet secretary. The project pipeline provides details of 103 projects, but 60 per cent of those are in preparation—that is, they do not yet have an outline business case. Why does such a high number of projects in the pipeline not have an outline business case yet?

**Nicola Sturgeon:** As you said, the pipeline has 103 projects in total, which includes a large number of schools projects that are included in the overall schools for the future programme. The projects are nominated by local authorities on the basis of schools that they deem to be most in need of repair or replacement, and they do not yet

have an outline business case. However, as they move forward, that information will become more detailed.

If a project is included in the infrastructure investment plan and is in the investment pipeline, we have made a judgment that we are confident that it will proceed. Normally, projects over £20 million would be included in the IIP when an outline business case has been prepared, or whatever the equivalent of that is for hub and RAB projects. That would be the norm, but the particular situation is as I have just said around the schools.

**Margaret McCulloch:** You have actually answered my other two questions at the same time, so thank you very much.

**Nicola Sturgeon:** Sorry.

**Alex Johnstone:** That was very efficient.

**Jim Eadie (Edinburgh Southern) (SNP):** I wonder whether I can probe the cabinet secretary on some of the fine detail of the infrastructure investment plan. You talked about the global scale of capital investment, but I want to come down to some of the nuts and bolts. I am keen to understand what informs the decisions on the changes to the estimates of the profile of spend—I hope that I have got my terminology correct, in view of earlier discussions.

It is estimated that some projects will have their capital value reduced by more than £10 million, while some will have their capital value increased by more than £10 million. Of those in the reduced category, I am thinking of projects such as the Royal hospital for sick children and the department for clinical neurosciences. What underpins that type of decision? Has the scope of the project changed, or is it an attempt to extract as much value as possible through efficiencies? Clearly, there are a number of other projects in that category other than the examples that I have given.

**Nicola Sturgeon:** I will do my best to answer that as fully as possible, but again the committee may find it helpful to have information in writing on the different projects.

First, I will take projects in which the anticipated costs are lower in the update than they were in the 2011 plan—a lot of health projects fall into that category. Usually, that is a result of the figures that were used in the original plan being prior to the submission of outline business cases to the Government for approval. It also covers issues in NPD projects, for example, whereby original estimates include capital enabling works in addition to the capital costs of construction, although the NPD costs look only at the costs of construction. The capital enabling costs do not

form part of the unitary payment, so they are no longer included in the schedule of costs. Such reasons tend to explain why costs are now lower, and often it is simply because of a refinement of the costs to those that are appropriate to be in the projection.

On costs that are now higher, again the reasons vary from project to project, so I will give just a couple of examples. The A96 dual carriageway is at a very early stage of development, so it is difficult to give an estimate of the costs of dualling between Inverness and Aberdeen. However, as the design and preparation progress, we get a more detailed estimate. That allows us to be more exact, but not absolutely exact, about our estimates.

The Aberdeen western peripheral route falls into another category. Clearly, there are particular issues to do with the delay to that project, as a result of the lengthy court challenges, and that has increased the cost. Inflation has been the biggest factor, so that accounts for the differences in that project.

Those are just a couple of examples. I could go into more detail, project by project, but it might be more helpful to deliver that information to the committee in writing.

**Jim Eadie:** That would be helpful.

Sometimes, the public have a suspicion—particularly in a time of constrained budgets—that a project is perhaps being scaled back in some way when the capital value is reduced. Can you provide any reassurance on that point?

**Nicola Sturgeon:** You have to remember that we are looking at these projects in an infrastructure investment plan that deals with such issues as projected timescales, the projected cost, and the route of financing. Many of these projects are important to local communities. A health facility project, for example, will have involved a lot of local discussion and dialogue, so there will be a degree of local accountability for the health board if a project that was envisaged to be of a certain scope is reduced in scope—similarly, there will be local accountability with schools. We are looking at it in the global context, but there is close scrutiny of individual projects at a local level. If there is a change to the scope of a project or a material change to what is delivered, those changes should be open and transparent.

It is good that we have this amount of information for such projects and that we update that information regularly. The downside is that as we get more accurate and more refined in the estimates and projections that we can make, there will be changes along the way. Often, those changes will come due to better value for money, better deals being struck, or more refinement of

costs. In particular, with big transport projects that take place over many years, you get more accurate about cost the closer you get to them. Such examples are more in the realm of possible explanations for a reduction in cost than the suggestion made by your suspicious mind about a reduction in the scale of projects—your healthy, suspicious mind, I should say.

**Jim Eadie:** I am never suspicious, but I am always sceptical on behalf of the public.

**Nicola Sturgeon:** Excellent.

**Jim Eadie:** Some interest has been expressed in a specific project—the emergency services future communications programme. In the 2011 infrastructure investment plan, there was an identified cost of £500 million—a not insignificant investment—for the project to be delivered between 2016 and 2020. The 2013 update does not seem to have the same level of detail. Can you or the officials explain why less detail seems to be available and can that information be provided to the committee?

**Nicola Sturgeon:** I can answer in general terms and then perhaps Victoria Bruce can say a bit more. If not, we can provide the information in writing.

We are dealing with on-going work to produce outline business cases. Inevitably, until those business cases are produced—even sometimes after the business cases are produced—there is always a degree of uncertainty about what solution to adopt and how much that solution will cost. Ultimately, the procurement decisions on what to adopt will be guided by the views of the relevant services. Decisions will be influenced by what features those services want to accept or decline, bearing in mind the cost implications of all that.

Essentially—at the nub of this—the difference between the 2011 plan and the current plan is that previously, we tried to give ballpark upper limits of the anticipated expenditure, whereas this time we are able to more candidly declare that it is too soon to say with certainty what some of the costs might be. That is the brief, ballpark explanation but I am happy to provide a more detailed explanation around some of these variances, if you would find that helpful.

**Jim Eadie:** That is helpful.

My next question concerns a technical issue of detail, so it is directed at the officials. Why has the programme and project information been presented separately in the update? What is your formal definition of a programme, as distinct from a project?

**Nicola Sturgeon:** I am touched by your lack of confidence in my ability to give you technical details.

Victoria Bruce will answer you so much more technically than I can, but I can say that projects are discrete pieces of work and programmes are groups of projects. For example, the schools programme involves a number of discrete projects, and the A9 dualling programme involves a number of discrete bits of work. That is the not-very-technical distinction between programme and project. I will allow Victoria Bruce to add the technicalities.

**Victoria Bruce (Scottish Government):** In a sense, the Deputy First Minister has just explained the distinction. A project is a single piece of infrastructure investment, such as a school, and a programme is a set of related projects and activities.

We wanted to produce two separate pipelines because there was a desire to put out much more detailed information about individual projects in order to inform the market when to expect projects to be advertised, when the construction start dates might be and when the projects would be operational.

**Jim Eadie:** What is the formal distinction?

**Victoria Bruce:** As we have just described, a project is a single, discrete piece of infrastructure investment and a programme covers a set of related projects or activities. For example, we have included affordable housing as a programme. It includes the capital grant provision to local authorities and registered social landlords. It is a programme of related activity to deliver a certain outcome.

**Nicola Sturgeon:** Presenting both pipelines is designed to give the overall overview as well as the detail. Individual bits of some programmes will be in the project list as discrete projects. It is not meant to be a very technical distinction. It is meant to distinguish between discrete, standalone projects and clusters of projects that are related to one another and might be procured in a different way because of that.

**Margaret McCulloch:** The broadband procurement for the Highlands and Islands area has been awarded and Highlands and Islands Enterprise, which is leading the procurement, has confirmed that, once the contract details have been finalised and signed, the contractor will be announced.

In relation to the procurement for the rest of Scotland, the invitation to tender was issued in January 2013 and plans seem to be on track for the contract to be awarded by the end of June. Can you provide an update on the progress in each of the procurement contracts?

**Nicola Sturgeon:** Yes, I can. You have quite accurately given the update in your question.

The procurement process in the Highlands and Islands started first and is the more advanced of the two programmes. It is in its final stages. All contractual principles have been agreed and the project is being assured by broadband delivery UK. The contract in the Highlands and Islands is expected to be awarded soon—hopefully before the end of this month.

The formal tender process for the rest of Scotland commenced in September 2012. There was then a detailed supply and engagement process and the invitation to tender was issued in January 2013. The project remains on track to meet the commitment to award the final contract by June 2013.

That is the broad timetable for both the projects.

**Margaret McCulloch:** The first annual progress report states that achieving the 2015 target is about setting a minimum level of coverage in each local authority, and that it will be for individual councils to determine whether and how they wish to extend and fund that level of coverage. Can you indicate the level of interest from a local authority and commercial perspective on the development of broadband infrastructure in Scotland?

11:00

**Nicola Sturgeon:** I will do so as briefly as possible. That is another area in which there is a lot of detail underpinning my answer, so it would be useful for me to update the committee on the awarding of contracts for the step-change programme and what those contracts will deliver once they are in place.

We have secured more than £240 million of public sector funding for the step-change programme, which will extend next generation broadband to rural areas. We are committed to providing a minimum level of coverage from national funding across all local authority areas. In discussion with the Convention of Scottish Local Authorities and local authorities, the threshold has been set at 75 per cent. On top of that, local authorities are being encouraged to make additional contributions to the step-change programme to increase coverage or speed in their areas. So far, 14 local authorities have indicated that they will commit additional funding to address their particular local priorities.

We work closely with individual local authorities on the programme, and I and my officials engage closely with COSLA regarding its delivery. The work is important and is progressing well, but the committee will appreciate, given the nature and the scale of the work, that there are a number of challenges along the way. I am happy to provide the committee with a written update—perhaps once the Highlands and Islands contract is

awarded—that will set out exactly where we are with the two programmes.

**The Convener:** I find the funding of broadband projects extremely complicated, because it involves not only the Scottish Government but the UK Government and Europe. For example, the cabinet secretary's predecessor told the committee that the Aberdeen city and shire economic future scheme, which was well advanced, should not be held up because other areas of the country have not reached the same stage of development.

I understand that the Chancellor of the Exchequer announced in his autumn statement on 5 December the names of 12 cities that could get broadband funding, of which Aberdeen was one. We now find that the Department for Culture, Media and Sport has failed to resolve its state-aid issues with the European Union, which are still under discussion. That all seems very complicated, and the process seems to be stuck in disputes.

**Nicola Sturgeon:** Again, I am happy to cover those points in a written update to the committee. State aid was certainly one of the issues that delayed progress with the Highlands and Islands part of the programme, but that issue has now been resolved, and I can provide the committee with more information on that.

The funding for broadband comes from different sources. Just under £150 million of the £240 million that I spoke about comes from the Scottish budget, but that includes our next generation digital fund, some Barnett consequentials and approximately £20 million of EU funds. Approximately £100 million comes from the UK Government, and approximately £10 million from the urban broadband fund. That is the broad make-up of the £240 million. As I said in response to Margaret McCulloch, a number of local authorities have identified funding over and above that, which currently stands at somewhere in the region of £50 million.

There are complicated issues in progressing broadband projects, but I am keen to say that we are making progress through the two step-change programmes in order to reach the level of coverage that people have a right to expect, because broadband is an increasingly fundamental part of the country's infrastructure. However, given the complexity and the different funding sources and aspects, it would probably be helpful for the committee to receive a full written update. At an appropriate point—although I hesitate to say this—a dedicated evidence session on the programme might also be helpful if the committee is interested.

**The Convener:** Yes. The world-class 2020 target is also important in that regard. Can you describe briefly the work that the Scottish Government plans to undertake as part of the digital dialogue programme, and how you plan to use the research in the "Digital Scotland 2020: Achieving World-Class digital infrastructure" report?

**Nicola Sturgeon:** The report is an important part of our deliberations because it gives us a good overview of what we are looking at. I have either just recently written, or am just about to write, to the committee setting out our plans for what we describe as Scotland's digital dialogue, which is a programme of engagement, seminars and talks that are designed to help us to communicate and refine our world-class plans. The programme is taking place from now until May, and we have set up a website that will feature some of the key information.

We are seeking to encourage not just businesses and organisations but individuals, if we can, to contribute to what we are trying to achieve and what we mean by world class. We can then start to look at how we use the step-change programme as a foundation on which to build. We would welcome the committee's input in that regard, which was our reason for writing to you.

**The Convener:** We got that letter yesterday, cabinet secretary—thank you. If no one else has any further questions, I thank the cabinet secretary and her officials for the session, which has been useful.

11:06

*Meeting continued in private until 12:52.*





Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

---

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on  
the Scottish Parliament website at:

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

For details of documents available to  
order in hard copy format, please contact:  
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000  
Textphone: 0800 092 7100  
Email: [sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)

e-format first available  
ISBN 978-1-78307-585-0

Revised e-format available  
ISBN 978-1-78307-601-7

---

Printed in Scotland by APS Group Scotland

---