

Correspondence from the Auditor General for Scotland to the Public Audit Committee, dated 5 May 2014

MAJOR CAPITAL PROJECTS

The Public Audit Committee considered the Scottish Government's latest update on the progress of major capital projects at its meeting of 2 April 2014. Following this, I am responding to the Clerk's request to provide the Committee with our views on the revised format of the update, and how it addresses the recommendations contained in my report *Scotland's key transport infrastructure projects* published in June 2013.

A number of my recent reports, including *Scotland's key transport infrastructure projects* and *Developing financial reporting in Scotland*, have emphasised how accurate and robust financial information is vital to support the good management of public services and finances. In summary, comprehensive, reliable and transparent reporting of capital expenditure helps provide evidence and detail to support decision making, enables public sector bodies to be held accountable for their decisions, and provides the public and investors with trust in the decisions of government.

The Scottish Government publishes a number of reports detailing the progress of individual major capital projects:

- An annual progress report against the Infrastructure Investment Plan 2011. The latest progress report was published in March 2014 and includes a table detailing all major projects with a capital value of £20 million or more which are at outline business case or beyond. A summary of progress to date with each project is provided, together with what contribution the project is expected to make towards economic development.
- An updated project pipeline report which was published in February 2014. This is in tabular form and provides details on individual major projects with a capital value of £20 million or more where the Scottish Government has a lead role in procurement or funding. It also includes all school projects which are being delivered through the Schools for the Future Programme, and all those health projects that are being taken forward through the Scotland-wide 'hub' initiative. For each project, information is provided 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).
- The Scottish Government also published an updated programme pipeline report in March 2014. This updates the programme update information provided as part of Annex C of the Infrastructure Investment Plan 2011.

The Scottish Government began providing six-monthly update reports to the Public Audit Committee on the progress of major capital projects in 2009, in response to recommendations contained in the Committee's report *Major Capital Projects*. The content of the updates was largely based on the same data sources used to populate the above reports. In particular, the update provided information on the estimated capital value of individual projects, the timescale to completion, and a summary of progress to date. Following the Committee's request, the Scottish Government also began to provide information on projects' contribution to local economic development with effect from its July 2012 update. However, the threshold value for reporting in the update was set at £50 million, so the Public Audit Committee was being provided with information on fewer projects than in the progress or project pipeline reports. In addition, progress reporting on the hub programme focussed on the hub territories, and there was limited reporting on the progress of individual hub projects.

Scotland's key transport infrastructure projects recommended that the Scottish Government should consult with the Scottish Parliament's Public Audit, Finance and Infrastructure and Capital Investment Committees on the threshold value for routine public reporting of all major infrastructure investment projects. I also recommended that by December 2013, the Scottish Government should improve the content and presentation of information contained in its six-monthly updates to the Public Audit Committee about major projects.

The revised format was the subject of joint work by the Scottish Government, Audit Scotland and the clerk to the Public Audit Committee, and included consultation with the Finance and Infrastructure and Capital Investment Committees. The information provided is similar to that contained in the annual progress report and programme pipeline report and 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 Committee.
- More information is being made available about individual hub projects than 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.

However, there is scope for the Scottish Government to go further in the level of detail provided in respect of individual projects:

- We recognise that the estimated timetable and cost of individual projects may change as plans develop. One of my recommendations in *Scotland's key transport infrastructure projects* was that

reporting should include individual projects' progress against approved time, cost and scope objectives. At the moment, reporting of individual projects concentrates on the cost and time estimates at the date of the update. Depending on the project, this is usually either the time and cost estimates contained in the outline business case if still in procurement, or in the final business case if it has reached construction. It is not always clear whether there have been any changes to these estimates, except by reference to previous updates. A clearer statement of any changes to time, cost and scope would be beneficial.

- Limited information is provided on spend to date and how this compares with the cost budget. While this may not be entirely relevant until the construction phase, where most costs are usually incurred, there is scope for the Scottish Government to provide more reassurance in this area.
- Similarly, there is currently no information provided on the final outturn cost of completed projects and how this compares with budget. The Public Audit Committee may find it useful to receive statements on all completed projects detailing performance against time and cost budgets, and including analysis of reasons for variations.

Scotland's key transport infrastructure projects also included a recommendation that the update included information on the estimated long-term commitments for revenue-funded projects which had been approved for procurement, in addition to those where the contract had been signed. To avoid disclosing estimates for individual projects that may be commercially sensitive before contracts are awarded, I recommended that reports may provide this information on a portfolio basis or according to the type of investment being made, such as roads or schools.

The Scottish Government considered that implementation of this recommendation could result in the disclosure of commercially sensitive information as there are only a limited number of revenue-funded projects within each portfolio or type of investment. Instead, it now intends to report its estimates of long-term investment commitments on an aggregate basis through the Draft Budget. As can be seen from the Draft Budget 2014-15 *Annex A*, this allows the estimated total value of future revenue payments from all current revenue-financed investment projects to be monitored against the Scottish Government's five per cent cap mentioned above. It will be important that the Scottish Government continues to report this information in subsequent Draft Budgets, including an analysis of any changes from the previous year's Draft Budget.

A key consideration for the Scottish Government is to strike an appropriate balance between providing sufficient information in the update to provide reassurance to the Public Audit Committee that major capital projects are being managed well, with providing too much information such that it gets lost in the detail. One option the Committee may like to consider is an annual evidence session where it can scrutinise the overall picture in more detail, together with particular projects which are of interest to it. Audit Scotland would, of course, work to support the Committee should it decide to go down this route.

I will continue to comment on the development of financial reporting by the Scottish Government as part of my audit responsibilities, and in the meantime I hope the Committee will find these comments useful.