Investing in Scotland's infrastructure

A briefing paper

AUDITOR GENERAL

Prepared by Audit Scotland
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Contents

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Audit team

The core audit team consisted of: Dharshi Santhakumaran, Ashleigh Madjitey, Garry Quigley and Lewis Kinnear under the direction of Mark Taylor.

Key messages

Growing the economy and delivering high-quality public services relies on infrastructure – from roads and railways to hospitals and other buildings.

1 The Scottish Government's Infrastructure Investment Plan sets out £26 billion of spending to address three priorities: enabling the transition to net zero emissions and environmental sustainability, driving inclusive economic growth, and building resilient and sustainable places. It is difficult to get a complete picture from the information published by the Scottish Government of how it is directing funding to these priorities. And how this will contribute to the Government's target of net zero greenhouse gas emissions by 2045.

The Scottish Government faces a challenging combination of reducing capital budgets, higher costs and increasing maintenance requirements.

2 The Scottish Government will no longer be able to deliver all its planned infrastructure investment, or its ambition to double spending on maintenance. This will affect its ability to provide services now and in the future. It will also be extremely challenging to retrofit public buildings to meet net zero targets. The Scottish Government and its public bodies must also consider the financial implications of 22 private finance initiative contracts worth £900 million returning to public ownership before the end of the decade.

The Scottish Government is now making difficult decisions to prioritise its capital spending.

3 This includes deciding to stop or pause some of the projects set out in the Infrastructure Investment Plan and reviewing its capital spending. It is important that the Scottish Government considers its existing estate, its maintenance requirements, and its ability to meet future needs when making these decisions. Parts of the existing public estate, such as hospitals and prisons, need significant investment despite the Scottish Government's intentions to prioritise enhancing and maintaining existing assets over building new ones. The Scottish Government will publish further information alongside its 2024/25 budget. It should be transparent about its decisions, how and why they were made and the impact they will have.

The Scottish Government and other public bodies need to understand what they will require from their estates in the future.

4 The Scottish Government is beginning a co-ordinated approach to reform how offices and other administrative buildings are used. Beyond this, individual public bodies are also responsible for managing their operational buildings, such as hospitals and colleges, more efficiently. In reforming the public estate, the Scottish Government should consider how all buildings can be used to best support the transformation of services as well as making savings and reducing the size of the estate. The Scottish Government and its bodies will need better data across all publicly owned buildings to do this. Clear and effective leadership will be needed to carry out this reform at the scale and speed required.

Recommendations

The Scottish Government should:

- Produce clear information that explains how it decided to prioritise, delay, or cancel projects and programmes in its Infrastructure Investment Plan (IIP). This should be published at the same time as its updated capital spending review.
- Provide clear and regular information, through its six-monthly major capital projects update and annual IIP progress reports, on how its infrastructure investment decisions support wider government goals such as addressing inequalities and tackling climate change.
- Ensure that its public reporting on infrastructure projects allows consistent monitoring of individual projects and programmes, including the benefits associated with them and where costs or timescales have increased.
- Move swiftly towards delivering its commitment to producing a public sector account for Scotland that reports on the assets and liabilities of the whole devolved public sector in Scotland.
- In driving reform through the whole of the public sector estate:
  - As well as reviewing the administrative estate through the Single Scottish Estate programme, set out how it will use its operational estate more efficiently.
  - Consider how the existing estate aligns with the services that will be needed in the future; this should include the demands of an ageing population, the increased levels of hybrid working, technology changes and net zero considerations.
  - Collect information on the condition, occupancy, and cost of the wider public estate and ensure that this information is recorded consistently and regularly by its public bodies.
  - Publish a revised estate strategy with clear objectives that can be measured and that link to the IIP's hierarchy framework.
  - Consider how the public sector estate can support the transformation of services as well as reducing the size of the estate and making it more efficient.

Introduction

Background

1. Investing in infrastructure supports **inclusive economic growth**. It also improves the efficiency and effectiveness of public services and the wellbeing and quality of life of the people in the communities using these services. Providing good-quality transport, digital infrastructure, hospitals and schools can improve access to services and employment, and the quality of the built and natural environment in which people live and work.

Inclusive economic growth is economic growth that is distributed fairly across society and creates opportunities for all.

2. In its annual budget, the Scottish Government sets out how it will spend money on infrastructure in the coming financial year. It also sets out its projections for future years in its Medium-Term Financial Strategy and provides more detail in its capital and resource spending reviews. The Scottish Government has three options for paying for infrastructure:

- The capital budget is money specifically for investing in buildings, equipment, and vehicles, by either buying new or upgrading existing infrastructure. In 2023/24, the capital budget was £5.9 billion, with the **block grant** from the UK Government accounting for around 75 per cent of this.
- **Revenue-financed projects** use the resource budget, which is money for day-to-day spending, to pay for the construction costs of infrastructure such as schools and hospitals, over a number of years.
- Loans and equity investments are provided to private sector organisations through **financial transactions**. In 2023/24, the financial transaction budget was £424 million.

Block grant is money transferred from the UK Government to the Scottish Government each year to pay for devolved public services, such as health, education, justice and transport. Our briefing on the operation of the fiscal framework gives more information on how the Scottish Government is funded.

Revenue-financed projects are projects where the costs of building the infrastructure are paid for over a contract period of 25-30 years along with associated maintenance and service charges. Private financed projects are where the public sector appoints a private company to build, maintain and operate the asset. Not all revenue financed projects are privately financed; the Learning Estate Investment programme is an example of a revenue financed project with the public sector.

Financial transactions are a form of capital funding for loans or equity investment which are only allocated to the Scottish Government by HM Treasury. They must ultimately be repaid.

About the audit

3. This briefing focuses on the Scottish Government's infrastructure ambitions and the challenges it faces in achieving them. It covers the period from September 2018, when the Scottish Government committed to the National Infrastructure Mission (NIM), to the end of the Infrastructure Investment Plan (IIP) in 2026/27. It highlights the difficult decisions that the Scottish Government and Scottish Parliament face as they develop and consider the 2024/25 budget.

4. Using infrastructure as effectively as possible will be key to the Scottish Government's public service reform agenda. This briefing builds on the Auditor General's briefing on Scotland's public finances, which highlighted that faster public service reform is needed to protect services and improve people's lives. This briefing provides an update on the Scottish Government's use of private finance since the 2020 report by the Auditor General and Accounts Commission, Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models.

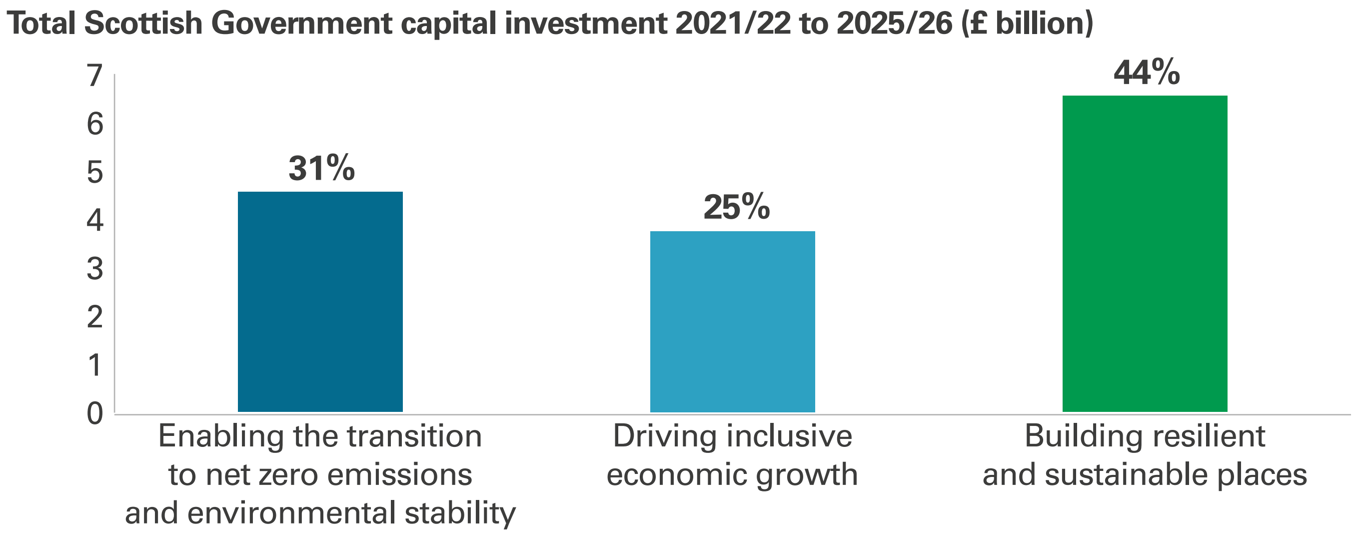
1. Infrastructure investment in Scotland

The Scottish Government aims to increase investment in infrastructure

5. The Scottish Government believes that investing in infrastructure is vital for growing the economy, delivering on net zero, and maintaining high-quality public infrastructure and services.[1] In its 2018/19 Programme for Government, the Scottish Government set out its NIM, that is, to increase infrastructure investment to £34.2 billion between 2021/22 and 2025/26. Details of infrastructure policy planning are in the Appendix (page 27).

6. The Scottish Government has set out plans to spend £26 billion worth of that capital investment to date. The projects and programmes in the Infrastructure Investment Plan for Scotland 2021-22 to 2025-26 are based on three themes (Exhibit 1).

Exhibit 1.
Infrastructure Investment Plan
The IIP projects and programmes fall under three broad themes.



Note: Due to data limitations of the IIP, this analysis uses the investment set out in its appendix and represents £14.9 billion of the total £26 billion investment. Some projects may contribute to more than one theme.

Source: Audit Scotland analysis of IIP

7. The IIP sets out how the Scottish Government and its public bodies should prioritise enhancing and maintaining existing assets over building new ones. This guidance was issued to public bodies in 2022.[2] It builds on the Scottish Government's 2020 Estate Strategy, which called for central government public bodies to share office space.[3]

It is difficult to get a complete picture of how the Scottish Government is directing funding to its infrastructure priorities

8. The Infrastructure Commission for Scotland recommended, in January 2020, that the Scottish Government publish a framework for prioritising projects in its next IIP.[4] The 2021 IIP's supporting documents show at a high level how the plan considers climate change and equalities but do not explain how projects were prioritised or how they will contribute to wider outcomes:

- The IIP's Equality and Fairer Scotland Duty Statement explains that all projects and programmes will be assessed against the Equality and Fairer Scotland Duty as they progress.[5]
- The carbon assessment of the IIP only assesses the current year's capital budget as having a high, medium or low impact on emissions. The Scottish Government recognises the weakness of this approach. The Auditor General reported in 2023 that the Scottish Government does not routinely assess the impact that its policies and spending have on emissions.

9. The Scottish Government publicly reports information on infrastructure investment through annual IIP updates and an update to the Scottish Parliament on major capital projects every six months. This reporting arose following recommendations in the Auditor General's 2011 report on Management of the Scottish Government's capital investment programme. The approach was developed in consultation with Scottish Parliament clerks and Audit Scotland. Across the documents published by the Scottish Government it is difficult to track the progress and spending of individual projects and programmes. For example:

- Details are available for only £14.9 billion of the £26 billion of infrastructure investment originally announced.
- The Scottish Government publishes progress towards its £34.2 billion NIM in its annual Medium-Term Financial Strategy, but it is not possible to compare this to the information it publishes on the IIP.
- The format of the infrastructure updates makes it difficult to compare with the original IIP. Exhibit 1 does not include any projects added since 2021 or the cost increases since then.
- The June 2023 progress report describes how some projects are considering their impact on climate change. It does not assess the overall impact projects will have on net zero targets.

10. Ahead of its 2024/25 budget, the Scottish Government is reviewing the projects in the IIP. It is also working with the Scottish Futures Trust (SFT) on a range of projects, including a prioritisation framework and a needs assessment, to inform the next IIP. This work should set out clearly how investment will be targeted to meet priorities, including clearer information on how net zero ambitions will be affected. The Scottish Government should ensure that the figures reported in its plans are consistent and consider ways to improve reporting on infrastructure investment.

Infrastructure investment and existing assets are managed by individual portfolio areas and are overseen by different parts of the Scottish Government

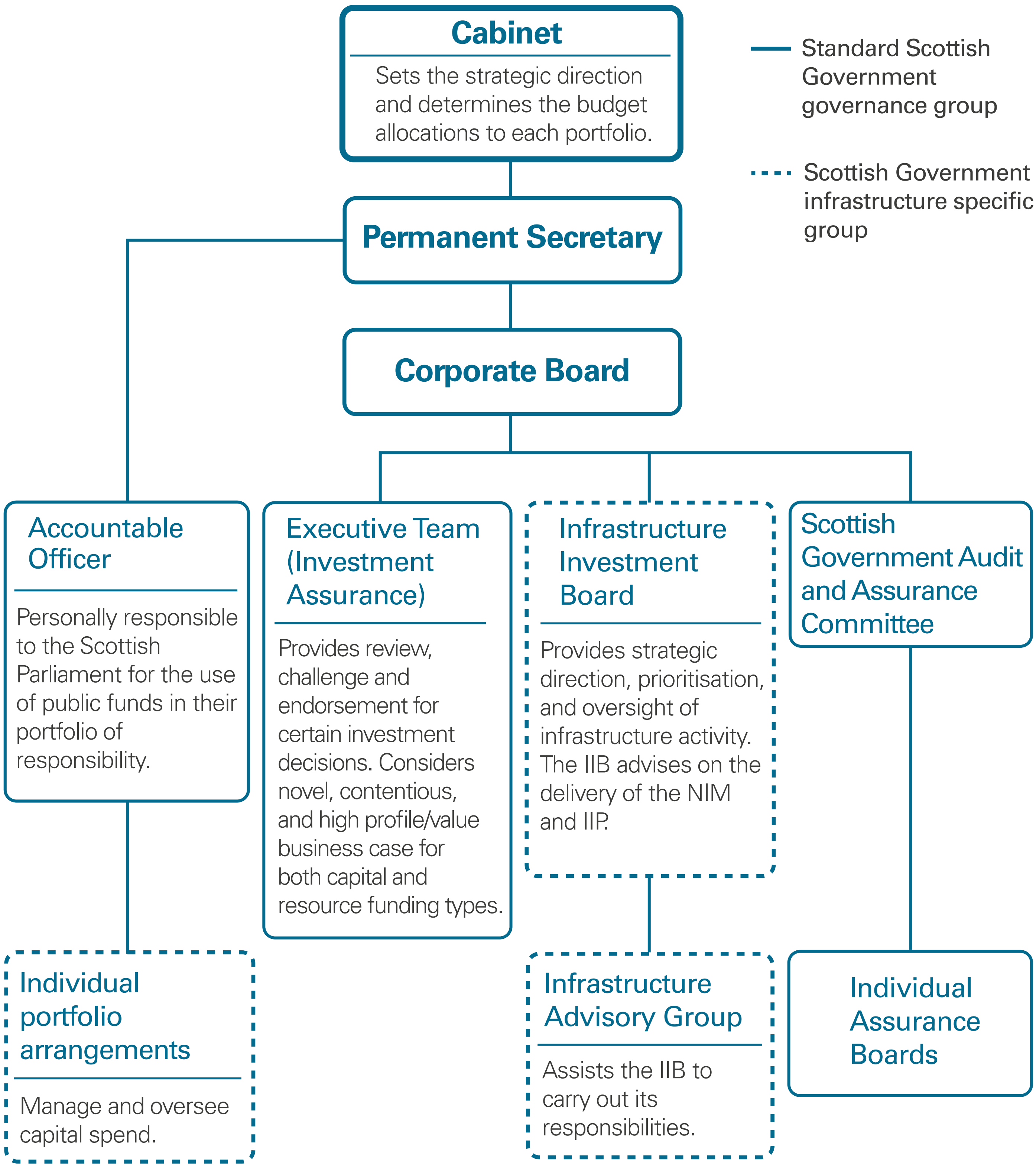
11. Accountable officers and public bodies' chief executives are responsible for managing their bodies' capital spending, maintaining their existing estate, and investing in new infrastructure. They must have their own systems and governance for reporting on and monitoring the state of their estate and their infrastructure spend.

12. The **Director General** Scottish Exchequer oversees infrastructure investment at the Scottish Government level. The Director General Corporate oversees estate management for the administrative buildings of the Scottish Government and its public bodies. There is not a similar oversight responsibility for operational buildings, such as colleges and hospitals, which is managed at a sector level by the appropriate accountable officer. At a senior strategic level, the IIP programme of investment is overseen by the Infrastructure Investment Board (IIB). The Executive Team, when it is focusing on investment, provides review and challenge of high profile or high value investments, both capital and revenue. The IIB does not manage individual projects and programmes but supports portfolio teams in carrying out that responsibility. (Exhibit 2, page 11).

Accountable Officers are officials within the Scottish Government and public bodies who are responsible for the finances and performance of their portfolio.

Director General is a senior civil servant responsible for a number of departments and agencies. There are eight Director Generals in the Scottish Government, who are all accountable officers for their areas.

Exhibit 2.
Scottish Government infrastructure governance arrangements



Source: Audit Scotland and the Scottish Government

2. A challenging situation

The Scottish Government will no longer achieve all of its infrastructure ambitions

13. In June 2023, the Scottish Government set out a challenging financial outlook.[6] It explained that it could no longer achieve the NIM in the original timeframe. This was because of cost increases, an anticipated reduction in capital funding, labour market shortages and changes of project scope. The Scottish Government said that revenue financing, which was expected to fund some of the investment, does not currently represent value for money.

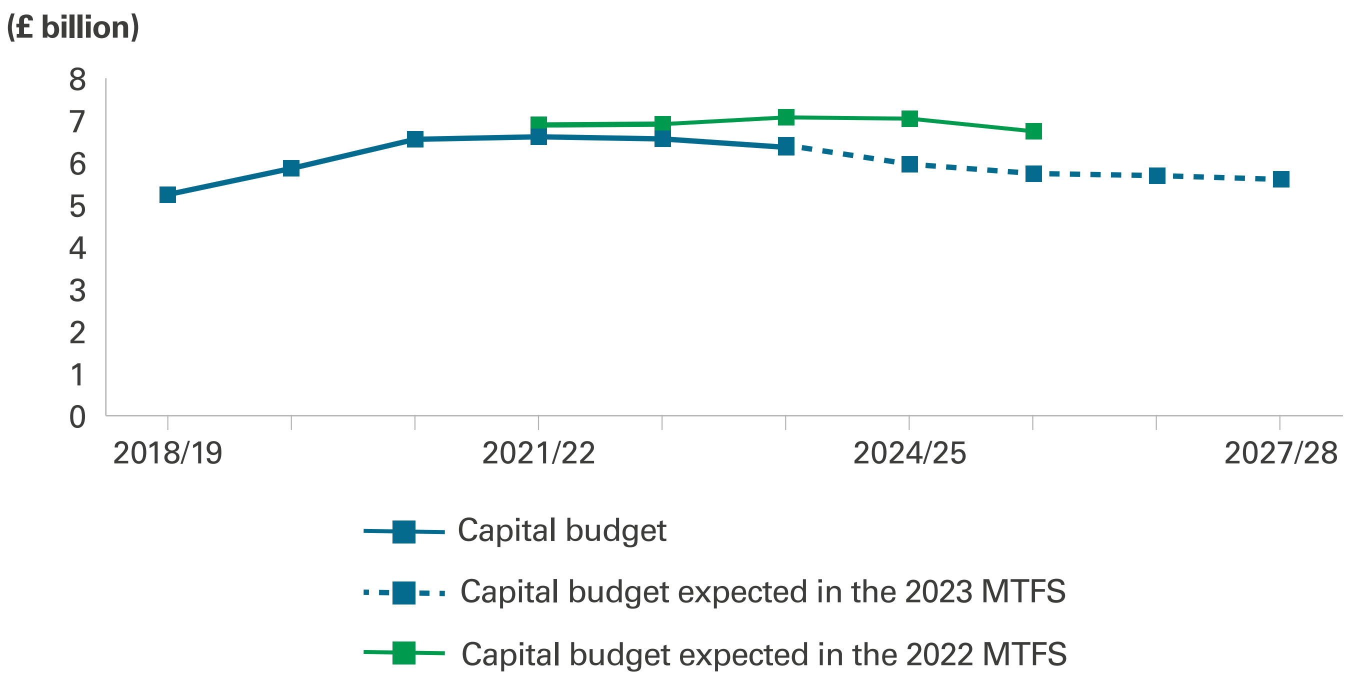
The Scottish Government's capital funding is declining

14. The Scottish Government anticipates a seven per cent real terms (when taking inflation into account) reduction in the capital block grant it receives from the UK Government between 2023/24 and 2027/28. In addition, based on its understanding of the UK Government's plans, it has no longer budgeted for any financial transactions after 2024/25. Exhibit 3 (page 13) shows how the capital budget is projected to decrease over the next four years. The Scottish Government expects its capital budget to be significantly less than what it anticipated it would be in 2022.

15. The Scottish Government expects an 11 per cent gap between capital funding and planned spending in 2024/25 and a 16 per cent gap in 2025/26. The Scottish Government has in recent years used underspends to balance its capital budget. This is now very challenging as high inflation means that levels of underspend are likely to be lower, and so the Scottish Government needs to prioritise its future capital plans and budgets.

16. The Scottish Government had planned to deliver its IIP by 2025/26. It is extending this timeframe by a year, to spread out the cost and allow some projects and programmes to be delivered later than planned. It will also publish revised capital spending plans alongside its 2024/25 budget.

Exhibit 3.
Scottish Government's capital budget
The capital budget is less than previously expected.



Note: Figures published by the Scottish Government in its 2021/22 and 2023/24 budgets and the Medium Term Financial Strategy (MTFS) are different due to the point in time they are reported.

Source: Scottish Government budget documents and MTFSs

Higher interest rates have reduced the value for money of new revenue-financed projects

17. The Auditor General and the Accounts Commission have previously outlined how the Scottish Government used private finance to fund additional infrastructure projects through its revenue budget. They highlighted that to meet the £34.2 billion NIM, the Scottish Government would need to use revenue financing, including private finance.

18. Using private finance for construction costs is more expensive than using capital grants or borrowing. This is partly because the private sector is likely to pay more for its borrowing and will assume responsibility for the ongoing maintenance of the project.

19. Sustained higher interest rates have made borrowing more expensive, which affects the value for money of new revenue-financed investments. There have been no new private-financed projects since 2018 and the Scottish Government has no immediate plans to fund infrastructure in this way. The Scottish Government acknowledge that capital funding is preferrable, but cannot rule out using alternative financing arrangements to deliver investment beyond its capital budget.

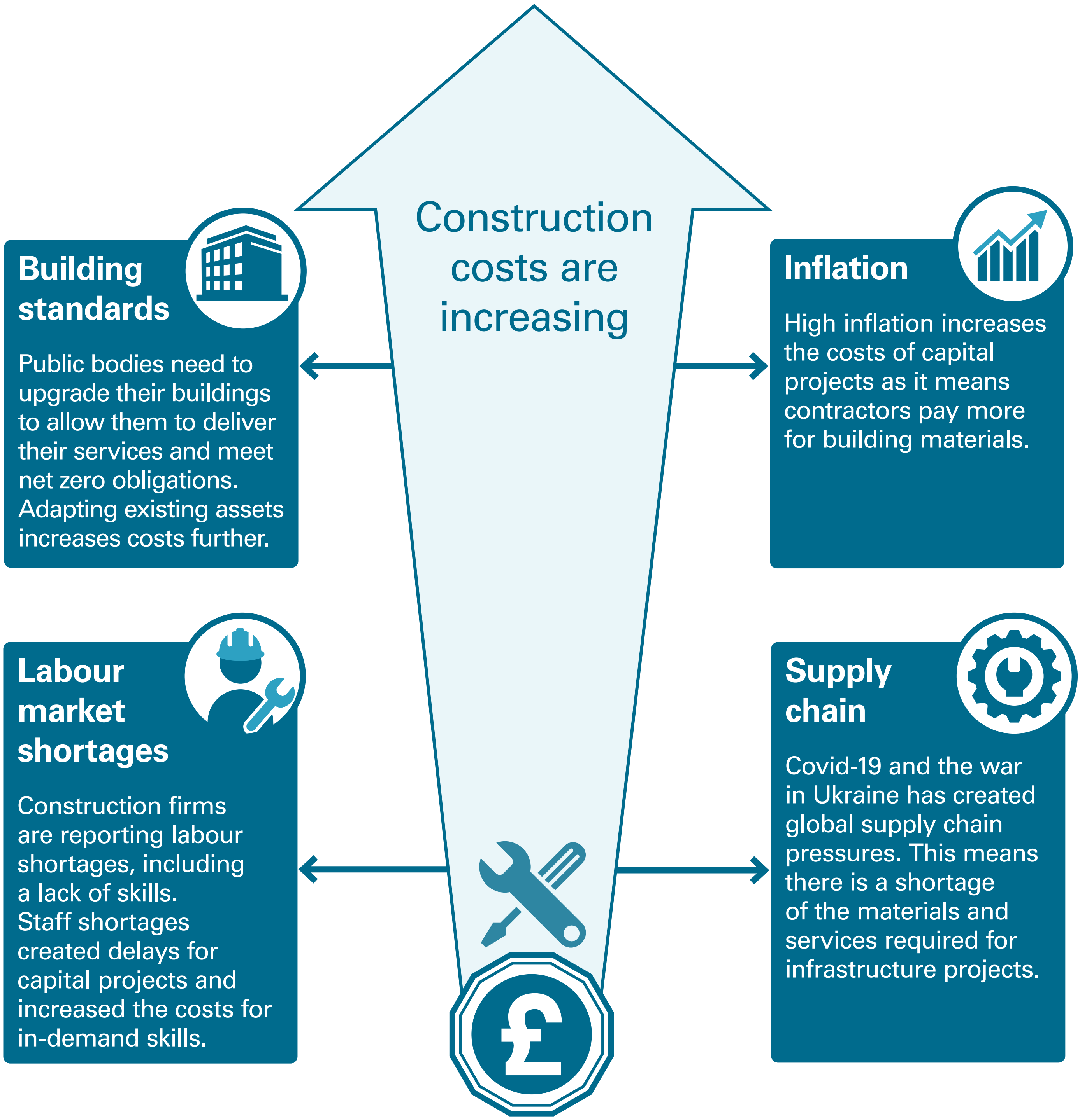
Construction costs are increasing

20. At the same time as budgets are expected to decrease, construction costs are increasing. The main reasons for these cost increases are set out in Exhibit 4.

Exhibit 4.

Reasons for construction cost increases

Several factors have combined to increase costs for goods and labour.



Source: Audit Scotland

21. These challenges have affected existing projects. By June 2023, out of 45 projects, the costs of eight had increased, 13 had been delayed and a further three had been paused. Overall, the cost increase between December 2022 and June 2023 for these projects and programmes is expected to be at least £55 million (Exhibit 5).

Exhibit 5.

Example projects in the IIP affected by cost increases or delays

Around half the projects within the IIP have been affected by cost increases or delays.

Project	Description	Cost (£ m)	Status	Detail
Borders railway decarbonisation	A project to electrify the Borders railway and rolling stock to facilitate decarbonisation of the line.	32	Paused	The outline business case (OBC) expected the project to cost £32 million. It has now been paused while the decarbonisation action plan is refreshed.
HMP Highland	The first new prison in the Scottish Highlands for more than a century.	140	Cost increase and delay	In December 2022, projected costs had risen to £140 million from an initially expected range of £98 million to £110 million. The prison is now expected to be operational in June 2025, not 2024 as detailed in the OBC.
Dunfermline learning campus	A new build college campus in Dunfermline.	131	Cost increase	The cost of the project has increased by £41 million. The Scottish Government report that this is due to inflation and the cost of delivering net zero building standards.
A9 dualling	Dualling of the A9 between Perth and Inverness by 2025.	£3bn (2011 estimate)	Delayed	In February 2023, the then transport minister confirmed that the target will not be met. So far 11 miles out of 77 have been completed at a cost of £430 million. The Scottish Government repeated its commitment to the project in its 2023 programme for government. It has relaunched the procurement for the Tomatin to Moy segment and will set out a revised timescale to dual the road in the autumn.

Source: IIP and MCP updates

The Scottish Government is prioritising its investment, but this could have an impact on wider outcomes

22. The Scottish Government is prioritising its investments in infrastructure by considering how projects support employment and which have the greatest impact on realising its three missions: equality, opportunity, and community. It will publish an updated list of infrastructure projects alongside the 2024/25 budget.

23. This revised list should target resources where they will have the most impact. It is important that the Scottish Government understands what effect its prioritisation will have on achieving its ambitions of growing the economy, improving public services and tackling climate change. For example:

- Infrastructure investment is key to growing the economy and helping to deliver Scotland's National Strategy for Economic Transformation.[7] Less investment in capital projects could affect economic growth.
- National treatment centres were integral to the NHS Covid-19 recovery plan, but some of these projects have been delayed. This could affect the NHS's recovery from the pandemic and its ability to reform (Exhibit 6, page 17). The NHS in Scotland 2023 report will consider this in more detail.
- The Scottish Government is committed to Scotland reaching net zero greenhouse gas emissions by 2045. In its emergency budget review in October 2022, the Scottish Government found £150.1 million of capital and financial transaction savings for 2022/23. Over 40 per cent of these were from the net zero, energy and transport portfolio. At the same time, public bodies have told us that reductions in capital budgets have affected their ability to make net zero adaptations to their estates.

24. Scottish ministers will ultimately decide which projects go ahead and when. It is important that the Scottish Government is transparent about these decisions, how and why they have been made and the impact they will have on services.

Exhibit 6.

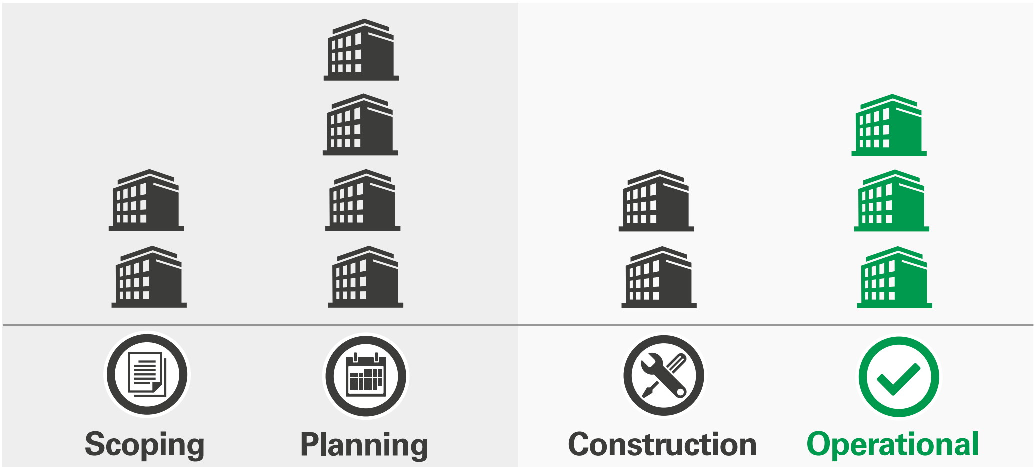
National treatment centres

National treatment centres formed a key part of the Covid-19 recovery strategy but six out of eleven are delayed and awaiting business case approval as the Scottish Government assesses the impact of market conditions and considers scope changes.

11 National treatment centres

Intended to:

- deliver an additional 40,000 procedures
- help reduce waiting times and recover from Covid-19.



6 centres awaiting business case approval.

It is not clear whether these projects will go ahead and if they do, what the impact on cost will be.

The IIP reported: expected cost **£274m** completed by **2024**

The 2023 MCP reported: expected cost **£600m** completed by **2027**

10 projects have faced cost increases and delays:

- NHS Tayside up to **117%** cost increase since IIP and expected to rise further once business case approved.
- NHS Highland now operational was **19%** higher than planned in the IIP.

'Delays to the National treatment centre programme mean targets for increased activity are unlikely to be met.'
NHS in Scotland 2022

Source: IIP update and major capital project update June 2023

Parts of the public estate need significant investment

25. The Scottish Government said in May 2022 that it was unlikely to achieve its target of doubling spending on infrastructure maintenance because of cost and supply chain challenges.

26. The Scottish Government cannot currently provide an overall figure for the level of **capital maintenance backlog** across the Scottish estate. Individual sectors report challenges in dealing with backlog maintenance:

- The NHS explains that its backlog maintenance is £1.1 billion, the highest it has ever been. Its annual capital budget in 2023/24 was £578 million.
- Between 2018 and 2022, capital funding for colleges' life cycle and backlog maintenance has fallen £321 million short of the £473 million needed. Maintenance requirements have increased over time, risking the ability of colleges to maintain the suitability and safety of their buildings.[8]
- Parts of the prison estate are causing significant concern (Case study, page 19).

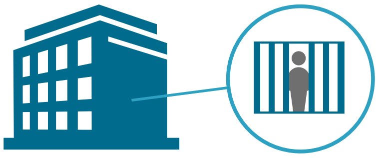
27. Some of the public estate is ageing and this brings additional risks. In the NHS, 29 per cent of buildings are over 50 years old and this percentage is increasing while Victorian-era prisons are still in use. Not only were these buildings built to different standards, for example hospitals were built with wards instead of single-occupancy rooms, but as they age their maintenance requirements increase. Recent concerns about the use of **reinforced autoclaved aerated concrete (RAAC)** in older public buildings has prompted the closure of some buildings and a review of the public estate. Dealing with this will have a substantial cost.

28. The Scottish Government will need to understand and deal with backlog maintenance as well as investing in new infrastructure. If it does not do this, it runs the risk of service interruptions and larger investments being needed in the future.

Capital maintenance backlog is the cost of bringing the estate back to standard.

Reinforced autoclaved aerated concrete (RAAC) is a type of concrete used in the 1960s to 1990s. It is considered relatively weak and likely to degrade over time. This poses a risk of catastrophic failure as the concrete panels are often hidden within structures and so their condition is not readily accessible.

Case study
The Scottish Prison Service



In 2022, the Chief Inspector of Prisons for Scotland reported that parts of Scotland's prison infrastructure are fragile and ageing.

The Scottish Prison Service (SPS) leads on work to improve the condition of the prison estate, but this work has challenges:

- The SPS has had **capital underspends** in recent years. It reports that these were caused by the impact of Covid-19, inflationary pressures and supply chain challenges. In the 2021/22 annual audit report, auditors suggested a need for more robust capital project planning. The SPS is working closely with the Scottish Government to develop a funded medium-term plan to maintain the current estate and replace ageing structures.
- Brexit and Covid-19 have contributed to delays in making **repairs to HMP Greenock**. In 2022/23, funds were allocated to support a maintenance programme in the prison. Improving the efficiency and effectiveness of the current estate remains a priority for the SPS. The Chief Inspector of Prisons repeated concerns about the condition of the facility in July 2023 and recommended that it be replaced by a new, modern facility.
- There have also been delays to replacing **HMP Barlinnie** in Glasgow. In 2019, the Chief Inspector of Prisons for Scotland described its condition as not fit for purpose. The Chief Inspector repeated these concerns in 2022, saying that HMP Barlinnie breaches human rights guidelines on cell size. The Scottish Government has still to approve the outline business case for replacing the prison. Increases in capital costs may result in further delays.
- **HMP Kilmarnock is the first private finance initiative (PFI) prison** that will return to the public sector, in 2024, along with the workforce and facilities management services. The SPS has started preparatory work with the appointment of a project director, and funding was set aside in 2022/23 for a team to oversee the transition. It is in discussions with the Scottish Government about increased funding to assist with the costs of the prison operations transferring to SPS.

Source: Scottish Prison Service annual audit 2021/22, Azets, 2023 and Audit Scotland

It will be difficult for the Scottish Government to meet its net zero commitments with existing budgets

29. The transition to a net zero economy requires significant investment from both the public and private sectors. All public bodies are required by law to contribute to achieving the national target of becoming net zero by 2045, and the Scottish Government has committed to decarbonising all publicly owned buildings by 2038. The Auditor General highlighted in 2023 the challenges of providing funding for the net zero transition at a time of intense financial pressures. Our audit work has reported similar challenges across different parts of the public sector. This includes financial challenges in the NHS, college sector and councils.

Public bodies need to assess the impact of any revenue-financed contracts expiring soon

30. There are currently around 130 active private-financed contracts in Scotland, with a combined capital value of just under £9 billion. School projects account for £4.3 billion and hospital projects account for £2.2 billion.

31. Twenty-two PFI contracts with a capital value of about £900.3 million will end before 2030. Nine contracts, with a combined capital value of £65.8 million, have ended so far and other PFI contracts have ended early including the East Ayrshire Community Hospital contract.

32. There are risks associated with private-financed contracts ending. Public bodies need to consider the impact on their future budgets, how they provide services and their wider asset management strategies:

- The earlier contracts are all bespoke and will have different exit arrangements. The public body will require a dedicated team to understand and plan for the contract ending.
- Some contracts will include making a final payment to the private consortium.
- If the asset returns to the public sector, the public body will be responsible for maintaining it and providing the service from it. The public body will therefore need to consider this in its budgets.

33. The SFT works with public bodies to help prepare them for the end of these contracts.

3. Driving reform through the public estate

Public services need to reform to remain sustainable

34. The challenging financial outlook of decreasing budgets and increasing costs makes reform across the public sector essential. The Scottish Government's May 2022 resource spending review set out its plans for reform, focusing on:

- new approaches to public services
- public sector capacity and pay
- efficiencies in the public sector
- reform of public bodies.

35. This means that public sector buildings should be efficient and fit for purpose both now and in the future. The Scottish Government expects there to be fewer, better buildings in the future and that the estate will be used to provide public services differently.

36. The Auditor General reported in November 2022 that the pace and scale of reform needs to increase. If this does not happen, it will become increasingly difficult for the Scottish Government to manage pressures on the budget. This means that the cuts to spending necessary to balance the budget will become larger, and the quality of public services delivered will worsen.

Work to reform parts of the Scottish estate is at an early stage

37. The Scottish Government is developing a Single Scottish Estate (SSE) programme as part of its reform agenda. This will focus on only office buildings and not operational buildings such as hospitals or colleges. There is no coordinated programme in place for the operational estate, which will be considered by individual sectors and bodies.

38. In May 2022, the Scottish Government commissioned a review of its central, administrative property management. The review made recommendations about standardising guidance for the Scottish Government and its bodies, understanding need and improving data on the public administrative estate. The Scottish Government is now working towards developing an SSE based on these recommendations, coordinating its approach to estate management and improving value for money. This will include:

- putting in place overarching governance arrangements, to share information and co-location opportunities
- carrying out location-based reviews, to understand the needs and opportunities for office buildings in each area
- mandating the recording of more robust data on the condition, use and occupancy of administrative buildings, and on lease dates and values.

39. This work will happen over several years and is at a very early stage, with initial governance meetings beginning in summer 2023. The Scottish Government should ensure that this programme considers how its administrative estate can support the transformation of services that is needed and ensure efficiencies.

The Scottish Government and its bodies need to understand what they will require from their estate in the future

40. As they plan the future of the whole of the public estate, the Scottish Government and its bodies need to consider how the demand for services from an ageing population, increased levels of hybrid working, technology changes and the net zero transition align with their existing estate.

41. As part of the SSE programme, the Scottish Government plans to carry out location-based reviews that will consider what office buildings an area needs and the opportunities available. The timing of these reviews is still to be decided. The NHS capital finance team has asked all boards to develop plans for all parts of their estate. These plans should include what boards expect demand to be in the future and how their existing estate will meet this demand given the limited capital finance expected.

The pandemic has accelerated public bodies' efforts to explore sharing public buildings

42. The pandemic has changed how people work and reinforced the need to urgently consider co-location. Between September 2022 and January 2023, 41 per cent of workers surveyed in Scotland had worked from home in the last seven days, compared to eight per cent in 2019.[9] [10] In addition, respondents to the Finance and Public Administration Committee's inquiry on public sector reform commented that hybrid working meant that their offices were no longer fully used.[11]

There is no overall picture of the condition of the public sector estate

43. Individual bodies and departments hold information, to varying degrees, on the size, make-up and condition of their estate. Some of this information is reported centrally but this is not done so consistently. As a result, there is currently no accurate, central understanding of:

- the overall condition of the Scottish public estate (and there is no mandatory requirement to provide this information)
- the carbon efficiency of public sector buildings
- the level of use of public sector buildings
- when some leases are coming to an end.

44. It is not possible to place a value on the entire public sector estate. In 2016, the Scottish Government committed to producing a consolidated account to cover the devolved public sector in Scotland. This would include assets, such as the estate and liabilities, including PFI. Although some progress has been made, this is still not in place. The Auditor General said in the audit of the 2021/22 Scottish Government consolidated accounts that the Scottish Government needs to move swiftly towards fulfilling its commitment to producing this important account. It will be important for decision-making over the longer term, especially as the public sector seeks to reform public services.

45. As part of the SSE programme the Scottish Government will expect public bodies to complete surveys on the condition of their estate. This is limited to administrative buildings owned and leased by the Scottish Government and its bodies. Without robust data on the entire existing estate, it is difficult for the Scottish Government and public bodies to decide whether this estate will meet future needs and how to prioritise investment, so that it is allocated where it is most needed. It is also difficult for bodies wanting to pursue co-location to identify opportunities to do so. Bodies are currently encouraged to approach the Scottish Government's property division or the SFT.

The Scottish Government does not have an overarching asset management plan

46. The Scottish Government's Estate Strategy for the central estate was published in 2020. It does not link to the IIP or include details of subsequent net zero or place commitments. The Estate Strategy sets out what is expected from central government public bodies when planning their estates, including the ambition for a more collaborative approach. The strategy does not cover the local estate, including NHS boards, councils and higher education providers.

47. The review of administrative property management, commissioned by the Scottish Government in May 2022 (paragraph 38, page 21), found that some organisations did not have a clearly documented property strategy and that they were not required to have one. Our review of health board estate management plans showed that most boards had published plans. These plans include information on the boards' estate, including on energy efficiency and backlog maintenance.

Clear and effective leadership will be needed to drive reform through the public estate

48. Public bodies have been exploring opportunities to co-locate and make savings from their estate for many years, but more significant progress is needed.

49. The Scottish Government does not own all of its buildings; some are leased. Public bodies are encouraged to move to an existing publicly-owned office building when their lease ends. Submissions to the Finance and Public Administration Committee inquiry on public sector reform show how some public bodies are making efficiencies from their estate:

- The SFT is moving to a shared hub owned by Scottish Government ministers in autumn 2023. This is expected to save £260,000 a year.
- Scottish Enterprise has shut three offices and reduced office space in five other locations. This is expected to save £1.1 million a year.

50. Strong leadership is needed at both national and local levels to deliver the reform ambitions. Public bodies will need to work together to overcome differences in their organisational cultures and governance structures to successfully deliver reform. They may also need to prioritise up-front investment to make the change they want. It is important that the public is involved in the changes that will affect them and that opportunities for community empowerment are maximised.

51. The Auditor General and Accounts Commission's report on health and social care integration identified six features that are central to the success of this integration. They are: collaborative leadership and building relationships, integrated finances and financial planning, effective strategic planning for improvement, agreed governance and accountability arrangements, ability and willingness to share information and meaningful and sustained engagement. These features would also apply to co-locating and sharing the delivery of services.

The Scottish Government needs to understand the impact of its decisions on communities

52. The Auditor General reported in November 2022 that some of the choices that need to be made in the current context will have a negative impact on wider work to improve outcomes. The Scottish Government must understand how its decisions will affect the outcomes for different groups in society and record this in impact assessments.

53. In making the estate more efficient, access to services for some groups, for example those unable to drive or access the internet, may be affected. To address this risk, it is important that the Scottish Government and public bodies involve communities in making decisions about changes that will affect them. The Auditor General and Accounts Commission will publish a report on digital exclusion in spring 2024.

Endnotes

1 Exploring the economic rationale for infrastructure investment, Scottish Government, 2018.
2 A guide to property asset strategy in the Scottish public sector, SFT, 2022.
3 Estate Strategy - Central Estate, Scottish Government, 2020.
4 Key findings report, Infrastructure Investment Commission for Scotland, January 2020.
5 Equality and Fairer Scotland Duty Statement, Scottish Government, 2021.
6 Medium-Term Financial Strategy, Scottish Government, June 2023.
7 Scotland's National Strategy for Economic Transformation, Scottish Government, 2022.
8 Scotland's colleges 2022, Auditor General for Scotland, 2022.
9 Characteristics of Homeworkers, Great Britain: September 2022 to January 2023, ONS, February 2023.
10 Coronavirus and homeworking in the UK labour market: 2019, ONS, March 2020.
11 Inquiry into the Scottish Government's Public Service Reform programme, Scottish Parliament website.

Appendix

Scottish Government infrastructure policy priorities

Over recent years, the Scottish Government has outlined in several documents its ambition to invest in infrastructure, to help deliver its commitments.

Date	Event	Description
September 2018	National Infrastructure Mission	An ambition to increase infrastructure investment so that it is £1.56 billion per year higher in 2025/26 than in 2019/20. This will create jobs, improve communities and enable businesses to grow and export more.
February 2019 to August 2020	Infrastructure Commission for Scotland	The commission published two reports during its lifespan and recommended that the delivery of an inclusive net zero carbon economy should drive infrastructure investment decisions.
March 2020	Scottish Government's Estate Strategy	This sets out plans to create an estate that is: • accessible, open to change and in the right locations, maximising co-location opportunities • sustainable and well managed, supporting changing ways of working • connected and flexible, attracting staff and supporting their wellbeing.
February 2021	Infrastructure Investment Plan (IIP) 2021-22 to 2025-26	The plan focuses on three core strategic themes for guiding investment decisions: • enabling the transition to net zero emissions and environmental sustainability • driving inclusive economic growth • building resilient and sustainable places.
August 2022	A guide to Property Asset Strategy in the Scottish Public Sector	This guidance is for all public sector bodies. It introduces the concept of a systems approach to estate management and the practical application of the investment hierarchy.
April 2023	Equality, opportunity, community: A fresh start	The new First Minister outlined what the Scottish Government hopes to achieve in 2023. This strategy outlines three missions: • Equality – tackling poverty and protecting people from harm • Opportunity – a fair, green and growing economy • Community – prioritising our public services.
May 2023	Medium-Term Financial Strategy	This sets out the financial challenges facing the Scottish Budget from 2023/24 to 2027/28. Total capital funding is expected to fall by about seven per cent during this period. The Scottish Government will no longer be able to achieve the NIM and all of its previous capital commitments as originally planned.

Investing in Scotland's infrastructure

A briefing paper

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