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Capital Budget SROs
Scottish Government
SG agencies

Copy to Portfolio Finance Teams

14 June 2010

Dear colleague,

SPENDING REVIEW 2010 EVIDENCE BASE: CAPITAL EXPENDITURE

This letter is to inform you that we are commencing a formal process of evidence gathering on capital spending in preparation for the upcoming Comprehensive Spending Review (CSR). It is clear that the next UK Spending Review, which is will be published in the autumn, will deliver substantial real terms reductions in overall Departmental Expenditure Limits (DEL) for almost every part of government. This will require us to place considerable emphasis on effective prioritisation and on further raising the effectiveness of public spending in Scotland.

To lay the foundation for well prioritised and effective use of our capital spending we want to work with you on a structured and transparent process to assess the prospects for capital spending across all areas of Scottish Government activity. A detailed timetable is attached at Annex A which sets out the steps that should be taken to help prepare a robust evidence base on capital spending for the next CSR. We intend that the core of this work will be taken forward over the next two months, in partnership between your teams and the SG Finance Directorate.

Scope of the evidence gathering exercise

The scope of this evidence gathering exercise concerns capital spending, meaning expenditure funded through traditional Capital DEL. You are asked to prepare evidence on two main aspects of your capital spending plans for the next CSR period. These are:

1. planned capital programmes – the funding that will be required to deliver broad programmes of capital investment over the CSR period to help achieve key policy outcomes and maintain service capacity; and
2. planned capital projects – investments in specific, discrete capital projects (whether they are being proposed or are even already in construction), and the associated levels of funding that will be required.

To provide a structured approach to both sets of issues, Word templates are provided to help you outline your evidence. Separate templates are provided at Annex B for both aspects of the evidence base.

In order to provide an overview of your evidence for current and proposed future capital expenditure we attach, in an Excel workbook, the capital analysis provided by your portfolio for the 2010-11 Budget process. The time horizon for this CSR exercise will cover the financial years 2010-11 to 2014-15. In order to provide a solid foundation for the CSR we would be grateful if you could complete the Excel workbook to reflect the up-to-date forecast for each financial year up to 2014-15.

It is likely that some of the concepts and definitions set out above – such as the distinction between capital ‘projects’ and ‘programmes’ – will require discussion with your teams to agree how best to them apply them to your specific policy area. To clarify these and any other issues we propose to have regular discussions with your team and the Portfolio Finance team throughout the process, and particularly early on, in order to agree the terms and the focus of this work.

The general outlook for the public finances

You will already be well aware of the general outlook for the public finances at a UK level and for the Scottish Government as a whole. At a UK level, projections set out in the Budget Red Book in March pointed to real terms reductions in Total DEL of around 8-10% over the course of the CSR, with particularly steep reductions forecast in capital spending. In terms of implications for Scotland, the recent report provided by the Chief Economic Adviser to the Independent Budget Review panel set out the prospect of a similar level of challenge over the next CSR, and indeed well beyond.

I would encourage you to take full account of the outlook for the public finances as you prepare the evidence base on capital spending in your area. Across the SG, spending proposals will need to be informed by the reality of the coming constraints on the public finances. That in turn will provide Ministers with the robust evidence that they need to help prioritise and allocate scarce capital budgets.

Next steps

As noted, the timetable outlined at Annex A sets out the process for this evidence gathering phase and the key milestones. I would encourage you to study this timetable carefully and consider what resource your team allocates to this exercise. I would be grateful if – in reply to this letter – you could nominate by 18 June one or more officials to work directly with Finance Directorate to prepare the evidence base.

In closing, let me assure you that we appreciate the complexity and challenge involved in this exercise, and that Finance Directorate is ready to support you in taking this work forward. If there are any aspects of this work which you would like to discuss, please contact either your Portfolio Finance team or myself and Derek Glover (tel. 0131 244 7501) and we will be happy to assist you.

Yours sincerely,



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ANNEX A. TIMETABLE FOR EVIDENCE GATHERING ON CAPITAL

| Timing | Phase |
|-----------------------|--|
| Monday 14 June | Commissioning letter outlining the proposed process |
| Friday 18 June | Portfolio areas nominate one or more officials to lead the evidence gathering work |
| w/c 21 June onwards | Scoping meetings between lead portfolio contacts, Portfolio Finance teams and Capital and Risk Division |
| w/c 5 July onwards | Interim review of progress on draft submissions |
| Friday 23 July | Submission of evidence base by SROs |
| w/c 26 July onwards | Review and analysis of evidence base by Portfolio Finance teams and Capital and Risk Division |
| Friday 6 August | Preparation of summary evidence base and planning assumptions by Capital and Risk, for Cabinet to consider |