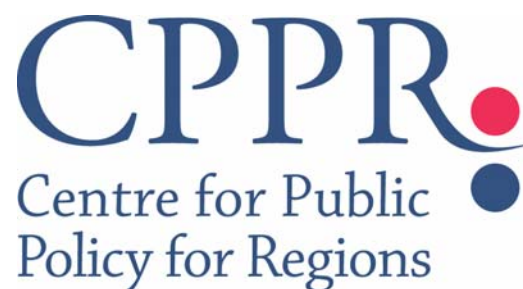


PRESS RELEASE

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OUTLOOK FOR SCOTLAND'S INFRASTRUCTURE

EXECUTIVE SUMMARY

The arrival of devolution coincided with Scotland benefitting from record levels of public funding. Such additional funds substantially eased the development of Scotland's public infrastructure such as its roads, schools, train lines and stations, its lifeline ferries, social housing as well as the country's water and sewerage network. However, the impending Whitehall budget cuts will have a profound impact on future spending.

On the capital side, instead of arguing for yet more investment, Scotland's politicians may actually be facing the stark choice of, can we add to the Scottish economy's much needed capital stock or can we only maintain what we have already secured?

Added to the government's dilemma is that there are fewer strong advocates arguing for retention of investment spending compared to spending on services where people's jobs are at risk to-day, tomorrow and next year.

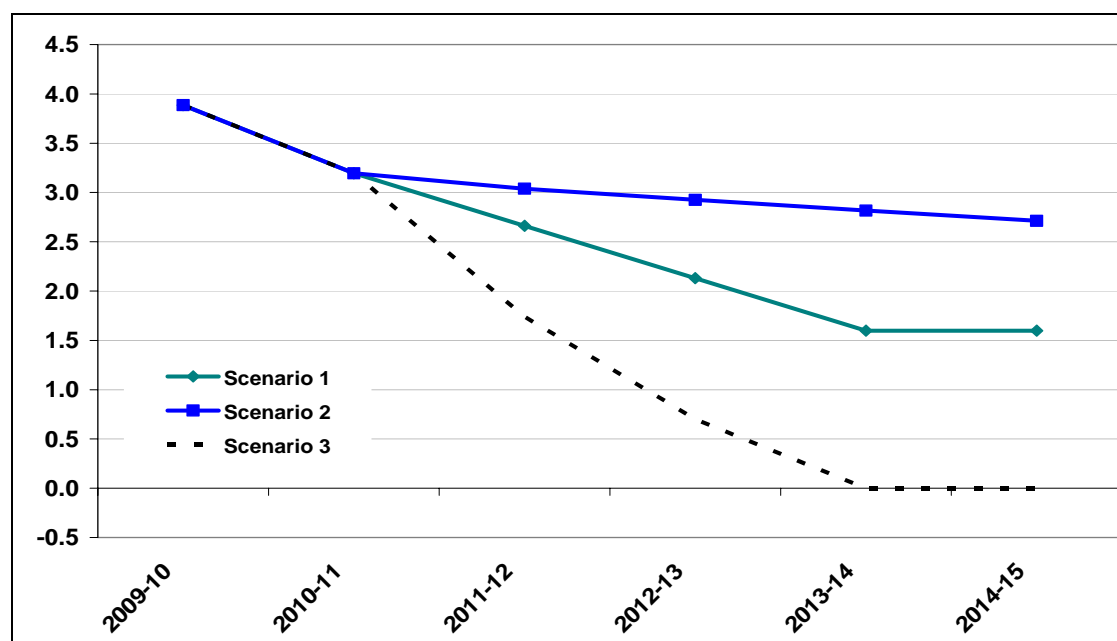
Projections for what the Scottish Government may have available to spend on capital projects between now and 2014-15 suggest there could be a serious investment hiatus. To ensure capital spending is not cut to an inappropriate degree over the next spending review period, greater clarity on the Scottish Government's views is now required. In developing its responses to both the independent budget review panel and the UK spending review, it will need to address the following strategic questions:

- a) **What proportion of the reduced Scottish budget should and will be allocated for capital investment?**
- b) **Which of the many potential new infrastructure projects remain a priority and which are now either no longer essential or affordable?**
- c) **Does maintenance of the exiting capital stock take precedence over further capital developments?**

MAIN POINTS:

- The UK Government's intention of limiting future net investment implies a substantial cut in infrastructure spending; between 2010-11 and 2013-14 net investment is set to fall from around 50%. The Scottish Government is not limited to applying an equivalent cut; it can choose to favour more capital investment at the expense of resource spending. However, if it applies the same reduction by 2014-15 there will be £1.6 billion less to spend on public infrastructure in Scotland (see **Scenario 1** below). This is the most likely capital scenario.

CPPR projections for DEL Capital spending, £billion (2010-11 prices)



- Evidence from previous periods of fiscal consolidation suggests that favouring investment spending over revenue secures a more sustained adjustment as economies emerge from recession. It could be argued, therefore, that maintaining and developing Scotland's infrastructure spend will be a key element in ensuring Scotland emerges stronger from the current recession.
- Whilst it is unrealistic for the Scottish Government's budget cuts to be borne in full by capital projects, retaining spending on current programmes at their 2010-11 levels would result in just such an outcome, ie, there would be nothing left either for new capital spending or for the maintenance of what is already in place (ie, **Scenario 3**)
- Retaining the existing (ie, 2010-11) capital/resource ratio throughout the forecast period produces **Scenario 2**.
- Under Scenario 1, if Health is ring-fenced at its 2010-11 level, by 2014-15 all other spending areas will face a 60% reduction in their capital budgets, and highlights the added pressures on all non-Health capital spending should Health be singled out for preferential treatment.

- To ensure the vastly reduced investment funding is utilized effectively there is a need for greater clarity on how it is to be allocated. There are many potential capital projects that could be developed over the next 5-10 years but limited or no publicly available understanding on which offers greatest return to the Scottish economy nationally, regionally or locally. The Scottish Government's Infrastructure Investment plans need to be extended and regularly updated to provide the basis for effective investment planning.
- Without an understanding of the current progress of all existing infrastructure projects it is not possible to know if the anticipated capital budget is or will be adequate to meet expectations across the country. Spreading the cost of large infrastructure investments over more than one spending review period may help reduce the risk of funds being insufficient. However, using PPP-like structures has fallen out of favour leaving limited or no room to fill any impending funding gap.
- Greater transparency on how capital projects are selected for funding is now needed. Cost benefit analysis (applied in standardized basis across all potential options) offers an obvious starting point for assessing how best to allocate scarce funds, with the final selection being strongly linked to those projects that have the highest cost:benefit ratio.

QUOTES

Jo Armstrong: *“With budgets tightening, the development of Scotland’s public infrastructure may be facing a serious hiatus. Sacrificing capital spending on, for example, communications networks or key utilities, to secure employment in other service areas may be politically attractive. But to do so may also slow the growth of the Scottish economy as it endeavours to emerge from the recession”.*

John McLaren: *“The demand for more new schools, hospitals and roads is now greater than the supply of funding likely to be available to secure them. Such an outlook suggests a reappraisal of Scotland’s infrastructure priorities is needed to ensure the scarce funding that remains is appropriately allocated”.*

Director of CPPR, Richard Harris: *“Scotland’s public sector infrastructure has benefited greatly from the record levels of funding received by the Scottish Government since devolution. Finding ways of securing more for less is now more than ever essential”*

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