

Partial Business and Regulatory Impact Assessment

Title of Proposal

Draft Infrastructure Investment Plan 2021-22 to 2025-26

Purpose and Intended Effect

Background

The value of investing in infrastructure goes beyond the physical homes, schools and hospitals delivered. It has the capacity to unlock economic potential, support jobs, and enable our businesses and communities to grow.

The COVID-19 pandemic is primarily a public health emergency, but one that has created an economic crisis, impacting across all sectors of Scotland's economy, business, workers and households. The impacts that we have seen so far are significant, and it is likely that as well as having serious effects in the immediate and short term, they will also create scarring effects over a longer period.

Infrastructure will be vital to our Recovery and Renewal following the COVID-19 pandemic, providing opportunities to address unemployment and poverty, and potential to support efforts to tackle the widening inequalities. The Advisory Group on Economic Recovery¹ has recognised the importance and value of capital investment in Scotland's economic recovery and wider wellbeing.

Infrastructure can provide the largest economic boost of any Scottish Government investment – that is why the Scottish Government committed in its 2018-19 Programme for Government² to drive forward a National Infrastructure Mission and steadily increase Scotland's annual infrastructure investment until it is £1.5 billion higher by the end of the next Parliament than in 2019-20.

To support delivery of the National Infrastructure Mission, Scottish Ministers established an independent Infrastructure Commission for Scotland. Their Phase 1 Key Findings report called on the Scottish Government to tackle the dual challenges of a climate emergency and creating an inclusive growth economy³. The Key Findings report has directly informed the development of the draft Infrastructure Investment Plan.

¹ <https://www.gov.scot/publications/towards-robust-resilient-wellbeing-economy-scotland-report-advisory-group-economic-recovery/>

² <https://www.gov.scot/publications/delivering-today-investing-tomorrow-governments-programme-scotland-2018-19/>

³ <https://infrastructurecommission.scot/page/key-findings-report>

Objective and rationale for intervention

The last Infrastructure Investment Plan (IIP) was published in 2015 and its pipeline of activity has largely been delivered. To give market confidence, an update is now required.

This draft IIP provides a coherent and strategic picture of our Scottish Government-wide investment priorities between the financial years 2021-22 and 2025-26.

It also sets a long term vision for infrastructure

“Our Infrastructure supports Scotland’s resilience and enables inclusive, net zero, and sustainable growth”

In delivering this vision, the draft IIP will focus on three strategic themes for guiding investment decisions in Scotland:

- **Enabling the transition to net zero emissions and environmental sustainability**
- **Driving inclusive economic growth**
- **Building resilient and sustainable places**

These three themes are directly linked to Scotland’s National Performance Framework and the UN Sustainable Development Goals, which set out the overall purpose and national outcomes that support Scotland’s wellbeing.

Over the next 30 years strategic drivers such as shifts in Scotland’s population – both where people live and how they live – as well as changes in the way technology is used, will influence investment decisions. Action to reduce greenhouse gas emissions and preparing for the changes that are likely to occur as a result of climate change must also be considered.

In the short to medium term, investment in infrastructure will be key to Scotland’s economic recovery from COVID-19, and also in supporting public services, delivering our transition to net zero, and meeting the needs of people and communities across Scotland.

Consultation

Within Government

During development of the draft IIP, a series of internal workshops were held across the Scottish Government. These workshops provided an opportunity for colleagues to share their views on the issues being considered in the consultation.

Senior officials from a range of departments across Scottish Government have been engaged in the development of the Plan. A short-life internal Infrastructure Advisory Group was established to steer the development of the draft IIP and to help to create the conditions for a more collaborative and strategic approach.

The group's role complemented that of the Executive level Infrastructure Investment Board⁴ which has oversight of the IIP. The Scottish Cabinet has also considered proposals for the IIP, giving approval for the approach taken.

Public Consultation

The IIP is published in draft, enabling consultation that will enhance dialogue with a range of interested industry, public and third sector organisations. The consultation period is 24 September– 19 November 2020.

As the draft IIP has been directly informed by the work of the Infrastructure Commission for Scotland, the period of public IIP consultation will build on extensive engagement already undertaken by the Commission⁵

The Infrastructure Commission received 150 responses to its initial "Call for Evidence" from experts and specialists across all infrastructure sectors. Respondents came from business and academia, all levels of local, regional and national government, private individuals, as well as public and private sector infrastructure operators and deliverers.

This was followed by the Commission holding five regional forums across Scotland as well as nine specialist roundtables events. The Commission also sought the views and experience of international bodies such as the Organisation for Economic Co-operation & Development (OECD) and the World Bank, as well as infrastructure planners and practitioners from countries across the globe. The Commission also engaged with over 1,000 members of the public in Scotland through either face-to-face workshops or an online survey, to understand better what they view as key infrastructure priorities for the future, as well as some of the trade-offs that may need to be considered.

Business

The Infrastructure Commission for Scotland's active engagement with business and the private investment sector provides a base for ongoing dialogue. Businesses will be encouraged to engage and respond to the consultation on the IIP. In particular, the Scottish Government will engage with the Construction Leadership Forum in order to better understand the impacts of the Plan on the construction and engineering sectors.

Options

Option 1: Do minimum

Ministers could decide not to accept the Commission's recommendations and to develop its IIP in a more conventional manner, considering known capital investments under established sectors, rather than a coherent and cross-cutting approach aimed at delivering strategic outcomes.

⁴ <https://www.gov.scot/groups/infrastructure-investment-board/>

⁵ https://infrastructurecommission.scot/storage/224/Appendix_B.pdf and https://infrastructurecommission.scot/storage/230/Appendix_G.pdf

Benefits

There do not appear to be many benefits to pursuing this approach as it would negate the in-depth consideration of the independent Infrastructure Commission for Scotland and miss the opportunity to develop an investment plan that maximises the impact on the Government's long term goals and generate the greatest public value from the planned investments.

Costs

Failing to provide a cohesive strategy, long-term vision, objectives and priorities for action could have a detrimental effect on future growth and development across all sectors. This would not be in alignment with the Scottish Government's ambitions for those sectors or its aspirations for increasing sustainable and inclusive economic growth. It would also result in social, environmental and economic costs to businesses and people.

Option 2: Prepare a coherent strategic Infrastructure Investment Plan, reflecting the Commission's recommendations

This draft IIP provides a coherent and strategic picture of our Scottish Government-wide investment priorities to 2025-26.

The Plan has been developed to implement the Phase 1 recommendations of the Infrastructure Commission. It includes a number of shifts in approach. Notably it:

- Articulates shifts in approach due to COVID-19, and to respond to long-term needs;
- Sets out a coherent, strategic plan – rather than being portfolio-based, it delivers long-term outcomes across three themes, under a single common Vision;
- Sets out plans on a consistent 2021-22 to 2025-26 timeline across all areas, showing how Scottish Ministers will deliver the National Infrastructure Mission;
- Introduces a new, common investment hierarchy – enhancing and maintaining existing assets ahead of new build;
- Supports market confidence and jobs with a sizeable pipeline of activity;
- Establishes a 5-year improvement programme & promotes public engagement.

Benefits

Analysis by the Scottish Government undertaken in 2018 shows that the National Infrastructure Mission could lead to a sustained boost in Scottish GDP by between 0.5% to 1% by 2025-26⁶, depending on the measure of the economy used.

The National Infrastructure Mission means over £33 billion of Scottish Government investment over the course of the next Parliamentary term. Of that total value, the draft IIP sets out over £24 billion of major projects and large programmes that are ready to be confirmed now, including those which are revenue funded.

⁶ <https://www2.gov.scot/Resource/0054/00544114.pdf>

Using the latest Scottish Government Input-Output model of the economy, our planned £6.4 billion of investment in 2021/22, rising to £7.0 billion in 2025/26, is estimated to support around 45,000 full time equivalent jobs across those years. This includes the jobs supported directly, mainly in the construction sector, but also the indirect jobs supported in the supply chain. It should be understood that this is activity relating to delivery of the capital investment, not its long term use.

The Commission recommended development of an investment hierarchy which prioritises maintaining and enhancing existing assets over new build. An investment hierarchy does not preclude new assets. Rather it is an approach to planning and decision making which would consider future needs, including use of digital platforms and technology, and the suitability of existing assets.

The Scottish Government Office of the Chief Economic Adviser (OCEA) has established an overview of the economic and distribution benefits of maintenance and enhancement programmes. The evidence suggests that capital maintenance has a high rate of return, and the economic benefits are expected to be as high as those modelled for new-build, particularly where the focus is on assets in the poorest condition. They can also offer a wider regional distribution of jobs and a greater potential for Scottish Small and Medium sized Enterprises (SMEs) to engage in this work than is typical in larger construction programmes.

Costs

The changes made to the IIP based on the ICS recommendations are not expected to imply any additional costs.

Some additional resource may be required when considering the future infrastructure needs and exploring the steps of the investment hierarchy, however the benefits (i.e. avoiding unnecessary new build assets by extending the life of existing assets) of this approach are likely to outweigh the costs of implementing the hierarchy.

Sectors and Groups Affected

This Infrastructure Investment Plan sets the strategic framework for the infrastructure investment the Scottish Government and its public bodies will make over the coming 5 years – from 2021-22. It also provides details of the major projects and programmes we plan to invest in. Delivery of individual projects and programmes is the responsibility of individual Scottish Government portfolios and public bodies.

Investment plays an important role in the economy, stimulating business activity and innovation, delivering public goods like transport infrastructure housing and environmental projects, creating healthy competition, attracting talent and, most

importantly, creating jobs. The importance of investment to our economic recovery was a core element of advice from the Advisory Group on Economic Recovery⁷.

Formal consultation exercises for the IIP; engagement events; bilateral meetings; and previous engagement undertaken by the Infrastructure Commission for Scotland provide an opportunity to hear directly from business on the draft IIP proposals.

The IIP is specific to the infrastructure investment the Scottish Government and its public bodies will make over a five year period. However, the IIP is also expected to provide increased confidence to the private sector to invest in growth areas, and to provide a clear line of sight to the Scottish Government's long term vision and strategic approach to investment.

Implementation of the programmes and projects contained in the IIP will impact on communities and businesses in Scotland. For some, the impact of these actions will be direct, e.g. through increased availability and use of digital infrastructure, for others it will be more indirect, e.g. through investments that will accelerate transition to net zero emissions and result in enhancements to our air quality.

Scottish Government's infrastructure investment has a role in facilitating business growth, for example by improving productivity through enhanced digital connectivity; connecting employers to new markets, suppliers and partners; or increasing their access to talent and labour market. Successful delivery of the IIP will also rely on a construction industry that is both well positioned to deliver and understands the wider social and economic wellbeing priorities associated with that delivery.

The construction industry in Scotland has, like many others, been badly affected by the COVID-19 pandemic. Industry feedback has been clear that a pipeline of contract opportunities providing a clear picture of planned government investment is a key component for business stability.

This draft Plan offers a pipeline of future investment opportunities to stimulate a wide range of supply chain and construction sector opportunities. The Construction Leadership Forum⁸ is taking forward a range of collaborative actions to address the challenges of COVID-19 and the wider transformation of the sector. This will include work to identify and maximise the local industry benefit from the IIP pipeline. During the consultation period, Scottish Government will work with the Construction Leadership Forum and others to understand how to maximise local industry benefits from the IIP.

The IIP proposes an in-depth, iterative approach, to further developing the framework for Scottish Government capital investments following recommendations made by the Infrastructure Commission for Scotland. This approach will ensure delivery of outcomes is maximised ahead of the next IIP, expected by 2025. Included in this will be the development of an up-to-date

⁷ <https://www.gov.scot/publications/towards-robust-resilient-wellbeing-economy-scotland-report-advisory-group-economic-recovery/>

⁸ <https://www.constructionforum.scot/>

'needs assessment' covering all infrastructure sectors. This is expected to be informed in part by public bodies' estate asset management strategies. The business impact on public sectors to prepare estate asset management strategies will need to be explored further.

Scottish Firms Impact Test and Competition Assessment

Our existing evidence suggests that a greater emphasis on maintenance and adaptation of existing assets could benefit Scottish companies who are more likely to bid for contracts of lower value. For example, the lower values of projects for capital maintenance as compared to larger construction projects may enable more SMEs to compete for individual contracts and therefore increase the distribution of the employment benefits across Scotland. However, our evidence base is not complete and this area would need to be explored further during the consultation period.

The Scottish Government is actively working to maximise the economic impact of public procurement. 79% of suppliers awarded contracts in 2019-20 were SMEs, and 63% were SMEs located in Scotland. Maximising public money; driving access to contracts for business; jobs and training; and reflecting climate change goals, will ensure procurement activity, within current legislative requirements, reflects the needs of local communities and is in-line with the Place Principle.

The Scottish Government is committed to leveraging the full procurement rules to exploit opportunities that will support economic recovery, making it easier for local businesses to bid for and win contracts and maximising support for critical local supply chain development and resilience within the current rules.

Consumer Assessment

Implementation of the IIP and the project pipeline will support investments that improve consumer access to goods and services, including essential services.

Driving inclusivity within Scotland's economy and building sustainable communities feature at the heart of the IIP's themes and implementation of the IIP will support a Wellbeing economy.

Digital Impact Test

Whilst telecoms, digital and internet are specifically referenced in the official Scottish Government infrastructure definition, meaning these areas are eligible for Scottish Government Capital investment, more broadly consideration must be given to ensuring infrastructure investment is resilient to the future.

The IIP considers drivers that will most heavily influence Scotland's infrastructure needs over the longer-term, including technological change.

The IIP sets out the main trends identified in technological change related to infrastructure:

- **Digitisation of services, systems and solutions** and a clear trend towards **automation** – to augment or replace human involvement;
- **Significantly more data** being created, requiring enhanced digital connectivity, common standards and **cyber security**;
- Greater **interconnectedness of infrastructure types**, requiring greater collaboration and cooperation across industries, technology firms and public organisations;
- **Decentralisation of utilities and service delivery** – e.g. the rise of work at home/work anywhere models, telehealth and more preventative healthcare.⁹

The draft IIP is shaped to take account of these long-term trends. For example, the proposed investment hierarchy requires that any new investment has been considered in light of future needs, including the use of digital platforms and technology

Enforcement, sanctions and monitoring

There is already a well-established suite of monitoring and reporting arrangements for the IIP. These include an Annual Progress Report on the IIP itself and a suite of reports every six months on the delivery details of:

- Project Pipeline - details projects with a capital value of £20 million or more where the Scottish Government has a lead role in procurement or funding.
- Major Capital Projects Progress Update - provides information on projects with a capital value of £20 million or more which are at the Outline Business Case (or equivalent) approved stage or beyond.
- Programme Pipeline Update - includes information relating to ongoing key major infrastructure programmes with an investment of £50 million or more.

Implementation and delivery plan

A public consultation on the draft IIP will be conducted to allow stakeholders adequate time to provide their views and feedback on the IIP and its associated draft/partial impact assessments. Feedback gathered during the consultation will inform the final IIP and the final BRIA.

Summary and recommendation

Based on analysis of the associated costs and benefits, publishing a 2020 Infrastructure Investment Plan reflecting the Infrastructure Commission for Scotland's recommendations, is the preferred option. Investment in infrastructure is an integral part of delivering the Scottish Government's aims for a greener, fairer and more prosperous Scotland and the strategic approach outlined in the IIP will provide a pan-Scottish Government view of investment priorities to 2025-26.

Investment in infrastructure will be key to Scotland's economic recovery from COVID-19, and also in supporting the adaptation of public services, delivering our climate change emissions targets and transition to net zero while meeting the needs of people and communities across Scotland.

⁹ <https://www.gov.scot/publications/implications-future-technological-trends-scotlands-infrastructure/>

Declaration and publication

I have read the Business and Regulatory Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs. I am satisfied that business impact has been assessed with the support of businesses in Scotland.

Signed:



MICHAEL MATHESON

Cabinet Secretary for Transport Infrastructure and Connectivity

Date: 23 September 2020

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