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Richard Leonard MSP
Convenor
Public Audit Committee
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP

3 May 2022

Dear Richard,

The 2020/21 Audit of Scottish Canals

Thank you for your letter of 13 April regarding the audit of Scottish Canals' Annual Report and Accounts 2020-21, following my and Transport Scotland colleagues' evidence given to the Public Audit Committee on 24 March. You have requested further information on the lessons learned exercise being conducted by Scottish Canals and for examples of medium to longer term projects or maintenance programmes undertaken by NDPBs which are sponsored by Transport Scotland.

I am pleased to be able to update the Committee that Scottish Canals has conducted a lessons learned exercise with their Auditor and are now in the process of arranging a further session with the Scottish Canals Audit and Risk Committee. Some initial issues which were discussed during this session included improving communication between SC and its Auditor, better clarity in the audit evidence requested from SC, improved version control on documentation and better planning overall. Full outcomes from the exercise will be shared with Scottish Government colleagues and with other Public Bodies through the NDPB Chief Executive Forum (CEF), of which Scottish Canals' CEO Catherine Topley is Chair, and will also be shared with the Public Bodies Finance Directors Forum. Transport Scotland colleagues are currently liaising with Catherine Topley on dates for this to be added for discussion at an upcoming NDPB CEF and also how we can best share this information more widely to ensure best practice across public bodies in Scotland which share similar characteristics with Scottish Canals.

You have asked for examples of medium to longer term projects and maintenance programmes successfully being taken forward or completed by Transport Scotland's sponsored public bodies. Highlands and Islands Airports Limited (HIAL) is perhaps the best example of a comparable public body, working under the same government finance framework as Scottish Canals and similarly without an ability to carry reserves over financial years. We discussed at the Committee that whilst this undoubtedly makes multi-year projects more challenging to complete, sound budgetary planning and control and close partnership working with Transport Scotland, other Government Agencies and the third sector can bring about the desired results.

HIAL is successfully undertaking the Inverness Environmental Drainage Project. This multi-year project has been running for a number of years and has, to date, successfully invested over £12 million in infrastructure work to tackle the historic drainage issues at Inverness Airport and their impact on surrounding watercourses. HIAL has worked closely with Transport Scotland to ensure full visibility of budgetary requirements throughout the project so that these can be reflected in the Scottish Government's budgetary process. HIAL has a detailed 10-year capital plan which provides visibility of future financial requirements based upon anticipated asset life. This is updated on an ongoing basis to reflect developments over time, including regular surveys of assets given that many are located in challenging environments. Asset surveys and ongoing maintenance programmes allow HIAL to assess the risks associated with the timing of projects which enables prioritisation based upon budget availability.

During the evidence session we rightly discussed the challenges facing Scottish Canals since the removal of the Public Corporation derogation. It is however, worth highlighting that the Organisation continues to take forward successful multi-year projects with the assistance of Transport Scotland and other parts of the public and third sector. An example of this is the Glasgow SMART Canal where Scottish Canals has worked in partnership with Glasgow City Council to deliver an innovative flood management system, The North Glasgow Integrated Water Management System, otherwise known as the SMART Canal. This is an award-winning £17 million development which uses a predictive weather management system for advanced warning of heavy rainfall which automatically triggers a lowering of the canal water level to create capacity for surface water run-off. The digital surface water drainage system unlocked 110 hectares of land across the north of the City for investment, regeneration and development, paving the way for more than 3000 new homes. Whilst much of the project was taken forward by Scottish Canals before it assumed full NDPB status, the latter stages of the project and its completion came afterwards.

Working in partnership with Glasgow City Council, Sustrans and Friends of Possilpark Greenspace, SC also recently completed the Claypits project to create Glasgow's only inner-city nature reserve which forms part of the national cycling and walking network. This 4-year project provides another good example of SC working within their new NDPB boundaries, using funding from other areas of the public and third sector.

These projects and others completed around the public sector landscape in Scotland provide evidence that NDPB status does not represent an immovable barrier to the successful delivery of multi-year projects. What is required from the NDPB is sound budgetary management and control, good contract and contractor management and a close and trusted working relationship with those parts of government and third sector agencies with an interest in project delivery. In the case of Scottish Canals, it is also important that projects, multi-year or otherwise, are promoted and delivered with due cognisance of its Asset Management Strategy (AMS). The AMS is an important component in enabling Scottish Canals to plan its medium to longer-term infrastructure needs and ambitions. This includes projects necessary to deliver on the organisation's statutory responsibilities, its recognised position in delivering wider public value such as regeneration and in seeking to mitigate the impacts of climate change on canals.

I trust that this response is helpful and I would be happy to provide any further information you require.

I am copying this reply to the Cabinet Secretary for Net Zero, Energy and Transport and the Minister for Transport.

HUGH GILLIES