



OFFICIAL REPORT
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Rural Economy and Connectivity Committee

Wednesday 21 September 2016

Session 5



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RURAL ECONOMY AND CONNECTIVITY COMMITTEE

4th Meeting 2016, Session 5

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

COMMITTEE MEMBERS

- *Peter Chapman (North East Scotland) (Con)
- *Mairi Evans (Angus North and Mearns) (SNP)
- *John Finnie (Highlands and Islands) (Green)
- *Rhoda Grant (Highlands and Islands) (Lab)
- *Jamie Greene (West Scotland) (Con)
- *Richard Lyle (Uddingston and Bellshill) (SNP)
- *John Mason (Glasgow Shettleston) (SNP)
- *Mike Rumbles (North East Scotland) (LD)
- *Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

- David Barnes (Scottish Government)
- Karl Budge (Network Rail)
- Fergus Ewing (Cabinet Secretary for Rural Economy and Connectivity)
- Mike Palmer (Scottish Government)
- Jonathan Pryce (Scottish Government)
- Phil Verster (ScotRail Alliance)
- Andrew Voas (Scottish Government)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Rural Economy and Connectivity Committee

Wednesday 21 September 2016

[The Convener opened the meeting at 09:02]

Subordinate Legislation

Prohibited Procedures on Protected Animals (Exemptions) (Scotland) Amendment Regulations 2016 [Draft]

The Convener (Edward Mountain): Welcome to the fourth meeting in 2016 of the Rural Economy and Connectivity Committee. Everyone is reminded to switch off their mobile phones. No apologies have been received before the meeting.

The first item on the agenda is evidence on the draft Prohibited Procedures on Protected Animals (Exemptions) (Scotland) Amendment Regulations 2016. From the Scottish Government, I welcome the Cabinet Secretary for Rural Economy and Connectivity, Fergus Ewing; Mike Palmer, who is the deputy director of fisheries at Marine Scotland; Andrew Voas, who is the veterinary adviser; and Barry McCaffrey, who is a solicitor.

The instrument has been laid under affirmative procedure, which means that Parliament must approve it before the provisions can come into force. Following today's evidence, the committee will be invited at the next agenda item to consider a motion to approve the instrument.

I invite the cabinet secretary to make a short opening statement on the instrument.

The Cabinet Secretary for Rural Economy and Connectivity (Fergus Ewing): Thank you and good morning. The statement is, of necessity, fairly detailed. I welcome the opportunity to explain to the committee our proposal for amending the prohibited procedures on protected animals and hope that committee members will concur with the rationale behind and requirement for the secondary legislation.

We need to change the current legislation to allow for the operation of the beef efficiency scheme, as is explained more fully in the accompanying policy document. The beef efficiency scheme was developed with NFU Scotland and has broad support from the sector. It aims to improve the sustainability of beef production through improved breeding stock and, in particular, to reduce greenhouse gas emissions.

The scheme represents a major investment of £45 million in the Scottish beef sector to improve the efficiency, sustainability and quality of the Scottish beef herd. It will help to increase herd profitability, will form part of our world-leading approach to tackling climate change and will benefit our environment both locally and globally.

A key element of the scheme will entail tissue tagging of 20 per cent of farmers' calves for genotyping, which will enable genetic data on the herd to be built up. The tags punch out a small tissue sample into a sealed container that can be sent for testing. The tags are different to official identification tags, which do not normally remove a tissue sample from the animal. I have examples of both types of tag with me so that committee members can see what they look like and see the differences. The tagging will enable active use of whole-life data on animals and active planning to help to improve cattle genetics and management practice on farms.

The proposed secondary legislation applies only to bovine animals. Under section 20 of the Animal Health and Welfare (Scotland) Act 2006, it is an offence to carry out or to cause a prohibited procedure that involves interference with the sensitive tissues or bone structure of a protected animal. However, Scottish ministers may by regulations exempt a procedure that is carried out for a purpose that is in accordance with, and in such manner as, conditions that are specified in regulations.

Currently, the Prohibited Procedures on Protected Animals (Exemptions) (Scotland) Regulations 2010 as amended include an exemption to enable ear tagging for bovine animals, pigs, sheep, goats and deer for the purposes that I have set out. However, the regulations do not allow for ear tagging for any other purpose, including for genetic analysis. Hence, the statutory instrument is required to allow for the further exemption that would allow tagging of bovine animals for genetic analysis. It is important to note that that would not allow any new procedures to be undertaken in addition to ear tagging, but would simply extend the scope of the current exemption.

The first wave of calves will be genotyped this autumn before they are sold at market. In order to fit in with industry needs—in short, to ensure that as many calves as possible can be captured for tagging in year 1 of the scheme before they are sold on—we are keen to obtain approval for the statutory instrument, if Parliament and the committee so decide, before Parliament breaks for recess on 8 October.

As required under the provisions in the 2006 act, we carried out a short targeted consultation of five weeks' duration from 26 July to 29 August.

The consultation took account of the highly technical and narrow nature of the proposed exemption, and of the fact that we do not propose to allow any new procedures in addition to ear tagging but propose only to expand the scope of the currently permitted procedures so that they can be used for that specific purpose.

There were 21 responses submitted to the consultation, 15 of which were supportive of the proposed legislative change. Those supportive responses represented organisations as diverse as the NFU Scotland and Animal Concern. There were five responses from individuals who are opposed to the measure and one response that made no indication of support or opposition.

Among those who oppose the proposal, reservations were raised about the impact of additional tagging on the welfare of animals. Ear tagging does cause momentary pain and discomfort at the time of application, but there are rarely any longer-term adverse effects on the animal, and the risk of infection can be minimised by storing and applying tags in hygienic conditions. The welfare implications of applying a tissue tag are equivalent to those arising from the application of identity tags, which are already permitted.

Furthermore, as a result of genetic sampling and the resultant improvements in genetic selection, we expect cumulative and permanent benefits to the national herd in respect of growth rates, feed conversion, maternal behaviour, nutritional practice and disease resistance.

I hope that those opening remarks and the accompanying documents that we have supplied explain the background to and the rationale for the proposal. I and my officials will be happy to answer any questions that members have.

The Convener: Thank you, cabinet secretary. A few of us at the table would like to declare interests before we ask any questions. I declare an interest as a cattle breeder and farmer, and I have used tags in the past.

Peter Chapman (North East Scotland) (Con): Similarly, I am a farmer in Aberdeenshire, and I have agricultural interests. I refer members to my entry in the register of members' interests.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I have 3 acres on which there are sheep.

The Convener: That is all right. Now everyone knows that there are members with interests.

I will start with a question for the cabinet secretary. What other methods were considered before it was decided that ear tags would be used? For example, did you consider using hair samples, which have been used for more than 10

years to provide the same information for pedigree breeds?

Fergus Ewing: That is a very apt question, the answer to which I read earlier. I am sure that my officials will locate the details.

The question is a good one because before we approve a change that involves animal welfare issues, we need thoroughly to examine alternative measures for serving the purpose that I described in my opening remarks.

From memory—my official will help me out and mark my answer out of 10—the alternatives were taking hair samples, which involved practical difficulties with cleanliness; nasal sampling, which involved other practical difficulties; and one other method. I am sure that Mr Voas will provide a more comprehensive and authoritative answer.

Andrew Voas (Scottish Government): The other available methods are blood sampling, taking hair samples and nasal swabbing. In this particular case, however, we want a consistent high-quality DNA sample, and the best and most reliable way of doing that is with a tissue-tag sample.

Blood sampling would be a viable alternative, but it would require a vet to come and take a sample, so there would be practical and cost difficulties in arranging for vets to sample every animal. The tissue-tag sample gives a consistent high-quality tissue sample that is suitable for the DNA extraction that is proposed for the BES.

The Convener: Can I push you a wee bit on that? As far as I am aware, hair samples do exactly the same job, which I say based on what the British Cattle Movement Service requires for identifying animals without passports. Certainly all the breed societies use hair sampling—they find it very effective, and it is somewhat less invasive than an ear tag.

I know that ear tagging has to go on, so the proposal would be a minor change. I would just like to know—as, I am sure, would people outside Parliament—that non-invasive methods have been considered.

Andrew Voas: The hair sampling method was considered in detail, but there are problems. If a large number of samples need to be taken, as will be the case in this scheme, there are problems with hygiene and consistency of collection. A good sample can be taken if it is done carefully, but if large numbers are to be taken, we need a consistent repeatable method other than hair sampling. Hair sampling can be subject to the vagaries of farmers adopting different techniques, or not doing it in the most hygienic conditions, which could lead to contaminated samples and the need for re-sampling.

Stewart Stevenson: The cabinet secretary made something of the fact that the proposed scheme will help our climate change plans. My knowledge is incomplete, but I understand that there is considerable genetic variability in the amount of methane that is emitted from various bovines' rumens. The variability results partly from diet and partly from the different bacteria that live in their rumens, but there is also a genetic element. When you talk about seeking benefits for our climate change efforts, are you referring to reducing the methane from the rumens of bovines by breeding selectively for those that will emit less methane, or do you have something else in mind?

09:15

Fergus Ewing: That is certainly an important component of the rationale behind the regulations and the beef efficiency scheme. It is a major scheme that provides £45 million of financial support to the sector, which is a substantial contribution.

I will bring in the experts to give an authoritative opinion, but my understanding from a meeting that I had yesterday with Jim McLaren and Uel Morton of Quality Meat Scotland is that a key component of the quality of our herd is that the stock must be as healthy as possible, and—to put it crudely—healthy stock tend to emit less methane. I hope that I have not misunderstood that. To drive up further the quality of our herd is certainly one of the aims of the beef efficiency scheme. It is not for me to dictate committee business, but I think that the committee would benefit at some point from an exposition by QMS of the wider policy aims of the scheme, and of the considerable advantages that we enjoy at the moment from the relatively low consumption of protein in our herd compared with the international average. The statistics are quite remarkable.

As far as the original question is concerned, I would like to bring in Andrew Voas or Mike Palmer to expand on what I have said.

Mike Palmer (Scottish Government): The scheme is very much about gathering a data bank that will allow us to introduce more efficient farming techniques and management practices that will reduce methane emissions. For example, we will gather data on the sire identity, the calving ease, the calf figure, the calf weight and the cow docility. From the genotyping samples, we will gather phenotypes, which are the traits of the different cattle and, from that, we can put together a metadatabase for the Scottish herd. At farm level, an advisory service will be put in place for each member of the scheme so that the farmer can talk to an adviser one to one and in a group setting to talk through how the data that have been

gathered on their herd can be applied for more efficient farming techniques.

We have looked at a very similar scheme that was pioneered in Ireland and which has had successful results. Therefore, we are not going into the scheme blind; we are going into it on the basis of very good evidence from an existing scheme that has shown that gathering the data as I have described gives information that will allow us to improve efficiency and reduce emissions.

The Convener: Various members of the committee have caught my eye and are lining up to ask questions. I do not wish you to reduce the quality of your answers, but perhaps you could keep them as short and punchy as possible so that I can get everyone in. Otherwise, members will be after me, afterwards.

Stewart Stevenson has a very brief follow-up question.

Stewart Stevenson: Mr Palmer mentioned a metadatabase. I understand metadata to be data that describe other data. What do you mean by "metadatabase"?

Mike Palmer: In that technical respect, perhaps it was wrong of me to use the word "metadatabase". I meant that there would be a database of the whole herd, as well as data at farm level.

Stewart Stevenson: That is fine.

Peter Chapman: I have questions on the practicalities. Thank you for bringing examples of the tags, because I was interested to know what was going to be printed on them. It appears that the herd number and everything else will be on the tag, but I had thought that it might be more like a management tag, which is a blank tag that farmers can write their own information on.

As you know, I keep cattle, and we actually put in three tags—the third one is a management tag that we write on with a pen. That sort of tag might have been more suitable. If the tags are going to be like the ones we have seen, I am going to have four tags in our cattle—the two that we have to put in, the third one, which is the sample one, and then a management tag on top of that. My suggestion is that a blank management tag would have been more suitable.

Secondly, if the cattle lose the tag before they are slaughtered, will it have to be replaced?

Thirdly, will the farmer be responsible for ordering the tags, or will they arrive on site?

Fergus Ewing: I ask Mike Palmer to answer those practical points.

Mike Palmer: On the first question, the genotype tag will have the identity of the calf

printed on it, to ensure that we have the right calf and that we can trace it all the way back.

Where tags for some reason become dislodged from a calf, we will deal with that circumstance on a case-by-case basis. Obviously, we would then be in communication with the farmer about how to respond to that. It might be felt that, if it is just one calf, we can let that go because it does not affect the bank of data sufficiently to require us to go back and retag or whatever. We would deal with that on a case-by-case basis in a pragmatic and practical fashion.

The third question was on the supply of tags. The tags will be sent out to farmers, who will be told before that which calves are going to be sampled and which have been identified for tagging. The tags will be sent out free of charge to the farmers, and all that they will need to do is apply the tag, take the sample and send it back to the lab. There will be no payment involved for the producer; the transportation and processing of the tags will all be done by the lab.

Peter Chapman: As you are aware, tags get lost fairly regularly. It would be good if there was a pragmatic approach to that. We are starting with 20 per cent of calves, so I welcome that answer, because it could become very complex if farmers had to apply for the special tags and replace them, as well as all the other tags that we have to replace.

Fergus Ewing: To follow up on that, Mr Chapman has raised a very sensible point, so we will take it away and look at it. I am keen that we should not have any undue penalties. That should not be our approach, although we should ensure that the rules are properly observed. We will take that away and write to the committee about it.

Richard Lyle (Uddingston and Bellshill) (SNP): Many of the questions that I was going to ask have just been answered. Cattle already have tags on them, so how many tags will a cow have? Will it be four, three, two or one?

Andrew Voas: At the moment, cattle are legally required to have two identification tags. As Mr Chapman said, they could well have a management tag and they might have a bovine viral diarrhoea testing tag.

Richard Lyle: So it is four and rising.

Andrew Voas: Yes. Also, there may well be a need for replacement tags if tags are removed.

Richard Lyle: Do we honestly need multiple tags? I declare that I am not a farmer, although I have seen cows from some of our excellent beef cattle herds at the Royal Highland Show. Could the sort of tags that we have just seen replace the other tags or will we actually have cows walking

about in fields with five, six or seven tags on them?

Andrew Voas: The option to take a BES sample from one of the primary identification tags is in the scheme. We could possibly look at that in the future.

Richard Lyle: I suggest that the tags that I have seen—they look very good—should replace the original tags or the first tag that goes on an animal. At the end of the day, we do not need multiple tags; all that we need is one or possibly two tags. Can I take your silence to be a yes to my suggestion?

Fergus Ewing: I do not think that it is a yes.

Richard Lyle: No, I do not think that it is a yes either.

Fergus Ewing: It is a perfectly valid question. The proliferation of tags—the question of how many tags it is reasonable to use in terms of animal welfare—is an issue that was raised. It is my understanding that there will not be as many tags as you have mentioned, but we will take away your point and provide a specific answer to the committee—unless we can do so now. Can we, Mike?

Richard Lyle: I would like to comment, convener. I am sorry to interrupt, Mr Palmer.

When we drive along roads and go out in the countryside, we see cows putting their heads up and down against fences or whatever. The point has been made that some of these tags will come off. Therefore, we have to minimise their use. I agree with the SSI—we have got to take the genetic sample—but I suggest that we do not need multiple tags on a cow.

The Convener: I will follow up Richard Lyle's point. There are two mandatory tags. You could then have the tissue tag referred to in the SSI, a fourth metal tag if you have a pedigree herd and you want to keep a registration and you could also have a management tag. It could end up looking better than someone going out on a Saturday night with lots of earrings. From a cow's point of view, the less they have on the ear, the less the chances are that they will catch on something. I think that you are being asked to look again at the issue, minister.

I will move on to Jamie Green.

Fergus Ewing: Do you want to answer, Mike?

The Convener: I got the impression that the cabinet secretary did not want to give an answer there, but if he does, he is welcome to do so.

Fergus Ewing: Mike Palmer might be able to provide more information that is of use.

Mike Palmer: By way of background, we have looked very carefully at that option in developing the scheme. Our aspiration is to reduce the number of tags on cattle as far as we can. Clearly, it would be preferable, more efficient and better for the cattle if we could reduce their number.

Because this is a groundbreaking and new scheme, and genotyping is a new development for cattle, we need to be very careful in scientific terms about the number of variables that we can control. By having a separate tag, we are controlling the number of scientific variables. Our scientists gave us very clear advice that that approach would be advisable at the current time.

To back up what the cabinet secretary said, we are very open to trying to streamline the approach in future years; the scheme will operate for years, so we will look to streamline it.

The Convener: Jamie, you had a question.

Jamie Greene (West Scotland) (Con): My first question is to Mr Palmer; my second is to the cabinet secretary.

I presume that the point of tagging is the collection of a tissue sample. What is the point of the tag itself? Is it to identify that a tissue sample has been taken? In other words, if the tissue sampling is just a one-off event, surely there is another method of using the ear to take a tissue sample that does not leave a permanent legacy of that sample having been taken. Given that the process is not on-going, what is the point of the tag for the duration of the animal's life?

Mike Palmer: To a certain extent, that goes back to the earlier point about alternative methods of taking samples. One could take a hair or blood sample but, as we have discussed, there are various difficulties in doing that. Tagging is the most efficient and reliable way of taking a high-quality sample. It so happens that that means a tag is applied. We have looked at other methods that would not involve a tag, but they are not sufficiently reliable with the current technology.

Andrew Voas: Also, the tag provides a permanent record that ties that sample definitively to the animal from which it was taken.

Jamie Greene: My second question is about the scheme. Is it mandatory? Perhaps that information is in the briefing that I have, but I want to double-check with you, cabinet secretary, given that we are looking to tag 20 per cent of each herd. Will all farmers be automatically sent the tags, or will they have to sign up to the scheme proactively? Do they have to sign up? If so, what is the benefit to the individual farmer in addition to the wider benefits of the scheme?

09:30

Fergus Ewing: The scheme is not mandatory in that we were not obliged by EU law or otherwise to deliver it. We brought it forward in order to promote further the success of the beef sector in Scotland believing, with the advice that we had, that promoting beef efficiency, as has happened in Ireland, is a key method of improving the quality of our stock and, thereby, the profitability and success of the sector in Scotland, particularly in a competitive situation in which cheaper beef is coming in from places such as Argentina and even Ireland. That is the answer to the first question about the scheme. The rest of the questions were of a more technical nature, and I ask Mike Palmer to address them.

Mike Palmer: Certainly. What benefits do the farmers gain from the scheme? Each member of the scheme gets a yearly financial payment to compensate them for the task that we are asking them to deliver. There are benefits beyond that, which will accrue from the more efficient farming practices that result from the scheme. As the cabinet secretary said, we are confident that that will deliver much higher standards and much better outcomes for our beef herd in the future, and more profitability as a result.

The Convener: There do not seem to be any more questions. I would just like to push the cabinet secretary on the replacement of the tags should the tag get lost once the information has been gathered and the genetic details of the individual calf have been recorded against the animal on the database that will be kept by farmers.

With the greatest respect, tags get lost probably more regularly than Mike Palmer might accept. There needs to be a really pragmatic approach to whether to go back and re-tissue sample again with the same tag just—the data will not have been used at that stage—for the sake of having a tag in an animal. I push the cabinet secretary to be as pragmatic about that as possible.

Fergus Ewing: Yes, I think I have already indicated that we take the point, which was raised earlier, as being important. It is not a matter that we should brush aside but one that we should look at and consider carefully. We want to take a pragmatic not a penal approach, but we must observe that the scheme requires the rules to be met, otherwise the benefits therefrom will not be realised. The process of inspection that routinely takes place will check the tags and we need to take a pragmatic approach.

Mike, do you have anything to add on the specific issue of the replacement of tags, or should we just come back to the committee later?

Mike Palmer: No, I have nothing to add. I absolutely agree that we need to take as pragmatic an approach as possible. That is certainly the spirit in which we will deliver the scheme.

The Convener: Unless there are any other questions, I thank the cabinet secretary and his officials for their helpful evidence.

Item 2 is the formal consideration of motion S5M-01446. I invite the cabinet secretary to speak to and move the motion.

Fergus Ewing: I refer to the remarks that I have made, which were not short.

I move,

That the Rural Economy and Connectivity Committee recommends that the draft Prohibited Procedures on Protected Animals (Exemptions) (Scotland) Amendment Regulations 2016 be approved.

Mike Rumbles (North East Scotland) (LD): From the questions that have been asked and the responses that we have heard, it seems that the legislation enables tags to be fitted to cows and animals. That should be supported for obvious reasons, but I have a question. Will the minister consider bringing forward legislation to implement a maximum number of tags that can be put on an animal? That is important from an animal welfare perspective.

The Convener: If the minister wants to answer that, he may, but he and his officials have given a clear indication that that matter will be looked at. Mr Rumbles, your comments are noted because they reflect the committee's position.

Richard Lyle: We should support the SSI. Mr Rumbles made the point that I was going to raise. I am sure that the cabinet secretary will take away the suggestion that we look at and minimise the number of tags on animals. I am quite happy that the scheme will benefit the producers of beef in this country, and I support it.

The Convener: On the basis that no one has caught my eye and there are no further comments, I will put the question.

Motion agreed to,

That the Rural Economy and Connectivity Committee recommends that the draft Prohibited Procedures on Protected Animals (Exemptions) (Scotland) Amendment Regulations 2016 be approved.

The Convener: Thank you. That concludes the consideration of this affirmative instrument. We will report the outcome to the Parliament. I suspend the meeting briefly to allow the cabinet secretary and his team to adjust before the next session.

09:35

Meeting suspended.

09:38

On resuming—

Common Agricultural Policy Payments

The Convener: Item 3 is to take evidence from the Cabinet Secretary for Rural Economy and Connectivity on the common agricultural policy payments.

The cabinet secretary has now been joined by two different Scottish Government officials: David Barnes, the chief agricultural officer; and Jonathan Pryce, the director of agriculture, food and rural communities. I welcome them to the meeting.

We have a huge amount to cover in a fairly short time, so we will go straight to questions from members. Stewart Stevenson has a question concerning payments.

Stewart Stevenson: I will ask two questions, if I may. How much has now been paid out under the basic, greening and young farmer payment schemes?

The NFUS suggests that 9 per cent of the 2015 budget has not yet been paid out. Is that the figure that you have and when do we expect to reach or be near 100 per cent?

Fergus Ewing: Since my statement to Parliament last week, we have continued to make fairly steady progress. The figures are published weekly, as members will know. As of 16 September, the total in respect of those three payment schemes stands at £329 million, which goes to 17,866 claimants. I am advised that 17,634 claimants have received payment in full. Members will be aware that we publish that data each Friday, based on figures gathered at the close of play the previous Wednesday. As to what remains to be paid, it should be remembered that the Government has offered loans to farmers who have not yet been paid, in order to provide cash flow. Around 90 per cent of those loan payments have been recouped.

On the second question, it is estimated that £4 million remains to be paid under the beef and sheep schemes, and that the net amount that remains to be paid under the basic, greening and young farmer payment schemes, after allowing for loans, is £5 million to £6 million, giving a total of around £9 million to £10 million for the pillar 1 schemes.

Finally, let me reiterate what I have said before: getting this issue sorted in full is my priority. A huge amount of work has been devoted to that end and I will not be satisfied until every farmer has received payment of their due in total.

Mike Rumbles: Thank you for that response, but it does not quite square with information that I have before me. On 17 July, I asked a parliamentary question and you were good enough to respond to me yesterday. That response said that the latest figures showed that there were 473 farm businesses that had received nothing and 230 farm businesses that had received something. I am not sure how that squares with the figures that you have just given.

Could you repeat, so that I have it clear, how many farm businesses have so far received absolutely nothing?

Fergus Ewing: Most of the figure that you mentioned will have received loan payments. I want to make that clear.

Mike Rumbles: I am not talking about loan payments; I am talking about the money that they are due.

Fergus Ewing: I am being asked to come up with a large number of statistics. I will do my best, but I will need some assistance from officials, because the last thing that I want to do is to provide an incorrect figure through inadvertence. These are important and complex matters, so I will ask Mr Pryce to say where we are with regard to the specific matters that Mr Rumbles has raised.

Jonathan Pryce (Scottish Government): As the cabinet secretary said, almost everybody who has not yet received an EU payment has been given a loan or offered a loan. There are certainly fewer than 100 claimants who have not had either a loan or their EU payment.

Mike Rumbles: I am not talking about loans; I am talking about the money that is due to them.

Jonathan Pryce: The data that is in the response to your parliamentary question relates to the EU payments position as of last Wednesday. I believe that it states that there are 473 businesses that are still to be paid.

Mike Rumbles: They have received nothing.

Jonathan Pryce: They are still to be paid, and there are a further 230 that have received a first instalment, which will be about 80 per cent of the payment. Those 230 will still be awaiting the balance, which will be roughly 20 per cent.

Mike Rumbles: So the figures that I have are correct, and I am correct in thinking that 230 have received something and 473 have received nothing.

Jonathan Pryce: Yes. The total that have been paid in full is 17,634.

Fergus Ewing: I understand that the vast majority of those 473 businesses will have received the offer of a loan.

Mike Rumbles: I am not talking about loans—

Fergus Ewing: I am putting the matter into perspective.

Mike Rumbles: My question was about how much—

Fergus Ewing: Fair enough, but I think that I am entitled to point out that you said that they had received nothing, and that is not factually accurate. In almost all cases, they will have received a loan—those businesses will certainly have received a loan.

Just to finish this off, the information that I have is that more than 99 per cent of eligible claimants have had either the CAP payment or the offer of a loan. I would not want anyone to misrepresent the numbers of claimants who have received nothing whatsoever financially, and I am sure that Mr Rumbles would not wish to do that, either.

09:45

Mike Rumbles: Convener, I would like the minister not to obfuscate.

I am not talking about loans. When a loan is given to a farm business, that does not cover the whole amount of money that it is due. You made that clear. The information that you gave me yesterday in answer to a parliamentary question was that 230 farm businesses have received part payment of the money that they were due nine months ago and 473 farm businesses have received no money that they were due—but you say that they have been given a part loan.

Fergus Ewing: That is right.

Mike Rumbles: The point is that 230 farm businesses' payments have been processed and they have received part payment. You are basically telling the committee that 473 farm businesses' payments have not been processed. I simply want to ensure that you have got the figures right, because we cannot discuss anything unless we understand what the figures mean. That is the point.

Fergus Ewing: We are struggling to agree, but we are not disagreeing. The figure of 473 has been confirmed, and I put it in context: that does not mean that those individuals have received nothing at all. Most of them will have received a loan payment and, in most cases, the loan payment will have been of the order of 80 per cent of their pillar 1 entitlement.

It would be useful to focus in on that. Every year, there is a tail of difficult cases that, for one reason or another, have not been settled in full. It would be very helpful if officials describe what those cases involve. Some members, especially those who are in the farming community, will know

that there are difficulties with reductions, exclusions, private contract, cross-border cases and entitlement cases. All those cases exist every year and pose particular difficulties, and some claims are not eligible at all.

To avoid any misunderstanding, it would be useful if Mr Pryce had an opportunity to add to what I have said about there always being a tail of cases. I accept that there is a higher tail this year than there was before, but we are working very hard to get through the cases. As I said before, I will not be satisfied until every farmer has received payment in full.

The Convener: Hold on. I will get in before Jonathan Pryce, if I may.

The cabinet secretary has been quite clear that there is a tail, and I think that we accept that. He has given a full answer, for which I am thankful, and has explained what the tail could include. I am not sure that adding to that would be very helpful.

It would be helpful to ask the cabinet secretary to ask his officials to come back to us post the meeting to clarify matters so that we all understand how many of the 473 farm businesses have been paid, how many have use of a loan, and how many have received nothing. Chasing that matter round any more would perhaps be unhelpful.

What I should have said, cabinet secretary, and what I want to make clear to Jonathan Pryce and David Barnes is that I declared an interest at the start of the meeting that I am a farmer and part of a farm partnership. Peter Chapman has also made a declaration. I am happy to make the same declaration again, but I have already made it, and Peter Chapman has done likewise.

Peter Chapman: We all know that there has been a problem with payments, but there has also been a problem with explanation and documentation. The scheme was new, and no farmer at the start of it knew exactly how much he would get under it. As payments have gone out, there has been very little explanation and very little documentation to explain what has been paid. Sums have arrived in bank accounts with no explanation. People ask, "Is more money to come? Is that all we will get?"

That has created huge difficulty out there, because farmers have not had the ability to plan ahead and to get a feel for whether more money is to come or whether they have received the total sum. There is still a backlog of explanation and documentation, and that needs to be cleared up, as well. I fully appreciate that we need to get the money out, but we also need to get the explanation out about how you came to the sums of money and whether they are the total amount that is due.

The Convener: I should say that we have a huge number of questions, so I must ask committee members to keep their questions short and give the cabinet secretary and his team the opportunity to get out their answers—which I ask be made short, too.

Fergus Ewing: In relation to the information technology difficulties, it is a matter of record and will be known that we are talking about the administration of an extremely complex scheme, in which land is divided into three categories and in which we have 4 million hectares—or 400,000 fields, each the average size of five football pitches. The need for accuracy is such that the permissible area of error for the purposes of audit and assessing disallowance is the size of a goalmouth. Farmers well understand the complexity of the scheme.

On the topic of explanation, I think that farmers are aware that the scheme is complex; of course, they all knew that there were difficulties with the IT. I believe that the nature of the loan scheme was clearly explained and was, by and large, appreciated.

Looking forward, I entirely accept the need for explanation, and I hope that that explanation was provided by me in last week's statement on the 2016 loans scheme, which will inject up to £300 million into the rural economy in the first weeks of November at a time when, I think, some farmers might be making decisions about investment, feed and fuel, fertiliser, the purchase of new tractors and equipment, the building of sheds and other such investments in and improvements to their farms and crofts. There is a need for explanation; I am not sure that it is fair to say that there has been no explanation, but I am very conscious of the need for one.

In that regard, I assure Mr Chapman that in relation to the forthcoming loans scheme we have an appointed official in charge and a team of five working on it. I personally have been involved in two drafts of the letter to farmers, cognisant of the fact that some of the letters to farmers have perhaps been couched in too much legal jargon and not enough common, plain English. I have borne that in mind in the wording of the letter, which I believe should be sent off before or around the end of this month.

I think that it has been explained that for farmers to get their loan, which in normal cases will be up to 80 per cent of entitlement, they will be required to complete and return the form before 12 October. I welcome this further opportunity to make that clear. The need for explanation is absolutely accepted and, as cabinet secretary, I am determined to ensure that we provide that as best as we possibly can.

As for the common agricultural policy payments proper, I have undertaken to come back in January to provide further information. Of course, by that stage, I hope that we will be able to assess all the various issues in relation to penalties and the administration of the CAP payments, which I am sure that we will come on to discuss.

It is entirely fair to make the point about the need for explanation, and we are bearing it fully in mind. I do not think that there is anything else to say on that, unless David Barnes wishes to add something.

David Barnes (Scottish Government): Simply to say that, as the cabinet secretary has pointed out, in addition to the big-picture explanations of schemes, a great deal has been done for individual farmers on their cases. There are letters outstanding, and they will be sent to individuals to explain the position in respect of their individual claims.

We are prioritising getting the remaining payments out; indeed, that is our top priority at the moment, and it will affect the timing of when the letters ultimately come out. We would have wished the letters to have been issued sooner—in an ideal world, they would have been—but given where we are we believe that the correct thing is to prioritise the remaining payments over the letters, which will come out in due course.

The Convener: I say to Peter Chapman that he has had a fairly full answer to his question, but was the question directed more at the fact that farmers did not know the full scope of their entitlements and whether they were paid that money, or more at what will happen in future?

Peter Chapman: It was about the payment window that we have been working through for the last nine months and an explanation of the moneys that have come into bank accounts. After all, moneys have appeared in bank accounts with no explanation. It is fine to get the money, but you need to know whether it is the total sum, a part payment or whatever. It is awfully difficult for someone to manage their business and plan ahead if they do not know whether there is more to come or whether what they have been allocated is their total sum. That is what I was highlighting.

Fergus Ewing: I accept that all businesses need to have a reasonable certainty and clarity about what the future holds. It is possible for farmers to log in to the IT system and garner the information about their case. That is one aspect of the scheme that I know has been useful to some farmers, although I am sure that I will now receive letters of complaint that not all farmers have been able to access that information all the time. It is one of the benefits of the IT system.

Richard Lyle: In the previous session, I was on the Rural Affairs, Climate Change and Environment Committee and even I knew—I am not a farmer—about the changes that were going to be made, that fewer payments were going to be made and that fewer applicants were going to get payments. I want to be clear about the 400-odd applicants. The fact is not that they have not received anything; it is that, if they have not yet received their payment, they have been offered a loan. Can you confirm that? It is not that people have not got anything; while they have been waiting for their payment, they have been offered a loan to tide them over.

Fergus Ewing: Yes, that is what we have aimed to do. In the questions and answers following my statement last week, I made it clear that, over the summer, I asked that the records be checked in the 17 area offices to ensure that everybody had received an offer of a loan. As a result of that exercise, an additional 30 businesses were identified and offered a loan. Not everybody takes up the loans, but everybody has had an offer. Although I will not be satisfied until every farmer has received payment, I was determined to ensure that every eligible farmer had the opportunity to obtain a loan to ameliorate and mitigate their financial circumstances. That was extremely important, and it was why we embarked on the loan scheme for 2016.

I was absolutely delighted that the NFUS president, Allan Bowie, said that in doing that we have

“shown a clear commitment to the wider rural economy.”

He added:

“Knowing that up to 80 percent of your support package will be delivered in early November gives clarity and certainty to farm businesses. This announcement will have a positive impact on the whole rural economy.”

I am very pleased with the good working relationship that I have with the NFU and its president, and I am pleased that that was its response to the statement that I made last week.

Mairi Evans (Angus North and Mearns) (SNP): I do not want to labour the point, as there are many other questions that need to be asked today, but the cabinet secretary and his officials have said that they will reflect on the complexities involved in some of the cases. Although you said that it might not benefit the committee to hear about those today, I am not a farmer and I do not understand the complexities involved in those applications; therefore, even if we do not have time for a full explanation of them today, it would be useful to have that information sent to the committee. It would be useful to hear exactly why some people have not received a payment or a loan offer and why those cases are taking so long.

The Convener: The cabinet secretary is nodding his agreement. If it would help, Jonathan Pryce could briefly give a list of some of the types of case that have been delayed, without giving an explanation. It would also be useful to have a written response on that.

Jonathan Pryce: The main reason why we have had this long tail in this particular year is that there are a number of things that are brand new in the new and more complex CAP. Therefore, things have had to be done in the first year of the new regime that will not have to be done in future years. There has been a lot of allocation of land parcels—fields—to the three different regions, which is an inherent part of the calculation of the basic payment scheme. We have had to do that this year but will not have to do it in future years unless new land comes in.

The other reason—the other significant factor—that has affected the tail this year has been that some of the most complex functions have required IT to be built to properly reflect those functions and that IT has taken longer to come through. Again, the development of that part of the IT is a year 1 issue and the systems should be there for future years. It has, however, taken longer than we would ever have expected to get some of those IT fixes in place.

10:00

Mairi Evans: Thank you.

The Convener: Farmers welcome the extra effort that has gone in to try to process the situation that we are in. However, the cabinet secretary wrote back to me after the last meeting and gave me an indication of the extra costs in the form of extra staff time, extra overtime, the extra staff who were required and any expert advice that was needed. Can you summarise that as of today, cabinet secretary, so that we know what the failures of the system have cost, because that would be useful?

Fergus Ewing: I will certainly give you the information. I am not quite sure that I accept the last subclause of the question, which I think added a slightly tendentious element to it, if I may say so.

We have always made it clear that, in ensuring that the CAP payments were delivered and the problems were overcome, we asked staff to give more than their normal contribution and I am delighted that they did so.

I visited eight area offices to speak to the staff and to try to understand, as the guy who carries the can, what the problems were and to learn from them. You have asked previously about overtime costs. There are approximately 400 rural payments and inspections division area office staff

and they worked a total of 3,567 hours overtime between 1 February and 30 April, at a cost of £106,000. That is just one statistic; there are lots of others. I could go on and on for several minutes if you want, but just think about that—that is overtime for 400 staff at £106,000, which is around £250 each. That cost—£106,000—is a small fraction of a city financier's bonus.

We have that overtime from dedicated public servants and I would be astonished if any member said that that was anything other than the right thing to do for farmers and it is a relatively modest cost for the public purse. That cost provides for excellent extra work from staff who are often from or related to the farming community and who are well trusted and respected by the farmers who, every day, they are determined to assist to the best of their ability.

I make no apology whatsoever for that overtime cost. I do not know whether the Conservative policy is that it should not have happened but in my shoes, as the Government cabinet secretary responsible, I think that it was money well spent.

The Convener: You gave a figure there for a short period of time. The situation regarding farm payments, if you prefer it to be called that, started in November last year, if not earlier. As we have heard, it is still going on today.

You gave a small figure. I would like to know the total cost, broken down—I asked for this at the last meeting—by how many extra staff have been employed and how much they have cost, and the extra overtime right across the board.

Your comment about the staff in local offices is perfectly right. We farmers absolutely rely on them and we are very grateful for the extra work that they have done. However, we have had to ask them to do that extra work and it is only right that we account for that extra work. Can you give me those figures, please?

Fergus Ewing: I can run through them now if you want, but it will take several minutes.

The Convener: I am happy to have them supplied in writing post-committee, if I may.

Fergus Ewing: I will look at the information that we have provided to the committee already and if further information is required to supplement that, I will certainly do so. I have a lot more information here but I think that I have made the point that I wanted to make.

The Convener: I have, too.

Gail Ross has a question on the extra work and loans.

Gail Ross (Caithness, Sutherland and Ross) (SNP): The loan scheme has been welcomed by all the farmers I have spoken to. Most of the issue

has been covered, and I thank the cabinet secretary for that and for talking about the staff in the local offices. Every time that I have dealt with those staff, they have been absolutely amazing. I, too, thank them for all their hard work.

A number of payments are made throughout the year—they do not all happen at the same time. Will the cabinet secretary give us a brief outline of when each payment happens or is due to be paid?

Fergus Ewing: My colleagues have more expertise on that issue. However, there are essentially two types of payment: pillar 1 and pillar 2. I referred earlier to pillar 1, which covers three categories: basic payments, greening payments and young farmers payments. The other payments cover schemes that support various types of farming activity. In recent years, the single farm payment—of course, it has been replaced by BPS and greening—was paid in December. The less favoured area support scheme was paid in March and coupled support for beef was paid in April.

For 2016-17, loans for BPS and greening will issue in November, with the balance starting to be paid early in the year. We would aim to deliver the LFA and coupled support schemes as close to previous timescales as possible, although we recognise that those could be delayed by a month or so.

They are not on the note, but there are a couple of specialist schemes that are generally paid later in the year, such as rural payments. I wanted to give a complete answer to Gail Ross. I do not know whether I have missed out anything; perhaps Mr Barnes or Mr Pryce could add to that.

David Barnes: As members know, the common agricultural policy is split into two pillars. The cabinet secretary has explained what the previous practice was and the plans for the pillar 1 schemes. He did not describe the practice for the Scottish upland sheep support scheme in previous years because that was a brand new scheme in the first year of the new CAP. Those pillar 1 payments are subject to a European payment window.

Pillar 2 payments are not subject to the same payment window and have generally been made later in the year. The cabinet secretary has mentioned them—they are the rural priorities scheme and the land managers options scheme. Those are legacy schemes; they are contracts that were entered into with farmers under the previous pillar 2 Scotland rural development programme, so those contracts will tail off as they come to the end of their life.

From 2016, we will begin to pay out under the equivalent contracts in the new Scotland rural development programme. The so-called agri-environment climate scheme payments will begin

and will gradually take the place of the rural priorities and the land managers options.

The Convener: We move on to discuss the information technology in relation to the scheme. Rhoda Grant has the first question.

Rhoda Grant (Highlands and Islands) (Lab): How much has the IT system cost to date? What is the total budget for completion and when do you expect it to be fully complete?

Fergus Ewing: As at 31 July this year, the CAP futures programme has cost £140 million. The total budget for completion is £178 million. The principal cost is that of the new IT system but the programme budget includes other necessary elements, such as staff training and programme management costs. The two figures that I think the member wanted to elicit from me are £140 million to date, and £178 million in total.

Rhoda Grant: Do you have a completion date?

Fergus Ewing: It is 17 March. That is the end of the duration of the programme for which the budget was set.

Rhoda Grant: Will the computer system be provided on that date in the form that it was contracted to be, or will it have changed because of the problems that have been faced?

Fergus Ewing: The computer system is designed to deliver the functionality to enable the administration of the new CAP payment system. The CAP payments change from year to year; in other words, the rules and the programmes change, and that adds to the complexity. Commissioner Hogan has indicated that there will be changes to BPS in this coming year. Whenever there is any change, IT solutions, or IT fixes, as they are called, are required to deliver functionality on specific aspects of the scheme.

The scheme is dynamic, not static, and the programme provides the framework for delivery of payments. Of course the budget is large, and we are mindful of the Audit Scotland reports, to which we have responded in full. It is reasonable to point out that although the budget is substantial, it was conceived and designed to administer payments totalling £4.6 billion, I think. The cost of the computer system is a relatively small percentage of the total payment that it was designed to administer in the job that it was supposed to do. However, plainly we must do what we can to address the financial issues, and I might well be asked about that. We certainly have achieved some reductions in the budget, which I can go into, if members are interested.

Rhoda Grant: So the computer system has not been scaled back in any way—is that what you are saying?

Fergus Ewing: It would not be correct to say that. I do not ever wish to mislead a parliamentary committee in any way. Originally, it was hoped that the system would have the functionality to deliver text messages to farmers, but it was decided early on that, given the more immediate challenges of administering payments, additional functions such as that would have to wait for another day. I mention that because some functions that originally were desired for the system have not been delivered, and we do not anticipate their delivery by March 2017. I am not sure whether that is what Rhoda Grant is driving at.

Rhoda Grant: That is what I am driving at. It would be useful to get a note of that after the meeting.

Fergus Ewing: There are one or two other aspects and I am happy to write to the committee to list any functions that have not been delivered.

I have received lots of letters from members who are diligently representing constituents and who are quite fairly speaking on behalf of farmers who have had problems with receiving their payments. I do not think that I have received one letter complaining about the lack of a text message, but I could be wrong and I will check that out as well.

Rhoda Grant: There is probably a hierarchy of needs here, and money takes precedence over a text message.

Fergus Ewing: Agreed.

Rhoda Grant: However, it will be useful to know what has been scaled back.

Given the problems that have been faced with the system, could the developer be subject to any financial penalties for the delays, which would cover some of the additional costs that the Scottish Government faces?

Fergus Ewing: The dealings with our contractor have been a long and detailed process, much of which took place prior to my appointment. I met Steve Thorn in June and earlier this month. We have achieved reductions in the payments due on the contract and we have the details here. We are looking and expect to deliver further improvements and savings, if you like, under the contract. I think that we have the details here, but as far as I can see neither of my officials seems able to find them.

We have taken very seriously the task of ensuring that as far as possible we hold the contractor to account to deliver functionality and ensure that no elements of excess payment are paid under the contract. We have dealt with that extremely seriously and I am happy to write to the committee with the details. There have been some positive achievements. They are relatively minor in the scale of £140 million, but savings of a couple

of million pounds have been achieved. Further measures have been added to the contract to incentivise success going forward.

Rhoda Grant: It would be useful to have a note of that and for it to be broken down into efficiencies and penalties to the developer.

Fergus Ewing: Mr Pryce will be happy to give some more information that might be of help.

10:15

Jonathan Pryce: We have been working with the contractor to press down on the costs of the system. From November, we expect to see a reduction of about 10 per cent or more in costs. It is essentially a reduction in the costs that the main supplier is underwriting.

Rhoda Grant: But there are no penalties.

Jonathan Pryce: If the main supplier is unable to reduce the costs of those contractors, it has made the commitment that it will bear the effect, so that could be a penalty for them.

Rhoda Grant: But it is not a penalty that will be imposed by the Scottish Government. I am trying to get at whether the contract was written with built-in penalties for problems such as those that we are now experiencing.

Jonathan Pryce: We have reintroduced a penalty regime and a service credit regime, which means that the contractor is incentivised to meet the timetables it has committed to and that it incurs penalties if it does not meet them.

Rhoda Grant: Are those additions to the contract? Were they not in the original contract?

Jonathan Pryce: The original contract allows for penalties in the service credit regime. We are putting those regimes properly in place for the next period, which covers the remainder of the programme.

Rhoda Grant: I am sorry, but I am not following you. You seem to be saying that there were no penalties in the original contract and that now, because things have gone wrong, you have put some penalties in for the future. However, that will not require any penalties to be paid for the mess that has gone before.

Jonathan Pryce: If we were to go back to the earlier period of the programme, the contractor has not charged for all the work that it did.

Rhoda Grant: That is not a penalty; it is a voluntary contribution from the contractor in good faith.

Jonathan Pryce: The contract does not specify a penalty regime. Under the contract, when the contractor commits to a certain section of the work

by agreeing to something called a work order, those work orders can—but do not have to—include an incentive and penalty regime. In the early days of the contract, it was not possible to apply a penalty and incentive regime essentially because of the early stages of the work. The Auditor General made the point some time ago about this not being the kind of contract that could be awarded on a fixed-price basis, because the requirements were still subject to change.

Now that we are much further through and we have seen significant improvements in the supplier's ability to marshal together all the tools, we have entered into a service credit and penalty regime for future work orders.

Rhoda Grant: It seems very strange to have done this and shut the stable door after the horse has bolted.

I have a question for the cabinet secretary about an inquiry into the whole IT system. He is on record as saying that he will deal with the problem first, then look at an inquiry into what went wrong. Will he hold an independent inquiry into what happened and when will that take place?

Fergus Ewing: The member is absolutely right. The priority for us and for farmers is to resolve the remaining difficulties with the IT system and to restore the operation of the system to a proper footing. Anything that detracts from that process by taking away senior officials' focus would be counterproductive and most unwelcome to staff, who are determined to do their job to the best of their ability. That point seems to have been accepted across the board and I welcome that.

However, lessons need to be learned and I remarked on that in my statement early on in this parliamentary session. We have already had the benefit of a series of very thorough inquiries by the Auditor General. Here is the inquiry report, "Common agricultural policy futures programme: an update"—a Rolls-Royce of an inquiry, which was not the first of the Auditor General's report into the IT system. Members will recall that Audit Scotland conducted a forensic inquiry that looked specifically at difficulties with the system from the beginning. The report was published on 20 May 2016—the date of my appointment—but the process of looking at those difficulties continues. The Auditor General, Caroline Gardner—whom I met in order to explain the work that we have done to put matters on a proper footing—has indicated that she will give evidence to the Public Audit Committee, as will Mr Pryce and Liz Ditchburn from my directorate.

I believe that there has been an appropriate inquiry into those aspects of concern, although it is not over and the work continues. The purpose of today is, quite appropriately, to subject us to

scrutiny—although not exclusively on IT matters—and questions have been asked and answered, and further information will be provided. My view is that the work of the Rural Economy and Connectivity Committee, which you have chosen to do, and the Public Audit Committee is—quite properly—to hold us to account. That work, coupled with the solid work carried out by the Auditor General, constitutes an appropriate and sufficient form of inquiry, but it is for Parliament to decide whether more needs to be done and, if members believe that more needs to be done, I am open to considering that.

However, if an additional form of inquiry were seen by anyone to be necessary, I cannot see that it would be sensible or prudent to commence that for some considerable time because of the need to deliver the task in hand. My view is that the parliamentary committee inquiries and the substantial, forensic, painstaking and comprehensive inquiry already conducted by the Auditor General means that—putting it in layman's terms—anything more would be duplication. I suspect that that would also not be welcomed by many farmers, who might see it as spending more time and money on something that has already been thoroughly examined.

The Convener: I am mindful of the time as we have a lot to get through. I remind everyone to keep their questions as short and snappy as possible.

Stewart Stevenson: Mindful of your strictures, convener, I suggest that what I am about to ask is responded to in writing as it is complex. I used to lecture postgraduate students on the management of exactly this kind of project, so my questions are very detailed and precise.

First, I want confirmation that there is a project office in the computer development—I am getting a nod to that. On that basis, it should be easy and about 10 minutes' work on the part of that office to give me the number of tasks that there are and the work breakdown structure, which will give me a sense of how big the project is; the number of delivery phases that the office has chosen to adopt; from the change log, the number of outstanding changes that there are, the number that have been redressed and the number that have been deferred to other phases; and, of those changes, the proportion that have come from the client—in other words, the changes that have been made as customers have come to understand the need—and those that have come from errors.

Finally, I would like to know from the error log the number of errors that have been found; of those that have been found, the number that have been fixed; and—fundamentally—the current estimate of the number of errors still to be found.

In case anyone thinks that it is impossible to predict things that you have not found, I should say that, if those in the project office are not able to give me that figure, that will instantly tell me that there is poor design in the testing system, and accordingly I would like to see their document that describes their testing approach.

Those matters might be of interest only to me, but they will help to inform how I am able to help the committee and others later on.

Fergus Ewing: As I am sure that members appreciate, Mr Stevenson has considerable expertise in and business experience of such matters from his former banking career. We take his questions seriously, and I think that they are relevant and important. He is absolutely right in that I do not propose to answer them right now, but I will write to him there anent and continue to engage with him and benefit from his knowledge—on the proviso that he does not charge us a consultancy fee for so doing.

The Convener: I am sure that he is doing this for the good of everyone in Scotland.

Peter Chapman: I want to ask the cabinet secretary about EU disallowance penalties—

The Convener: Hold on, Mr Chapman.

Peter Chapman: Are we not there yet?

The Convener: Do you have a specific question about IT?

Peter Chapman: No.

The Convener: I would like to continue with that issue, and I think that Richard Lyle has a question on it.

Richard Lyle: I will try to be brief, convener. Again, I agree with Mr Stevenson. I am not a farmer or an IT consultant, but I at least live in the real world. In the real world, there was a system, but pillars 1 and 2 changed; the money went down; the number of applicants was reduced—please correct me if I am wrong, cabinet secretary—and we had an IT system that, from what the cabinet secretary said earlier, had to take into consideration the land that people have down to the size of a goalmouth. Some people were getting paid according to what they had, some were not getting paid at all and others were complaining.

The issue is not a new one. On several occasions, the previous rural affairs committee discussed CAP payments and the new way that they were going to come in. What changes to the CAP and the administration of it caused this situation? Moreover, could we have foreseen it? After all, hindsight is a wonderful thing. Those are, I think, the most important questions that have to be answered.

Fergus Ewing: I will try to answer those questions briefly. I think that the major change was the agreement—which was reached after careful consideration and discussion with, inter alia, the NFUS—that land be divided into three categories. That immediately made an already complex task more complex.

Should we have foreseen that problems would arise? I am not blessed with foresight, either. Perhaps the answer is yes, and perhaps everybody should have foreseen that. I do not mean this as a political point but, to some extent, the process that we have been going through in the past few years is not dissimilar to the process that England went through in 2005, when there were even greater problems of an IT nature that went on for several years. Anyone who wants to know more about that should read “The Blunders of our Governments” by Professors Anthony King and Ivor Crewe, which makes very good reading.

The main challenge, however, has been the complexity of the scheme and the need to marry the mapping of each holding—we should bear in mind the detailed requirements for carrying out that mapping, with a number of fixed co-ordinates being taken of various boundaries, all by hand inspection, and then conveyed to a tablet—with the IT system.

The communication between the tablet and the IT system has been a source of huge frustration for the people working in the RPID offices, who have been trying to do their work every day but cannot complete it because of IT problems. Let us spare a thought for the people who have been bearing the brunt of that in the offices in Dumfries, Ayr, Galashiels, Hamilton, Inverurie, Inverness and Stornoway, all of which I have visited. It is fair to say that the sheer frustration at not being able to do their jobs created a bit of demoralisation among the staff over several months last year.

10:30

However, moving on to the less gloomy part of this short answer, convener, I note that improvements have been made since then and that specific IT fixes have been delivered for many of the schemes. The process of farmers filling in the single application form has been much more successful than it was in the previous year and we received assurances from CGI—our contractor—following our most recent meeting that functionality will be delivered early next year to enable payments to proceed and be delivered by the end of June.

Mr Lyle’s commonsense approach is correct. Perhaps, in hindsight, the process was just too complex to be delivered in combination with a

brand-new IT system. However, there we are—hindsight is a great thing.

Richard Lyle: What is the timetable that the CAP IT system contractor has committed to? I will be brief, because it is often said that I take too long with questions. When will the system be complete and fully functional? I take it that, after all the problems that we have had this year, next year should be plain sailing.

Fergus Ewing: That is not a phrase that I am planning to use, but I restate what I said to Parliament, which is that our contractor, CGI, has assured me that IT system functionality will be delivered early next year so that final processing can be undertaken thereafter. The functionality will be in place, but there will then be processes to go through before the payments can actually be made and be received by individual farmers.

In tandem with that, around 5 per cent of farmers have to be inspected each year in order to comply with the EU audit system, and the IT system needs special processing functionality to deal with the inspection results. However, I inform the committee that the IT contractor intends to deliver the main processing functionality that is needed for all cases separately from that special functionality for inspections. Once the functionality is in place, our area offices will carry out the processing tasks to enable payments to be made.

The Convener: Thank you. I am sure that the disappointment of the staff on the front line, which the minister made entirely clear, is echoed by that of the people who have to work with them—that is, the farmers. It is a double-edged problem, and I do not think that the difficulties for either group should be underestimated.

Peter Chapman wants to move on to talk about potential penalties.

Peter Chapman: Given all the problems that we know about, we might not meet all the criteria and we could have EU penalties and disallowances, which can happen for reasons such as not paying out the money in time, late issue of final entitlement letters, failure of cross-compliance in system checks and failure to have in place a land-mapping system that is fit for purpose. There are lots of problems out there and lots of hurdles to jump over. What estimate of disallowance have you made for the 2015 payments, minister?

Fergus Ewing: I agree with much of what the member said, but it is important to say that there are two issues here that we should not conflate or confuse. First, disallowance is the process of assessing penalties for making inaccurate payments, so it is a process of each application being considered to ensure that the payment has been properly made and not improperly made. That is disallowance, and the late penalties would

apply to our role and our performance in compliance with the EU system—it is important to start from that point.

Obviously, we all aim for 100 per cent accuracy but, like all member states, we have in the past suffered small amounts of disallowance following audits. In other words, a small proportion of the total payments have not been properly paid in accordance with the rules. As Mr Lyle has just confirmed, the rules are incredibly exacting and complex, which has been commented on unfavourably by Commissioner Hogan himself. He has recommended a less penal approach for farmers, and we support that.

I think that all parties would agree that the application of disproportionate penalties for administrative errors has been a feature of the regime for a long time. In previous years, the level of disallowance following audits has been of the order of 1 or 2 per cent. That puts us in the middle of the pack compared with other member states; we have had a lot less disallowance than our friends down south have had.

The question was about the late payment penalties for 2015. In her report, the Auditor General estimated that the total level of penalties could be between £40 million and £125 million. I assure members that we do not expect that that scenario will apply. However, the process by which the cumulo penalty is computed cannot be carried out until the payment period is over for the purposes of the scheme, and I think that that date falls in the middle of October. It will be possible to do the maths only after that. The maths do not involve just Scotland; they involve the member state—the United Kingdom.

I could go into the rules, which are incredibly complex, but suffice it to say that it is not possible to give a clear answer at present because we have not reached the end of the period. The computation depends not just on us but on the performance of Administrations elsewhere in the UK. I undertake that, as soon as we can come to a conclusion on what the figure will be, we will—quite properly—report that information to Parliament; we will not sit on it for months. However, I do not expect that we will be able to do that for some time to come. The process is incredibly complex. I have undertaken to report back to Parliament in January next year. By that time, I might be able to report what the figure is; I would certainly like to be able to do that.

Even before I took the oath as cabinet secretary, I met Commissioner Hogan, with the First Minister, in Bute house to advocate that flexibility be granted. We were not the only country to do so—France did so, too. I was very pleased that our advocacy played a part in securing flexibility so that the worst consequences will not

be visited upon us. Commissioner Hogan's granting of that flexibility was much appreciated. It illustrates that the European Commission is capable of being flexible and helpful in some cases, but that is a debate for another day.

I do not know whether my officials have anything to add but, for the reasons that I have stated, I hope that the member will accept that it is not that we do not want to answer; we cannot. There is no answer at present—it is not possible to give one—but as soon as we have one, we will share it with the committee.

The Convener: I am sure that the committee and Parliament would welcome receiving that information as soon as it is available.

We are very short of time. Mairi Evans has a question. As there are two further areas that I would like to cover, I would be grateful if it could be as brief as possible.

Mairi Evans: You will be glad to hear that the cabinet secretary touched on the answer in his previous response, convener. I was going to ask what the disallowance picture looks like over the most recent period and how it compares with the position in the rest of the UK and across Europe. If the cabinet secretary can give us any broad figures on that, it would be helpful.

Fergus Ewing: We do not have figures yet, but we will come back with them as soon as we do.

I should say that, in May, a massive effort was made by the people in the area offices and in Saughton house. A huge amount of money went out between May and the end of June, by which time we have to have paid out 95.25 per cent—do not ask me why the 0.25 is there—of the total pillar 1 funding in order to avoid an element of penalties. An enormous amount of work was done to get closer to that 95 per cent than appeared to be possible on 20 May, and I am extremely grateful to all the staff who were involved.

The Convener: Jamie Greene has a question on debt in agriculture.

Jamie Greene: Before I move on to that, I note that, further to Mr Pryce's response to Rhoda Grant's questions on penalties, it is still entirely unclear to the committee whether the Scottish Government has any financial recourse with the IT contractor. Perhaps the Government could provide a fuller answer in writing on the current situation with regard to penalties that we can apply to the IT contractor, given the IT problems that have been experienced this past year.

Fergus Ewing: We will add that to the list.

Jamie Greene: Thank you.

The cabinet secretary will be aware that debt in the agriculture sector has increased by around 9

per cent in the past year and that there has been a worrying trend over the past five to 10 years. Does the cabinet secretary accept that, specifically this year, the debt increase in the farming community has potentially been caused by delayed payments? In general, what are his views on debt in the agriculture industry and how we might address it in future?

Fergus Ewing: That is a reasonable question. As with all questions, the thing is to look at the facts. The most recent facts that we have are the figures that were published last Monday, which indicate that loans to Scottish agriculture increased by 9 per cent to £2.2 billion, which is up £177 million from the figure of £2.03 billion last year. At the same time, similar figures for the UK that were published by the Bank of England also show increases although, to be accurate, the categorisation was slightly different, as those figures were for loans to the agriculture, hunting and forestry sector.

Moreover, a further important fact to note is that, since 2010, lending has increased year on year to the UK agriculture, hunting and forestry sector, where lending has increased by 51 per cent. However, in the Scottish agriculture sector—without hunting and forestry, although I am not sure that we have much in the way of hunting—lending increased by 46 per cent. There is no doubt that there has been an increase in the level of bank debt but, according to those statistics from the Bank of England and other official statistics, the lending increase over that five-year period appears to have been higher south of the border than it has been north of the border.

I deal in facts and evidence, because that is the only way that a minister can or should make decisions. Looking at the facts, any case that is constructed to demonstrate that the problem is more acute in Scotland kind of falters on the ground that the facts show that the level of debt appears to have increased more south of the border. I was keen to read that into the record, because I was not able to do so at the same length during my statement in Parliament last week, when the issue was raised by colleagues.

Of course, we absolutely appreciate the willingness of our banks to lend to farm businesses. Just yesterday, I met one bank and I am meeting two others this afternoon. The good relationships that exist between banks and the farming sector are an asset—they are tried and trusted relationships. Some other sectors have difficulty in gaining access to finance. I will not go into that now, but I know that the prudent approach that farmers take to managing their finances and the fact that there is substantial security value in most farms are perhaps why

bankers view farms and farming as a reasonable proposition.

Obviously, we recognise that any further financial pressures are likely to have some effect, which is another reason why I was pleased that, in the farming sector if not in the political world, there seems to be such a broad welcome for the fact that, in November, we will inject a substantial amount of money—up to £300 million—into the rural community. That money will of course benefit farmers and crofters, as it is their entitlement by way of a loan, and it will also filter down through the whole farming world, including the contracting sector and the rural community. I was delighted to see that *The Scottish Farmer* recognises that, as does the National Farmers Union and various local newspapers with substantial farming communities. That will perhaps make a contribution to tackling in some respects the matter that the member has identified.

10:45

The Convener: Jamie, I am sure that debt in agriculture worries everyone on the committee, but we are quite short of time. If you are happy, I would like us to move on to the issue of the EU. The cabinet secretary will not be surprised that the matter has been raised. I ask Mike Rumbles to lead on it.

Fergus Ewing: Convener, I am due to give a speech, by arrangement, at 11 o'clock.

The Convener: I have three or four minutes on my watch.

Mike Rumbles: We inherited the common agricultural policy when we entered the European Union. It was not designed for our agriculture; it was originally designed for French, German and Italian farmers. We are now leaving the European Union and the UK Government has guaranteed pillar 1 farm payments for the next four years. I do not want to discuss what the UK's response is; I would like to discuss what your response is, cabinet secretary. Because agriculture is entirely devolved to Scotland, it is going to be your responsibility. The design of a new system for Scottish agriculture when the four years is up must be an important issue for you—if not at the top of your agenda, it must be near the top. Have you set up a team of civil servants in your department to design a Scottish system that we will use from 2020?

Do you not want to answer the question, cabinet secretary? As you know, all funds that come to us from the UK Government in the block grant—

Fergus Ewing: I am happy to give an answer, but I am over the time that we agreed with the clerks and the issue is not about CAP payment. I

am happy to provide an answer, but the question is very much political. I respectfully suggest that it is not part of the remit of today's inquiry into the CAP payment issue.

The Convener: Cabinet secretary, we thought that you were leaving at 10.50. That is the information that we got, and that is the timescale to which I have been working. I apologise if, for some reason, I have been slightly misinformed.

Fergus Ewing: I am happy to answer the question if you want me to.

The Convener: If you have time, I would be grateful.

Fergus Ewing: I do not want to be precious, but the question covers a lot of areas. First—

Mike Rumbles: What are you doing about it?

Fergus Ewing: Hang on, Mr Rumbles. You asked several questions. Which of your several questions would you like me to answer?

Mike Rumbles: Have you set up a team—

The Convener: Hold on, Mike. I will simplify the question for the cabinet secretary. What processes have you put in place to start looking at what is going to happen post-2020?

Fergus Ewing: We have already had engagement with the sector. Roseanna Cunningham and I have led discussions with key stakeholders—all ministers are doing that. We are preparing in that respect.

The matter is not as simple as Mr Rumbles would have us believe. There is absolutely no certainty about what is going to happen following the referendum, because article 50 has not yet been triggered. Until it is triggered, there will be no formal process. I am no expert on it, but that is my understanding. There is a total lack of clarity.

CAP payments are a reserved responsibility. Mr Mackay has sought guarantees from David Gauke, the Chief Secretary to the Treasury, in relation to the CAP funding and SRDP funding. Thus far, we have received assurances in respect of pillar 1 up to 2020—up to the end of the multiannual period—and we have guaranteed that we will pass all that money on to farmers.

The second strand is the SRDP money—the pillar 2 funding. That is essential, because we cannot make plans in a devolved Parliament until we know what our budget is going to be. We do not know what our budget is going to be because, despite having asked the UK ministers—I wrote to three of them in June and August—we have not received any confirmation of up to £360 million of SRDP funds.

A huge shadow hangs over the farming community. Many of the farmers are looking to sign up to the SRDP, but the only elements that have been guaranteed by Mr Gauke in his letter are those contracts that have been or expect to have been entered into prior to the autumn statement. All the rest—we estimate the amount to be £360 million—is shrouded in total uncertainty.

I put the issue back to committee members. How can a Government plan when we do not have clarity over the budget, which is set by another body, namely the UK Government? Of course, as soon as we get clarification, we will be able to remove the doubt. I have visited many farms and spoken to individual farmers about the issue. Many of them do not know what to do, because the UK Government, despite the fact that the referendum was several months ago, has not got a clue about whether it will guarantee the farm payments component that would have been guaranteed up to 2020 through our continued membership of the EU. Certainty has been replaced with—by definition, Mr Rumbles—total uncertainty.

Mike Rumbles: With respect, that is not my question.

The Convener: There are two issues here. First, given that the cabinet secretary's time is up, as it were, I would like to submit a couple more questions on the EU to him; I would also like to submit Mike Rumbles's question in a specific form. I ask whether the cabinet secretary would be good enough to respond to those questions after the committee, as he has offered to do with previous questions.

Secondly, bearing in mind that you are very short of time, is there anything that the cabinet secretary would like to say in summary before he goes?

Fergus Ewing: I am happy to continue to work with the committee in order to complete the task of getting CAP payments on to a proper footing. I am very pleased that we have made substantial progress, and that the national loan scheme that we introduced seems to have been welcomed by the farming community. I hope that the committee in its deliberations will be able to conclude that the loan scheme is a pragmatic measure that provides, as I think a Conservative member mentioned last week, certainty and clarity for the rural communities in the coming winter months.

The Convener: Cabinet secretary, I thank you and your team—Jonathan Pryce and David Barnes—for coming and giving evidence to the committee. I think that the committee would ask me to put on record that we look forward to having an opportunity to question you further in January next year, as you have said that that is

approximately the timescale when you will be in a position to come back to Parliament and to brief it on the payment situation. I also look forward to having an opportunity to discuss with you how the committee can help take forward business for farming in Scotland. Thank you very much for your time and your honesty.

I suspend the meeting to allow the cabinet secretary and his team to depart, and for those members of the committee who wish to do so to refresh themselves before we go on to the next item, which is of equal importance.

10:52

Meeting suspended.

10:58

On resuming—

ScotRail Alliance (Update)

The Convener: Item 4 is to take evidence from the ScotRail Alliance. Following the Infrastructure and Capital Investment Committee's inquiry into access to Scotland's major railway stations in session 4, Phil Verster, the managing director of the ScotRail Alliance, made a commitment to provide regular updates on rail network and service issues to the predecessor committee. This committee has agreed that it would be helpful to continue those sessions.

I welcome Phil Verster and Karl Budge, the regional director of the infrastructure projects Scotland and north-east, Network Rail. I invite Mr Vester to make an opening statement.

Phil Verster (ScotRail Alliance): Thank you for giving me the opportunity to be here today. I am keen to share with the committee the exciting future plans we have for Scotland's railway over the next three years. During the next three years, there will be four big changes to Scotland's railway, which will have a big impact on our customers, customer satisfaction, and the capacity and size of the railway.

11:00

The first change includes infrastructure programmes and projects such as the Edinburgh to Glasgow improvement programme, and work on the route from Aberdeen to Inverness, which will contribute significantly to how the railway operates. I will give you a sense of the capacity increase that will be possible after those changes. On the Aberdeen to Inverness route, capacity and daily seats will increase by about 75 per cent; in the central belt, seat capacity will increase by about 51 per cent; in the Borders, there will be 33 per cent more capacity; on the lines from Aberdeen to the central belt, there will be 66 per cent more capacity; and Inverness to the central belt will have 43 per cent more capacity. Those are huge capacity increases.

Secondly, we are changing the fleet size in Scotland from about 800 to 1,000 vehicles. That increase of nearly 200 vehicles will make a massive difference to our ability to improve our performance on the railway. Congested trains run slower and are more difficult to keep to time. The capacity from extra rolling stock will allow us to solve many of our customers' complaints about capacity.

The third big change is to the products we offer our Scottish customers. Implementing an intercity railway between the seven cities of Scotland is a

fantastic change. We will replace the old commuter-type rolling stock that currently works the services between places such as Aberdeen, Inverness and the central belt.

The fourth and final change, which is fantastic for us, is that we are investing significantly in our employees, in behaviours, and in customer experience and customer focus programmes. Over the next three years, we will see a change in how we serve our customers, as well as how our customers buy tickets. Our smart card programme is very exciting. By March 2019, we expect about 60 per cent of our ticket sales to be through smart cards, rather than the old paper-based tickets. All those changes will amount to a significantly different railway and a positive change for Scotland's railway.

Thank you for giving me the opportunity to be here today. I will continue to support the committee, and I am keen to attend further sessions in the future and to continue to update you on our work on Scotland's railway.

The Convener: Thank you for that opening statement. Before we move on to the questions, do any members present have declarations of interest to make? It seems that four of us do. John Mason, would you like to go first?

John Mason (Glasgow Shettleston) (SNP): I do not know whether I need to declare this, but I chair Parliament's cross-party group on rail.

Stewart Stevenson: I am honorary president of the Scottish Association for Public Transport and honorary vice-president of Railfuture.

Gail Ross: I am joint vice-president of the Friends of the Far North Line.

The Convener: Gosh, they are all coming out.

John Finnie (Highlands and Islands) (Green): I am a member of the RMT—National Union of Rail, Maritime and Transport Workers—parliamentary group.

The Convener: Gosh, it is never-ending.

Rhoda Grant: Sorry, I thought you had seen me indicate before. I am joint vice-president, along with Gail Ross, of the Friends of the Far North Line.

The Convener: Anyone else? If there is no one else, I will declare an interest: the Aberdeen to Inverness line goes through my farm.

Mike Rumbles: Big farm.

The Convener: It is a very small farm of 500 acres, but I just happen to have a railway in the middle of it. Let us move on. The first question is on project management, and Stewart Stevenson will lead on that.

John Mason: We were going to say something about the alliance first.

The Convener: Yes, sorry.

John Mason: I have an extra question to start off with. We will cover a lot of ground, but will Phil Verster say by way of introduction something about how the ScotRail Alliance works with Network Rail? In the past, we thought that you represented ScotRail and somebody else represented Network Rail, but you now represent both. Can you explain how that works? Obviously, others that are not part of that alliance, such as CrossCountry, use the railway. How does it affect them?

Phil Verster: In the past two or three years, Network Rail has devolved responsibility for operations, maintenance and renewals—therefore, not enhancement projects—to what are called routes. A Scotland route deals with operations, maintenance and renewals here. To picture it, those teams work for me to maintain on a daily basis all the infrastructure equipment out there—tunnels, bridges and signalling, for example—to renew it on an on-going basis so that, when it gets to the end of its life, it is fixed, and to ensure that the railway is operated in the interests of all the train operators that operate in Scotland. I have accountability for that in the Scotland route. Abellio ScotRail sits right next to that as the franchise that was let by the Scottish Government.

Throughout the United Kingdom, the two parts of the railway have been separated as different entities. In Scotland alone, we formed the ScotRail Alliance. The logic behind that was that, in the end, the customer on the ground does not really want to know how the railway has decided to organise itself. Rather, the customer has very clear requirements: to go on journeys, to travel punctually and to get a good service. In Scotland, we put the two organisations together to work together, close the gaps that existed between the two companies in the past, and get a better product out for customers. I am sure that we will spend a lot of time talking about that.

As a distinction, Karl Budge, who is a close colleague, is the regional director of a part of Network Rail that is not part of our alliance. It is called Network Rail infrastructure projects. He heads up the operations in Scotland as well as those in the north-east of England from York. He contributes very closely to Scotland.

My team holds the clienting responsibility, so it ensures that everything that Karl Budge delivers is delivered to Transport Scotland's requirements. Therefore, if there is any difficulty with scope or programme delivery, which Karl Budge is accountable for, we will work together with him

and Transport Scotland to come up with the right answer for Scotland.

On John Mason's question about other train operators, I hold a regular review with other operators—indeed, I did that this week—because there is a different dimension. Six different train operators regularly operate in Scotland, including the Caledonian sleeper, Virgin Trains East Coast and its west coast service, CrossCountry and First TransPennine Express. Even though ScotRail and Network Rail are an alliance for operations, maintenance and renewals, it is really important that we have a breadth of approach to deal with the issues of other train operators specifically.

I will give a brief example. When Lamington on the west coast had the scour problem last year due to the excessively high water levels on the Clyde, I took my ScotRail trains off the Glasgow and south-western railway line and we ran Virgin west coast trains. We cancelled our service to run them. I could have taken a proprietary approach and said, "No—our trains will run," but we decided what was best for Scotland, and that is why Virgin Trains got a clear path. We cancelled our services to accommodate it. That is the type of approach that we follow.

We regularly review with other train operators how we are servicing their requirements. The model is unique in the United Kingdom, and it is very innovative. We aim to focus on our customers as well as we can.

John Mason: That is very helpful. Thank you.

John Finnie: Thank you for your various reports, Mr Verster. I imagine that Abellio hopes to get some sort of advantage out of the deep alliance. If, all things being equal, there was the opportunity for a commuter train from Perth to travel to Ladybank or for a delayed sleeper to travel north from Ladybank to Perth on that single stretch, which would have priority?

Phil Verster: That is a good question. In our control centre, we have a clear definition of regulation priorities. We make a regulation decision when two trains get to a junction and we agree with the train operators the choice of which is the most important to run.

Your Ladybank example is spot on because, when the Caledonian sleeper trains were diverted during the Winchburgh tunnel blockade, we had to make choices when the Caledonian sleeper got to its slot too late. If we let it run, we would often affect four or five services through Fife. We therefore made arrangements with the Caledonian sleeper to ensure that it got there early, so that it could use its slot.

We have clear sets of rules. We make no judgment and we do not say, "That is our train—

we can go first." There are clear choices about how we make regulation decisions, which are agreed with the train operators. We try not to leave that to chance.

John Finnie: You did not mention the freight transport companies. Where do they fit in? The limitations of the line structure mean that one delay can result in several knock-on delays, as you said.

Phil Verster: Freight operators are included in the cross-team collaboration and discussion with other train operators. We have a freight forum that meets my team regularly, separately from the train operating companies. The issues with freight are very different from those for train companies, but freight is as important, if not more important, in some market sectors. We have a dedicated person who develops freight opportunities and works closely with the freight companies.

Freight trains often do not run to the same time constraints as passenger services. Freight companies are also listed in the regulation statement that I mentioned in the example of the Caledonian sleeper running relative to Abellio ScotRail trains. By industry agreement, freight trains are often at the bottom of the list of regulation choices, because the time criticality on passenger services for punctuality is five minutes at end destination while, for freight companies, it is flexible.

John Finnie: Thank you—that was helpful.

Stewart Stevenson: I will focus on Network Rail's management of projects. In the light of what is happening on EGIP in particular, the Scottish Government has commissioned a study of project management. Network Rail has experienced a number of issues Great Britain wide that interest us. The great western railway electrification project is well known to be in serious difficulties. How are you seeking to address project management issues in relation to what is happening in Scotland—primarily under EGIP, although there are other projects?

11:15

Karl Budge (Network Rail): Thank you, convener, for the opportunity to be at the meeting and speak to the committee.

As Mr Stevenson said, we have a number of national issues. They were realised four or five years ago and they are mainly in a couple of categories. As an industry, we were quite late in developing the current enhancements work bank and therefore in defining clearly the scope that would achieve the required outputs that we were given, which related to time savings and capacity increases, for instance.

It was acknowledged that the costs that were given back in 2013-14 were not fully developed to meet the required scope and outputs. As an industry answer to that issue, the enhancements cost-adjustment mechanism was put together. It allows us to take the initial business plan and then, at an appropriate point, when the scope has been developed into a single option and some of the ground investigation into the more detailed issues has been done, we agree with the Office of Rail and Road on an efficient cost to deliver the project. That is happening with each project as we work through the current five-year control period, which is from 2014 through to 2019. That is the first point.

The second thing that we realised is that, instead of having given just a single figure at the beginning of the control period and having defined something that none of us was really certain about, we should probably have given a range of figures for what projects could cost.

Several reports have been done in Great Britain over the past couple of years—Sir Peter Hendy's report, the Bowe report and the Shaw report. The Bowe report is specifically about the issues of cost and scope that I just talked about.

There were further issues as we came into the current control period. The one bespoke feature of the control period is that the amount of electrification is increasing tenfold in comparison with what happened previously, which is a massive leap in electrification. It also ties in with all the design and specification increases that have come out in modern electrification—we have significantly modernised how we electrify the railway. That is a significant piece of work.

What I described was accepted by the Network Rail board in early 2015 and we set up the enhancements improvement plan, which focuses on seven key elements that we need to do better on. We are working through those seven key elements. The ORR is reviewing how three elements of that plan are being ingrained in Scotland and I think that it is due to report to Transport Scotland at the end of October.

The three specific elements are about portfolio governance, which is partly about the relationship between my team and Phil Verster's team, through to Transport Scotland and the ORR. It is also partly about specific project governance and how we carry out reporting, and it is about project portfolio monitoring and how we pull all the enhancement projects together so that there is visibility of the entire portfolio in Scotland at once. That review is going on.

I can talk in detail about each of those points and a load of other things, but I will let the

committee advise me on whether it would like me to go into much deeper detail.

Stewart Stevenson: Forgive me if I suggest that that sounds a bit like jam tomorrow when we have projects that are in course now. There seems to be considerable doubt about what parts of the Shaw report will be implemented, and that is definitely jam tomorrow—if it is anything.

The one thing that you did not mention was access to the skills that are required for particular projects. For example, there are Europe-wide shortages in signalling engineers, and there are shortages in engineers who can do overhead electrification. How does that influence and feed into the projects that you are undertaking?

Phil Verster: I will respond to the first aspect, which concerns the Bowe review and the improvements in project management that Mr Stevenson referred to. It is unambiguously clear that, in the UK industry and throughout Network Rail, the pricing and estimates for schemes and infrastructure projects for 2014 to 2019 were done too early.

That work was often done through desktop exercises and best estimates, without enough detail. When we get on the ground and when detailed designs are produced, we see that the cost of the work will be significantly more, because issues arise. Ground tests are done and, all of a sudden, although we thought that we were going to lay a track in one way, we need to do it in one of 10 different ways and put in much more of it. We will talk about that issue as we come to it.

On your questions about project management and skills, we have seen in Karl Budge's team—he will talk about his experience as EGIP comes up—a significant limit on resources for electrification specialities. Our work on project management has been extensive, and we have put in place a better project management office and more transparent procedures.

When we realised in January or February that electrification in EGIP was behind schedule, we made significant changes to the project's senior management. We made intrusive changes to the way in which that team worked, relative not only to the ScotRail Alliance but to Transport Scotland. Karl Budge will talk you through the detail.

As for electrification projects, your comment on scarce resources is on the mark. The design bottleneck of skills resources in the United Kingdom when we come to follow through on designs is significant, and many parts of our electrification project now involve ensuring that we get access to the right competencies at the right time.

Stewart Stevenson: When I was the Minister for Transport, Infrastructure and Climate Change, I agreed with Andrew Adonis on the need to take a 10-year view on how we undertook electrification so that we could give the industry a solid programme that it could ramp up for. That probably has not happened, but you do not need to comment on that, as we do not have time.

I have a final point on projects, particularly given your Dutch experience. I recognise that you have no bridges or cuttings in the Netherlands but, nonetheless, there is a startling difference in the cost of doing projects in GB—and in Scotland in particular—in comparison with most of Europe and perhaps the Netherlands in particular. Why is that the case? Can we learn something more from our continental cousins about how we manage and deliver projects?

Phil Verster: That is an astute observation. We go out and look at how other countries in Europe operate: how they make decisions, deal with critical aspects and secure access with the train operators. In many cases, the separation between track operator and train operator is not the same as it is in the UK, and the cost equation to get access to the railway is different. However, your point is still valid. Karl Budge will pick up on what has been done to get our standards to comply with European standards, which has contributed to cost increases across our electrification programme.

Karl Budge: I will add a bit to the answer, specifically on the different access regime in Holland. It is not unusual in Holland, when a significant enhancement is being delivered, to close the railway for several weeks. That can be accepted—I have reports that I can send the committee to back up that comment if need be. The railway can be closed or there can be a different access regime at night.

For the elements of EGIP that we are working on, we get circa 1.5 hours of good working time per night after the final train has gone. By the time we have started the possession, briefed everybody and got them on site, we have 1.5 hours of working before we take them off. Unfortunately, that will never be a really efficient way in which to do a significant amount of work on the railway, but that is the regime under which we work.

The Convener: Closing railways is a dangerous proposition that I would not necessarily recommend.

I will press you a wee bit on project management, so that I understand the issue. Project management is good when there is scrutiny downwards as well as upwards and from higher up. What level of scrutiny does the Government have of projects? How regular are

your meetings with it on projects? I was surprised to see a quote from the Minister for Transport and the Islands that suggested that he was not aware of a delay that was coming down the track—excuse the pun.

Phil Verster: With Transport Scotland, we have formed a portfolio board. Even before we did so, we and Transport Scotland met at regular EGIP board meetings to review progress. In the portfolio board, we review the full-cost estimates for the various programmes. We work closely with Transport Scotland, which plays a strong and positive role in helping us to understand the Scottish Government's priorities.

As for our governance procedures, we have layers of governance. Karl Budge and his team inform me and my team of where they are in relation to their programme deliveries. He has an electrification team that works in alliance with him and his team, and they have alliance board meetings at which they track how that programme is running.

At the front of the business, there are weekly visualisation rooms or control rooms where governance is exercised in relation to the progress that has been made that week or the previous night. That level of control is part of the corrective actions that we have implemented since January and February this year.

The Convener: In his letter to me of 5 July, the Minister for Transport and the Islands said that EGIP was on schedule, but now it is seven months late. When was the last meeting before 5 July with the portfolio board, which informs Transport Scotland on the project?

Phil Verster: I do not have the exact meeting dates here, but I can provide the committee with those dates in correspondence. However, I can offer helpful clarification. In January, the then leadership of the team that managed the EGIP electrification programme started to indicate to me that there were delays—quote, unquote—that had to be quantified and clarified, but the initial estimate was that the delays were in the region of eight weeks.

We immediately started a programme to establish exactly what the delays would be. I insisted that there be a review, a critical path analysis of where the programme was, a resource assessment and a risk assessment of the programme. The process to clarify exactly where the programme was, what work had been done and what work was outstanding started to elevate quite a lot of the issues that we have seen and have gone on to rectify.

On 11 or 15 February—I will confirm that date, too—we informed Transport Scotland that there were delays in the ball park of eight weeks that

were being investigated. At the time, we did not know the scope of the work or its cost. The eight-week delay was still such that it would have enabled key output 1 to be achieved in December this year. Although the delays were visible in January and February, it was expected that we could still deliver the programme. The ScotRail Alliance responded by changing when we do training of drivers to ensure that we could still hit an energisation date.

As an industry, we thought that we had come up with a really workable solution. However, as we kept on digging and finding problems with the programme—Karl Budge joined during that stage as leadership changes were made on that side of the business—we found more issues. In the end, the programme that we advised the minister on in March or April, which was close to the date that the convener talked about, looked different from the one that we thought in February would be achievable. We started to share what we thought the cost estimates were because, by then, we had costed the change in compliance to the European standard that we insisted that the project must achieve.

11:30

The Convener: I appreciate that you will give the committee those dates afterwards. What concerns me is that we moved from February, when there was a seven-week or eight-week delay, to May, which is when the minister told us that the delay had got to seven months, and there was nothing in the public domain about that. It might be helpful just to leave that there and ask for the dates and a timeline so that the committee can understand the situation.

John Mason will move on to the specific issue of EGIP.

John Mason: We have already spoken quite a bit about EGIP, but I have a few more points to make.

I was surprised and disappointed about EGIP because other projects have gone fantastically well. The new Airdrie to Bathgate electrified line went according to time and budget. The same was true of the Borders line, although it is not electrified. I accept that the Queen Street tunnel closure was a separate project, but it seemed to go very smoothly. It is therefore a bit of a surprise that EGIP did not. The ORR has made various comments about it, and it raised the question of international engineering specifications and electricity-at-work regulations. Were they major factors?

Phil Verster: I would really like to explain that. I will start by putting our delivery in Scotland into perspective. Despite the difficulties that we are

now facing, our delivery and Karl Budge's team's delivery have been exemplary. We have 16 regulated targets, or milestones, during the control period from 2014 to 2019. We have already delivered 10 on time and another four are in progress and will be delivered on time. There are two left—one of which is the key output 2 that we are talking about now, and the other is, potentially, key output 3, which is completion of the Queen Street refurbishment, which might be affected by the current Transport and Works (Scotland) Act 2007 programme that we are working through.

Delivery has therefore been good, but the compliance part of the international specification for electrification has added critical costs and time to our programme. Karl Budge will explain how the original programme had a national Network Rail standard that we thought could be delivered, but our risk assessments led us to a decision to adopt the European standard.

Karl Budge: Electrification compliance is quite complex, so I will try to keep this as simple as I can for the purposes of this meeting. Multiple bits of legislation tie into compliance; some of it is UK legislation and some is European. Some of the standards are UK rail standards, and Network Rail has its own further set of standards and advice notes. There is an element of being in a minefield. A lot of the standards allow for interpretation and risk assessment of an acceptable level of achievement against them. Interpretation comes into it—our interpretation and that of the ORR have not always been the same, partly because we have had a way of managing electrification on the network that does not necessarily always tie in with some of the new requirements coming along in the transitional phase.

I will mention some specific compliance issues that we have had. In early 2015, there was an energy technical specification for interoperability—or TSI. That is a European standard that was updated—it changed the distance from wires that was considered to be safe for bridges and railway platforms. That caused redesign of wire heights on some of the structures that we had on the EGIP line.

John Mason: Just for clarification, I presume that the new rules were stricter and stipulated greater distances.

Phil Verster: That is correct.

Karl Budge: As far as the wires are concerned, their minimum distance from the edge of a platform used to be 2.75m. That was increased to 3.5m, and the distance from a bridge to the wires went from something like 270mm to 350mm. That did not mean that we needed complete rewiring of EGIP and replacement of everything that had been put up, as the media suggested several

weeks ago; rather, it meant redesign in certain areas and very localised changes around structures where we had to change the wire height slightly or assess the risk in order to prove that we did not need to make changes. That process, which is on-going, started in 2015. With a project the length of EGIP and with the number of structures on it, the process has been complex and each risk assessment has to be signed off and agreed in turn. That is one example.

The TSI has also impacted on things such as boundary-wall measures, and we now have to put in place thousands of metres more fencing than we had originally considered. Also, I can pass round some photographs of parapets. The typical parapet on a bridge goes up to the level that you can see in the picture that I am holding up; we have had to put two extra layers of brickwork and a very significant coper on top of that on probably 140 or 150 parapets along the railway line.

Phil Verster: For members' reference, none of the older electrification schemes—for example, the east coast and west coast main lines—would have had those restrictions on them. They were built under the old specification—

John Mason: Is it necessary to go back and change things on those projects?

Phil Verster: Not at all. Network Rail attempted to keep costs down by saying that the new specification is really high and asking whether it could risk assess things in order to get a derogation and therefore not to have to comply. Last year, when all the shenanigans started and the cost issues became really clear, it became obvious to ScotRail Alliance and to me that if we did not comply with the standards the ORR would not sign off the line to go live; if we had continued to debate the matter, we would have got late into the programme and built the railway only for the ORR to say that we could not run anything on it.

Around March—just before Karl Budge joined us—I said to the project team, “Stop the debate and move to the new standard. The railway will have hundreds of years of life into the future, so fix this now.”

John Mason: How much notice are you given when that kind of new rule is brought in? How long do you have to adapt to and prepare for it?

Phil Verster: I dare say that the amount of notice is reasonable. For full transparency, I say that the debate on risk assessments and the standards that were to be used went on for too long. We had to call time on it, and did so in 2015.

Karl Budge: I should make it absolutely clear that that specific compliance issue relates to an energy standard update in 2015. Other European standards came into being in 2011; Network Rail

continued to debate those with the ORR for several years and, as a result, we did not react to them immediately. We could perhaps have done that faster.

John Mason: So the 2011 rules were there, but you were still discussing how they needed to be applied.

Karl Budge: Yes—and we were discussing whether the hierarchy of standards in the UK was above the European standards. The whole standards debate is extremely complex.

John Mason: That is helpful. We probably do not want to go on for ever on this particular theme, so perhaps I could ask two more questions—

Phil Verster: What I am going to say is really important to understand and is for the committee's benefit. It is an unpalatable and difficult message, but because the ORR made reference to in its submission, I will say that quite a lot of the cost movement in rolling electrification programmes—around 50 per cent—is due to compliance issues. The money is not being wasted; rather, the railway is getting a different specification and the work has to be done. Compliance has a programme impact, and we are doing everything that we can, working closely and collaboratively with Transport Scotland and the supply chain, to deliver it. It is not money wasted. The project is delivering on a different scope from what was envisaged when the programmes were costed and estimated in 2012.

John Mason: So we have been unlucky with EGIP that the new rules came in when they did, and we were lucky that the rules did not change at the time of the Airdrie to Bathgate rail link.

Phil Verster: Gradually over time, the ORR has insisted that compliance levels be increased to the current standards. That is one of the big differences in cost drivers between the Airdrie to Bathgate rail link and where we are today.

John Mason: We have looked at the past. How is the timetable going forward on EGIP, and what about cost?

Phil Verster: We have submitted to Transport Scotland our estimates for what the cost increases will be and what the programme will be. Transport Scotland, supported by Ernst & Young, is busy with its own review, and it intends to declare the outcome of that review and the cost increases across the programmes when the review is complete.

Clearly, the cost that Network Rail submits to Transport Scotland is only a part of the overall cost picture. Transport Scotland will declare the full impact on EGIP at the end of October, after which it will be useful for us or Transport Scotland to share with the committee the costs and the timeline for the costs.

John Mason: When will electric trains run on the line?

Phil Verster: Key output 1 was electrification by December, but the first of the new electric trains that are going to be delivered—the class 385—will arrive in September next year. The current programme that Karl Budge and his team are working on is due for completion in July. We are doing quite a lot of work to improve that and to turn the situation into a success. Maybe we will update you on that at a future meeting.

Even though key output 1 has moved back to July, that will still be in time to accommodate new trains, therefore the customer impact will be negligible. However, we wanted electrification as soon as possible.

John Mason: As part of this, or as a separate project, Queen Street tunnel was closed. As far as I am aware, that went very smoothly.

Phil Verster: It did.

John Mason: People were pretty happy with that project. The line was closed, but we survived, and that was great. Somewhat to my surprise, however, when you reintroduced the timetable, other lines—in particular the Airdrie to Bathgate line—had different timetables, which resulted in reduced services, especially for people in the east end of Glasgow. How did that happen and why was there no local consultation?

Phil Verster: There was extensive consultation. The consultation on what the post-Queen Street project timetable would look like was conducted when we consulted on the timetable for the Queen Street blockade itself. Since that project ended we have had a clock-face timetable: if a train runs every quarter of an hour, it runs exactly on the quarter. By running like that, customers are given a high degree of certainty that if there are three trains an hour, there will not be two bunched together in the first quarter and the other one some other time. Customers know when the trains run. With regard to John Mason's comment on capacity, by having a clock-face timetable we have been able to have stronger capacity than we had in the past.

We also have a real opportunity to exploit untapped latent demand from North Lanarkshire to West Lothian; there are travel opportunities that we have not maximised with previous timetables. We have, since the Queen Street blockade, suggested applying that four-trains-an-hour approach, or a train every quarter, and the clock-face timetable.

11:45

John Mason: Shettleston station used to have four trains an hour to Edinburgh but now has only two. Do you accept that that is a cut in service?

Phil Verster: I will have to come back to you on Shettleston, because I do not think that it does have two trains an hour to Edinburgh. I think that it had two fast trains and two slower trains, which were stoppers, and we changed the two fast trains to slower trains. Therefore, there are more multiple-stop trains. By doing that, we have given our customers along the whole route a better service, in terms of the stopping pattern, without increasing journey time too significantly. The original timetable included the idea of fast trains running from Glasgow through to Edinburgh, but we have introduced a different stopping pattern, which has added something like two minutes to those journeys. I will get back to you on Shettleston specifically.

John Mason: Thank you—and thank you, convener. I think that I have had my shot.

The Convener: Yes. We are running short of time, and Rhoda Grant would like to come in on EGIP, too.

Rhoda Grant: It is a very short question, because many of the questions have been answered. Given that the specification was in place a long time ago, who was responsible for implementing it as part of the design? Was it Transport Scotland, ScotRail Alliance or the contractor? Who is at fault for not implementing the specifications?

Phil Verster: Could you please clarify which specifications you are talking about? Is that for EGIP?

Rhoda Grant: Yes.

Karl Budge: The outputs sit with Transport Scotland and are passed to us. We deliver those outputs, so we build up the final specification, along with route colleagues in Phil Verster's team. Then, delivering to that specification is absolutely my accountability. However, I take you back to the point that the compliance situation's development over the past three or four years has brought a number of changes in the specification; each time one of the compliance elements changes, we change the specification of what we are building. That is why we have to remain relatively agile, from a design perspective.

Phil Verster: The decision on how to implement the specification resides with Network Rail. Transport Scotland, as the client, quite correctly specifies an output. For example, Transport Scotland says that there is a requirement to run an hourly or half-hourly service on the route from Aberdeen to Inverness, but it does not specify that

a bridge somewhere has to be fixed and double track is needed somewhere else.

Rhoda Grant: So it is very much Network Rail's responsibility to get the project design correct.

Phil Verster: That is right.

Karl Budge: Yes.

Rhoda Grant: Are you going back to Transport Scotland for more money because you got it wrong.

Phil Verster: That is correct.

The Convener: We will move on from EGIP. Mike Rumbles has a question on the Aberdeen to Inverness line.

Mike Rumbles: I was just thinking that train services every quarter of an hour would be marvellous.

On the Aberdeen to Inverness project, the Office of Rail and Road indicated in written evidence to the committee that it is reviewing the project and that elements of it may be delayed by some years, which I find alarming. I am really concerned about that. What does it mean? Can you give me an update on what is happening on the Aberdeen to Inverness line?

Phil Verster: Yes, I can give you an update. My honest view is that there is no better example of where the previous estimation and pricing regime has not worked than the Aberdeen to Inverness project. That was covered by the Bowe review and was found to be an endemic problem throughout the United Kingdom.

I will give you two practical examples. I have described to you previously the aspirations for capacity increase on Aberdeen to Inverness. With the Aberdeen to Inverness programme we will deliver a 75 per cent increase in seat capacity on weekdays. You said that a service every quarter of an hour would be attractive, but you will get a service every half hour, which is fantastic for that part of our network—we are very excited about that.

The initial exercise to determine what Aberdeen to Inverness should look like as a future railway was very much a strategic and planning process. It was a desktop exercise without enough detail development. Even with our revised programme, we are not declaring that it will be years late; that is not on the cards. What we are declaring is that the programme may be completed in two phases. As you probably know, we have already spent nearly £30 million on the initial work at Elgin and Forres.

I come to the two examples. To deal with the half-hourly service on Elgin to Inverness, capacity changes were needed. If we were to have

delivered what was originally envisaged, we would probably have had to come back in five or 10 years' time, close the line again and do more work on it. When it came to the detailed design over the past year, we needed to understand in detail what had to be done on the ground. The team identified that now is the right time to put in things like turnback facilities for trains to turn round, more sidings and different signalling. That was not envisaged originally but it is being implemented now to give the capacity that is useful for the future development of the line. We go in once, spend the money once and get it done once. What we are incurring now is the cost that would have been incurred somewhere in the future in order to add capacity. The phasing of how Aberdeen to Inverness would have grown and developed over the next 10 or 15 years has been affected by that decision and how we now plan to do the Elgin to Inverness end.

The second example is the line between Inverurie and Aberdeen, which was previously double tracked. The desktop exercise assumed that, because it was previously double tracked, we would double track it again. It was decided only to renew 4 miles of track. However, when ground studies were done and people started to get into the nitty-gritty of the detail on the ground—that is a big change from what we have done in the previous control period up to 2019; we will do it differently in future—it was found that we had to do extensive earthworks to support the new double tracking and that those earthworks would be necessary to avoid having to procure land on the side of the railway. It is a cost balance.

The team then said that if we have to move the track in order to get everything to where it needs to be and deliver the railway as we want it, we will have to renew a further 11 miles of track. I will explain how that works. That track would have been renewed at some point in the future—say seven or 10 years from now—so we have pulled forward costs that we would have incurred in future to get the programme to give us the best possible railway when we commission it.

Those are examples of scope changes that mean that, if we do not work out the detail up front to the level at which we can pinpoint the cost better, it comes back and looks like big numbers after the event. However, as with other cases, the railway is getting more because more is being done to get the railway in place. That is not about wastage or costs; it is about more capacity being added.

Mike Rumbles: When can the residents of my area of Aberdeenshire who are on that line expect a half-hourly service?

Phil Verster: December 2019.

Mike Rumbles: You are fairly confident about that.

Phil Verster: I am. Forgive me for saying it like this, but I know how committees like this feel when they see witnesses. I am passionate about our railway and so is Karl Budge. We want to deliver the right thing and we are focused on getting our estimates right and the job delivered properly. The plans that we have submitted to Transport Scotland aim for December 2019.

Karl Budge: I will just add two points. First, the team that is working on the Aberdeen to Inverness route is the same team that delivered the Borders railway and the Airdrie to Bathgate line. It is an excellent team with great people in it, and such a team does not just become bad overnight. Secondly, one of the regulatory milestones that we passed a couple of months ago in July, in this control period, was the single option development on the Aberdeen to Inverness route. We hit that milestone, so from my perspective today we are on programme, as was anticipated three years ago. The change since then is that the scope has grown, which is what pushes it into the beginning of the next control period.

The Convener: Can you clarify something for me, Mr Verster? You said that we would have a train on the line every half an hour in December 2019. Is that a train between Aberdeen and Inverness, or is it on a shorter route? I want to be absolutely clear so that I can understand what we are holding you to account for when we meet again in 2019.

Phil Verster: There are a number of phases for what we will deliver and when timetable changes will be implemented. We implement timetable changes in May and December every year. I will supply the committee with our forecast of what will happen in each of the timetable changes on that line from now to December 2019.

The Convener: Right. I look forward to seeing those timetables. Mike, are you happy that we leave that there? We have a huge amount to cover.

Mike Rumbles: Yes.

The Convener: Stewart Stevenson has a quick question on electrification.

Stewart Stevenson: I think that we have covered it, convener.

The Convener: We could save it for later.

Stewart Stevenson: Do not worry about it.

Richard Lyle: Mr Budge, I now know why you are raising the bridges on the M74—thank you very much for that information. Incidentally, Mr Verster, my mother-in-law was Dutch and I travelled on quite a lot of trains in Holland. Thank

you for allowing John Mason and me to walk through the new Queen Street tunnel before it was opened—that was an interesting day.

The Office of Rail and Road has identified issues with the rolling programme of electrification, especially on the Shotts and Dunblane lines, and in particular with the underestimation of works required to deliver the project. How did that happen and what are you doing to rectify those problems and prevent them from reoccurring in future projects? Does the closure of the bridge over the railway at Cleland station have any effect on timetables?

The Convener: That was an extremely long and detailed question, but we have a huge amount on the agenda. I therefore implore the witnesses to keep their answers as short as possible, and I ask committee members to keep their questions as short as possible. I am not looking at anyone in particular—that was a very reasonable question—but we have a lot to cover between now and 12.30.

Karl Budge: Many of the electrification issues on the Shotts project and other projects that we are delivering at the moment come back again, unfortunately, to the compliance issue. I think that we have probably covered that enough. I have been making changes since I started.

I take Mr Stevenson's point about enhancements and improvements being "jam tomorrow". We have to do things immediately to try to get hold of some of the things that we are doing. I have restructured the Scotland team so that we have a specific programme management organisation that sits above all the electrification schemes. That also gives us a single engineering team that sits beneath all that, instead of siloed engineering teams sitting on each scheme. That means that, as we get the compliance learning on key output 1, for example, it is passed on to Shotts, Stirling, Dunblane and Alloa. That is a significant change.

In addition, the commercial team in Scotland has moved to a more matrix-managed structure, which is increasing the level of transparency across my team. Instead of something coming up through a hierarchy, as it used to do, there is now much more internal transparency as well as challenge. There is also the change in reporting regimes that I have instigated in both Scotland and London north eastern. We are making a number of internal changes to strengthen the way in which we deliver electrification projects.

On the timetable changes at Cleland—

Phil Verster: Can I respond to you in writing on that after the meeting, please?

Richard Lyle: Yes. Thank you.

12:00

The Convener: We move on to the Borders railway. It is probably not surprising that we want to look at that, because the service has been in the news. John Finnie will start.

John Finnie: The very nature of committees is that we dwell on the negatives, so it is important to mention that the good work that you and your staff do is appreciated.

I will roll my questions on Borders rail into one big question. There have been issues around crew shortages, signal failures, the overheating of the class 158 units and passenger number projections. How does that all fit with the improvement plan requested by the transport minister? Will you comment on all those issues, please?

Phil Verster: Yes. The Borders railway is just a fantastic railway. Our people who work on the railway make a fantastic contribution, and the customers are just brilliant. It is a big success.

The first year has brought us challenges. I will start with the crew shortages. Clearly, the industrial relations strike had an impact on crew availability. That is unfortunate. Therefore, it was important for us to close off the strike. We did that on Monday evening when an agreement was reached with the RMT and ASLEF—the Associated Society of Locomotive Engineers and Firemen. That took a lot of work, but it has given us a win-win outcome on the strike.

We have also had challenges with new equipment. I will try not to bore the committee and to be brief, as the convener requested. Axle counters, which determine for the signalling system where a train is on the rail line, have performed really badly. As part of our improvement programme, we have adjusted our maintenance regime from once a year to every six to eight weeks. We are sending out people to recalibrate and reset the axle counter heads to give us the maximum assurance that they will perform. On Monday morning we had another maloperation, which affected services.

On top of that, we are doing non-destructive testing—with the supplier, Siemens—as well as destructive testing. We are doing everything possible to get our equipment to a state in which it performs better. On the railway it is very often the case that new equipment is not as reliable as we would want it to be. On top of that, we have seen power supply interruptions and we are now considering the extent to which we can ameliorate or fix the problem by using universal power supplies.

By describing that one issue, I have given you a sense of the extent of the focus that we are bringing to bear on such problems.

On infrastructure problems, I cannot convey to the committee just how dedicated our teams are. We have fantastic, good people on the ground, and we are doing everything that we can to focus on where the issues are and to fix them.

You will have noticed a lot of commentary in the press about how much of the route is single track and how much of it is double track. I do not particularly want to be drawn into that issue other than to say—

John Finnie: That is unfortunate. I had hoped to draw you into it.

Phil Verster: There is always a balance. If there were more double tracking on the route, that would definitely provide more flexibility and more opportunity to recover from delays.

We could do things with the timetable. We are working exceptionally closely with Transport Scotland. I repeat that our relationship with Transport Scotland is very open and positive. We will feed back the lessons that we learn to Transport Scotland, and we will look at other choices that need to be exercised to make the railway and the timetable more robust. Again, that is about an output and not necessarily about an input.

I would like to show the committee an infrared photograph of a radiator; I will send it round. Members will have read about the problem with radiators in the class 158 fleet. The photo shows what a radiator looks like. On one side, it has very hot water—that is the bright area—and, as it goes through the radiator, it should become darker. That would show that it was working. Members will see that this radiator design, which has been on the class 158s for a long period of time, is not really working—two thirds of the radiator is not effective. On hot days, the radiator gets so hot that it cuts out the engine, which means that the engine runs at lower power. The result is that the trains struggle up Falahill and start to lose time. We capture that time loss.

First, we looked at how we clean the radiators, in case they were being affected by contamination, but we now have a new radiator design and we are busy refitting the whole fleet. Therefore, the problem will be removed for next year. The focus on such issues will put us in a better place on performance in the long run.

You mentioned the overall performance improvement plan, which is extremely important. As railway people, we understand when our customers are affected by punctuality not being where it needs to be. Currently, our punctuality is

about 0.6 of a percentage point away from where we want it to be—it is at 89.7 per cent instead of 90.3 per cent. However, our customers have had a very rough summer. We have had industrial relations issues, strikes and a number of serious failures in our overhead line equipment, which have caused significant disruption.

We are spending more than £8 million on specific reliability improvement programmes, but we are not just throwing money at performance. We are also focusing on how the railway operates on a day-to-day basis and how people can work together to make sure that trains depart on time and do not lose half a minute here and there. Over the coming weeks, we will continue to maintain that focus and work towards improving the punctuality of our service.

Needless to say, we are going through periods of change. We asked customers to bear with us when we did the work on Winchburgh tunnel and when we closed the Glasgow Queen Street tunnel. The same is true when it comes to giving Karl Budge and his team more than one and a half hours of access at night to enable them to get the electrification done. All those things affect our customers. I understand that. There is nothing worse for me than to have customers who are dissatisfied with our railway. We take the issue very seriously. In the coming weeks and months, we will focus on improving the performance on our railway.

John Finnie: Thank you for that comprehensive reply.

I appreciate the effort that goes into the design and future proofing of projects, and I appreciate that neither of our witnesses was involved in the decision-making process on the layout of the Borders railway as it is presently configured. That layout clearly has an impact on some of the challenges that you face. Do you agree that it will also compound the difficulties associated with the expectation that many people have that the line will be extended?

Phil Verster: I am not sure. I think that the extension of the Borders line to Hawick and even further has gripped the imagination of the communities concerned, and rightly so.

John Finnie: It is fair to say that that understandable expectation has been affected by what could have been fairly modest additions to the current design. There were opportunities to put in more double tracking and loops, which were not taken up.

Phil Verster: My honest view is that, as we get a sense of how the Borders railway works—it takes time for things to settle down; we are now in a phase in which we can see how it is shaping up—there are real opportunities for us as a train

operator and Transport Scotland to agree on what can be done to improve the effectiveness of how the railway works. I think that an opportunity exists to think about different timetables or further infrastructure investment.

As for the benefit that it brings, we need look only at the feedback that we have got on footfall to Abbotsford house and businesses in Galashiels. The Borders railway is a huge economic contributor, and I do not think that some of the difficulties that we are experiencing now and which we are fixing will affect the business case for further extensions of the railway.

The Convener: Everyone wants the Borders railway to be a success and to provide what people need. We will continue to watch what happens.

I am, as I keep saying, mindful of time, but one of the issues that we would like to talk about is the recent dispute. Since the papers were prepared for this meeting, there has been some movement, and I wonder whether you would like to update the committee on that before we ask you a couple of questions about it.

Phil Verster: What we have agreed with the RMT, which represents conductors, and ASLEF, which represents drivers, is a dispatch method for new trains under which the driver stops the train and opens the doors and the conductor closes the doors and does the safety checks on the platforms. That proposal has come after what I am sure the committee will appreciate has been a very difficult period of proposing solutions; this is the sixth or seventh variant of the original proposal, but it presents benefits for both parties.

Mairi Evans: I appreciate that the situation has changed since the meeting papers were issued, and I thank Mr Verster for the update. Just for clarification, is there no plan to extend driver-only operation?

Phil Verster: No. We could not get agreement on drivers operating doors. We never suggested that there would be only the driver on the train; in railway terminology, driver-only operation pertains only to the doors. It has been so misleading for the public because the term was immediately read as driver-only operation of the whole train. It was always our intention to have a second person, and we now have a solution that has that.

The Convener: John, you will need to be very quick.

John Finnie: Nonetheless, Mr Verster, a significant number of trains have operated with just the driver, which had implications for disabled passengers, for instance.

Phil Verster: On parts of our network, we have an agreement to operate trains with the

reasonable expectation of putting a second person on them, but we also have an agreed process whereby, if there is no second person, the train can operate and can depart.

John Finnie: It is less than desirable, though, is it not?

Phil Verster: Yes. I fully agree that it is less than desirable, and working closely with our unions and having identified instances in which it would be better to have head count increases, I have increased the head count of ticket examiners to ensure that we have fewer such instances. During the past couple of weeks, we have significantly reduced the number of trains that run in that format.

John Finnie: It is good that you have a solution that satisfies everyone.

Phil Verster: Thank you, sir.

Rhoda Grant: I have a short question. I understand that, under your contract, you can seek compensation from the Government for lost revenue as a result of industrial action. Will you do that?

Phil Verster: Under our contract, if we show that we have done everything reasonable to avoid or manage a dispute, we have recourse to the Government. However, right at the beginning of the dispute, the Government indicated to us that the risk of industrial action resided with us as a business, so it has made it clear that we have no recourse with regard to the revenue loss that we have suffered as a result of industrial action.

The Convener: Is your question brief, Stewart?

Stewart Stevenson: Now that the doors of the class 385s are being shut under the control of the conductor, is the button still being pressed by the driver—although under the control of the conductor—or will you have to spend extra money refitting the 385s that are already in course and those that you can order?

12:15

Phil Verster: The fitting of door control panels will still go into the assembly process. There have only been a few sets bought to which door control panels will have to be retrofitted. From this point on, the door control panels will make up part of the fitment programme on that fleet.

Jamie Greene: It is very clear that you are passionate about Scottish railways—that comes across in all your answers.

You mentioned that customer satisfaction is of the highest importance to you. However, the national rail passenger survey performed by Transport Focus flagged up some areas of

concern. In particular, there has been a drop in passenger satisfaction levels with the way in which you handle delays and cancellations—or how they perceive that—and the overall environment in train stations. Some delays are caused by factors outside your control—cancellations in Scotland are often caused by weather, for example—but, as we have read in the press, many cancellations are caused by staff shortages. What is your view on passenger satisfaction and what are you doing to increase passenger satisfaction levels in Scotland?

Phil Verster: As a business, our focus is on customers and customer satisfaction, and I do not say that lightly. Our whole business plan is predicated on growing our customer base. We see ourselves not just as a business that operates metal boxes up and down two metal rails, but as a business that succeeds in what we do for customers. I hold my hands up—there has been an incredible number of difficult challenges during the past year. Even though the closure of the Forth road bridge was successful for some of our customers, it affected other customers differently and affected our punctuality.

On delays, we have done a couple of things: we have equipped all our employees with mobile phones and we have given them a contingency app. The app is really cool because, when there is a delay, they just press a button and it tells them exactly what the delay is, which trains will be affected and what replacement bus services will be available. Staff can then get information to customers more quickly.

We are modifying that same app so that we can issue it to our customers and they can use the journey planner. Fifteen minutes to half an hour before they catch the East Kilbride train to Glasgow Central, for example, they will be able to tap in the details and it will tell them the route to take if there is a disruption on the line. On our app and our website, we also have implemented a list of the 31 top routes that declares which routes are currently affected and which are healthy; it is very similar to what the London underground does.

We are working to get a significantly higher level of information out to our customers. In the past year, we have rolled measures out in phases, but we need to do a lot more to inform our customers about them and get people to use and be familiar with them.

Because of the complexity of the network in the Strathclyde area, I am concerned about how we get messages and alternative options to customers when a train is disrupted. My team—led by Jacqui Taggart, an extremely competent director—has put together the idea of the Strathclyde disruption desk. We will deal with disruptions in the Strathclyde area in a different

way that ensures that the person on the ground is advised immediately about what is happening in other parts of the network. That is a big drive for us.

On top of that, how our people think and behave needs to be really effective. We have what we call an inspire programme, which is focused on changing the behaviours of our people by adding to them.

Our business is based on the super, fantastic people working in our company. I go on the trains and announce myself to customers by saying, "I'm Phil Verster, the managing director. I'm walking through the train. Throw eggs at me or whatever, but give me comments. Tell me what you don't like." You may be sure that they tell me.

One thing they tell me most is not, "This is bad" or "That is bad." They say, "Do you know how super your people are? Your people make your company work." Fantastic people run our business, so we continue to help them to understand what they can do for our customers during times of disruption.

The last idea, which we have not yet successfully sold to our customers, is that we have set up a number of really good ticket acceptance arrangements with bus operators. If a service is disrupted, you can take your ticket, get on a bus and travel as if you were travelling on a train. It is not the same as a train and it is definitely not as good a product, but it gets you from point A to point B.

We have deals with McGill's for Inverclyde, First UK Bus for the whole of Glasgow, Lothian Buses for Breich to Edinburgh, and Stagecoach in the Highlands for Inverness to Aberdeen, and Inverness to Thurso, and so on. We have recently closed similar agreements with Stagecoach East Scotland for Fife and the Borders, and Stagecoach West Scotland for Dumfries and Ayr. We have done many things to help us to work the railway better and we will go out of our way to get the result of that work to our customers.

The Convener: First, thank you for that in-depth answer. I am conscious of the time. I am delighted to hear about the app, but it will rely on being able to get wi-fi on the train, which is another issue. That leads us neatly on to discuss whether that is possible and to talk about rural railways. Gail Ross has the first question.

Gail Ross: Thank you, and thanks for coming along. Some questions are a follow-up to when we met up in Thurso; thank you for coming on the far north line and experiencing the opportunities and challenges that we face every day. I will try to keep my questions as short as possible. Last Friday, I was on the train from Tain to Wick. The wi-fi was not working so I was unable to get my

work done. Could you look into that for me? Sorry to make it personal.

One of my constituents has asked me about how your pricing is set, because he finds it quite high. I actually disagree with that because I found the journey from Tain to Wick to be cheaper than it would have been on the bus, even though the bus probably takes two hours longer. The scenery is beautiful, as you know.

Network Rail, what are the plans for additional loops? As you know from our declaration, the Friends of the Far North Line has been pushing for loops for quite some time because they would certainly help to improve the service. At the moment, we face a four-and-a-half-hour journey from Inverness to Thurso, which is challenging for a lot of people. There have also been a couple of timetable changes. I make a plea to reinstate the early morning request stop at Culrain.

I am being pushed by the convener to shut up. It is unfortunate that this is one of our final questions because we need to spend as much time talking about these topics as we have spent talking about other projects. That will do for now; I am sure that I can put anything else in writing to you.

Phil Verster: I will gladly take any other questions. The far north line is different from any other part of our railway because, compared with a typical commuter railway, it is an inherent part of the local communities. It is such an important line, very similar to how the Borders railway has manifested itself. Therefore, as part of the route study on the far north line, improvements will be made close to Inverness. We continue to consider how to get speeds in loops to be faster—something that Frank Roach brought to my attention—so that we can get more flexibility in the timetable.

There has been no ambiguity about the importance of the far north line. Our performance improvement plan has a far north line team that looks at performance on the far north line and focuses on how to improve it.

People believe that the prices of tickets for the railway are set by the train operating company, but they are not. Ticket prices are set by the client, which is Transport Scotland, and which is good at listening to and working with different groups to understand their concerns about ticket prices and the like.

You referred to the timetable changes at Culrain. We must continue to ensure that we have a workable far north line timetable, especially as trains approach Inverness, because many people make important connections at Inverness. That remains our focus. I will take the question away.

Rhoda Grant: Some stations on the far north line—indeed, on the Kyle line and others—are being missed out to get the train to Inverness so that people can make their connections. There must be better information for people at those stations who keep seeing trains go past them.

A piece in *The Sun* yesterday that appeared to be informed by the Scottish Government—it quoted Scottish Government insiders—said that you have neglected everything north of Edinburgh. That is quite stark, but you said that a 30-minute train service is fantastic for that part of the network that is anywhere north of Edinburgh, and that plays into the allegation. The article also said that the Scottish Government has given you an ultimatum. What is the ultimatum that the Scottish Government has given you about improvements to services, especially those north of Edinburgh?

Phil Verster: The Scottish Government rightly approached us when our punctuality performance measure, which is the measure of the punctuality of our services, dropped below the trigger level of 90.3 per cent. It expects us to have an improvement plan to get performance above that level. That is not an ultimatum; it is practical contract management with us.

Train service performance has suffered. We had an awful winter, with three of the worst storms—Gertrude, Frank and Henry—that have hit Scotland in a long time. At Lamington, where the water level is typically 1m deep, the Clyde was 3.5m deep and touched the underdeck of the bridge. We have not seen such weather in Scotland before. People in Scotland say that we must be ready for bad weather—we understand that—but that was extraordinarily bad weather. Our response to the Forth road bridge closure was—as the ORR has submitted to the committee—exemplary in helping in the national context, but it affected our train service performance through significantly overcrowded trains.

We accept all that and we are not making apologies, but I am saying that we are passionate about fixing performance issues on the railway and I see the Government's approach not as an ultimatum but as a proper step towards our delivering an improvement plan. We have submitted that improvement plan to the Scottish Government and we will deliver on it.

My reference to a half-hourly service at Aberdeen was not made in the context of its being north of Edinburgh; it was made in the context that centres such as Aberdeen and Inverness have for many years had a service that has been too sparse for the huge demand that we have seen. That was the context of my answer. Aberdeen is a fantastic part of our network, and it is very important that we serve it. We cancel 1.1 per cent

of our trains, and some of the data that made its way to *The Sun*—we hold our hands up: the data was published on our website—was incorrect and did not reflect that percentage. *The Sun* has reported on that again this morning.

We are in the same space as the Scottish Government: train service punctuality will have to improve, and we are committed to ensuring that.

Rhoda Grant: Is it possible to get a note to the committee of the lines that have an improvement plan in place?

Phil Verster: The whole railway has an improvement plan in place. For example, the—

Rhoda Grant: But, on reliability, you said that you had to put in improvement plans when reliability fell below a certain level. Is it possible to get a note of those lines and those plans?

Phil Verster: We will give you a detailed answer on that.

The Convener: We are now at the stage when the meeting has to come to a conclusion, but there are various questions still to be asked—notably, questions on access to Waverley station, the Scotland route study and access to the track by steam trains. We probably have other questions that we would like to think about and submit to you, and I would be grateful if you would consider responding to those so that the committee is informed. Our questions will come to you during the next week.

I would like to thank you—as, I am sure, the whole committee would—for the excellent evidence that you have given. Your passion and knowledge have come across, and we look forward to getting you back to update us on how things are going and to hold you to some of the promises that you have made on delivery.

Phil Verster: Thank you very much.

The Convener: I have an announcement to make before I close the meeting. At previous committee meetings, crofting issues have been raised. I have seen the first draft of a work plan and paper that is being produced on those issues and it will be available on 5 October. It will be quite detailed and will suggest how we could take things forward. I want the committee to be fully aware that that is coming down the track—that seems to be a reasonable analogy to use today—and that I am working on it. As soon as it is available, we will let members have that paper.

Thank you very much, everyone, for your time.

Meeting closed at 12:31.

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