



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Rural Economy and Connectivity Committee

**Wednesday 11 September 2019**

**Session 5**



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**RURAL ECONOMY AND CONNECTIVITY COMMITTEE**  
**24<sup>th</sup> Meeting 2019, Session 5**

**CONVENER**

\*Edward Mountain (Highlands and Islands) (Con)

**DEPUTY CONVENER**

\*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

**COMMITTEE MEMBERS**

\*Peter Chapman (North East Scotland) (Con)

\*John Finnie (Highlands and Islands) (Green)

\*Jamie Greene (West Scotland) (Con)

\*Emma Harper (South Scotland) (SNP)

\*Richard Lyle (Uddingston and Bellshill) (SNP)

\*Angus MacDonald (Falkirk East) (SNP)

\*Mike Rumbles (North East Scotland) (LD)

\*Colin Smyth (South Scotland) (Lab)

\*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Michael Matheson (Cabinet Secretary for Transport, Infrastructure and Connectivity)

Bill Reeve (Scottish Government)

Michelle Rennie (Scottish Government)

Paul Wheelhouse (Minister for Energy, Connectivity and the Islands)

Chris Wilcock (Scottish Government)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



# Scottish Parliament

## Rural Economy and Connectivity Committee

Wednesday 11 September 2019

*[The Convener opened the meeting at 10:00]*

### Subordinate Legislation

#### Plant Health (Miscellaneous Amendments) (Scotland) Order 2019 (SSI 2019/242)

**The Convener (Edward Mountain):** Good morning, everyone, and welcome to the committee's 24th meeting in 2019. I ask all people present to ensure that their mobile phones are on silent.

Agenda item 1 is consideration of one negative instrument, as detailed in the agenda. No motions to annul or representations have been received in relation to the instrument. Is the committee agreed that it does not wish to make any recommendation on the instrument, or does anyone have a comment?

**Maureen Watt (Aberdeen South and North Kincardine) (SNP):** Is it public knowledge how many of the affected oaks were imported and where they are located?

**The Convener:** I do not think that it is public knowledge, but we could write to the Government to ask for further information on that, if you like.

**Maureen Watt:** That would be a good idea.

**The Convener:** Does the committee feel that that is a good idea?

**Members indicated agreement.**

**The Convener:** We will write to the Government. Do we agree that we do not wish to make any recommendations on the instrument?

**Members indicated agreement.**

#### Additional Powers Request (Scotland) Regulations 2019 [Draft]

**The Convener:** Item 2 is consideration of one affirmative instrument: the draft Additional Powers Request (Scotland) Regulations 2019. The committee will take evidence from Paul Wheelhouse, the Minister for Energy, Connectivity and the Islands. The motion seeking the approval of the affirmative instrument will be considered at item 3. Members should note that there have been no representations to the committee on this instrument.

I welcome from the Scottish Government Paul Wheelhouse, Minister for Energy, Connectivity and the Islands; Jessica McPherson, head of local government policy and relationships; and Stuart Johnson, local government policy officer. Minister, would you like to make an opening statement?

**The Minister for Energy, Connectivity and the Islands (Paul Wheelhouse):** Good morning, convener and colleagues. For members' benefit, I will make a brief opening statement, just to put something on the record.

The laying of the draft Additional Powers Request (Scotland) Regulations 2019 is the next step in the implementation of the Islands (Scotland) Act 2018. As you may know, the Scottish Government has been working collaboratively with the six relevant local authorities to progress the regulations and the non-statutory guidance that will accompany them. The regulations will come into force in mid-November at the latest, subject to approval by the committee and Parliament.

It will be for the local authorities, in consultation with their own local communities and relevant stakeholders, to decide what additional powers they might seek to request from Government. Some areas that have been suggested in our engagement with local authorities are economic development, digital connectivity, fuel poverty, health and housing. As you might know, the regulations will sit alongside measures resulting from the local governance review that are being taken forward by Orkney Islands Council and potentially others.

I hope that that is helpful. I kept it brief.

**The Convener:** No one wishes to ask a question, so your statement has obviously convinced committee members.

Item 3 is formal consideration of motion S5M-18217, in the name of the Minister for Energy, Connectivity and the Islands, calling on the committee to recommend that the draft Additional Powers Request (Scotland) Regulations 2019 be approved.

*Motion moved,*

That the Rural Economy and Connectivity Committee recommends that the Additional Powers Request (Scotland) Regulations 2019 [draft] be approved.—[Paul Wheelhouse]

*Motion agreed to.*

**The Convener:** I will briefly suspend the meeting to allow a changeover of witnesses. I thank the minister and his colleagues for attending.

10:04

*Meeting suspended.*

10:05

*On resuming—*

## Transport (Update)

**The Convener:** Item 4 is a transport update. We will take evidence from the Scottish Government on various transport issues. I welcome Michael Matheson, Cabinet Secretary for Transport, Infrastructure and Connectivity; Paul Wheelhouse, Minister for Energy, Connectivity and the Islands; Michelle Rennie, director of major projects; Heather Cowan, head of strategy and integration; Bill Reeve, director of rail; and Chris Wilcock, director of aviation, maritime, freight and canals.

I am told that neither the cabinet secretary nor the minister would like to make an opening statement, so that means that we can go straight to questions from members. The first question is from the deputy convener, Maureen Watt.

**Maureen Watt:** Good morning, panel. I would like to start with questions about Ferguson Marine Engineering Ltd, about which there is, of course, a lot of public interest. Clearly, this is quite a concerning situation. Has there been any interest from any credible private sector operators to take over Ferguson Marine?

**Paul Wheelhouse:** The first thing to say is that the Scottish Government is not directly involved in the sale of the business itself. As you may know, the Cabinet Secretary for Finance, Economy and Fair Work has established a programme board to oversee the management of the yard while the administrator is undertaking a market testing exercise. Deloitte, the administrator, is undertaking that as we speak and it is being conducted over a four to six-week period.

We believe that it is important to maintain the integrity of the marketing process, so it would not be appropriate for us to discuss any details of commercial information relating to the business for sale, but clearly the Government would be supportive if there was a commercially viable offer. However, we are preparing for a scenario where perhaps no such offer is received by the administrators and preparing for potential solutions that would involve the Scottish Government taking over management of the yard.

I apologise that I cannot state what interest there has been, because we are not directly involved in managing the process, but clearly we have a strong interest in it and it will conclude relatively quickly.

**Maureen Watt:** My understanding is that someone has been put in to do something. Are they preparing Ferguson Marine for returning to the private sector or are they there to make sure

that the ferries are built? My understanding is that the person does not necessarily have a marine background. Are experts coming in to get the ferries built? My reading of the situation is that either the correct personnel have not been involved in getting the ferries built, or that personnel have come and gone.

**Paul Wheelhouse:** Tim Hair has been appointed as the turnaround director by Mr Mackay and his focus will be on stabilising the business—his background is in that. It is correct to say that that is not his specialism in the marine area, but he has relevant experience. His focus will be on stabilising the business, calculating the financial position and putting in place a programme, including costs and timescales, to complete vessel 801, the Glen Sannox, and vessel 802 in the shortest time possible while ensuring value for money for the taxpayer. Mr Mackay has set a target for the end of October to bring forward a fully costed delivery plan for both vessels with accurate timescales.

One thing that has concerned us throughout the process is that we have been given successive revised estimates for when the 801 and 802 will be delivered, but they have proved to have been shifting sands. We want to give enough time for Tim Hair and the programme board, which I should state includes representatives from Transport Scotland, Marine Scotland, David MacBrayne Ltd, Scottish Enterprise, and Caledonia Maritime Assets Ltd, as well as representatives from the onsite workforce. That programme board has expertise and detailed knowledge of how to build ferries and manage that process. We aim to have a well-developed delivery plan brought to us by the end of October, so that we know realistic timescales for delivery and costing, and so that we can update colleagues in Parliament and the stakeholders who are depending on those vessels coming into service.

**The Convener:** I will go back to the deputy convener for another question, but first, as you have said that that is your timescale, I believe that the committee would look to have you back as soon as that information was available, to bring us up to date. It would be nice to have your undertaking to do that.

**Paul Wheelhouse:** Absolutely. I think that the Cabinet Secretary for Finance, Economy and Fair Work has also made clear that he is happy to engage with Parliament in whatever form Parliament wishes. We have a duty to try, where we can, to provide clarity, particularly for the stakeholders. We are very aware that the communities that are waiting for these vessels to come into service are very keen to know the detail of when that will happen. Of course, CalMac itself needs to know when these vessels will be

available, so I am happy to personally engage with the committee as best I can to give you as much information as I can.

Clearly, we are still waiting for the outcome of that market testing exercise, first and foremost, to establish whether there is a commercially viable bid from a third party. If there is not, obviously the measures that the finance secretary has set out for the Government to take forward management of the yard will kick in.

**The Convener:** Thank you. I am sorry to interrupt.

**Maureen Watt:** We will come on to Prestwick airport later, but is there a crossover with Ferguson Marine? Prestwick has possibly been in the Government's hands longer than it might have wanted. Are there any lessons to be learned between the two?

**Paul Wheelhouse:** I will invite the cabinet secretary to comment on Prestwick, as it is not my area of specialism. Clearly, we are trying to learn lessons from what has happened at Ferguson Marine. Mr Mackay has made clear—as has the First Minister—our desire to have clarity about the pipeline of investment in ferries. That will help not just Ferguson Marine—which is a very important part of the infrastructure—but the wider shipbuilding sector in Scotland. We are trying to learn how we can best support those businesses to remain commercially viable, so that they do not require the Government to intervene, as we have had to do in this situation.

I will pass over to my colleague Mr Matheson to talk about Prestwick.

**The Convener:** We will deal with Prestwick slightly later on, because there are more questions on that. We will stay on ferries, and the next question is from Angus MacDonald.

**Angus MacDonald (Falkirk East) (SNP):** Good morning. As Maureen Watt mentioned, there is a lot of public interest in the issue, not least in relation to the increased costs for the two new hybrid ferries. What funds have you set aside to cover those increased costs, which budget have those funds been taken from, and what impact might that have on other transport priorities?

**Paul Wheelhouse:** Good morning, Mr MacDonald. We are trying to get to the point at which we have detailed costings. At this stage, it is difficult to say exactly what will be required to complete the vessels. As you may be aware, Fergusons won the £97 million contract fair and square in a competitive tendering exercise. I repeat the point that, as the finance secretary and the First Minister have said, the vessels need to be delivered. As I set out in my response to

Maureen Watt, we are trying to deliver them for the lowest possible cost to the taxpayer.

We will learn a lot from 801. Obviously, it is not complete yet, but a lot of work has been done to complete it, and we will try to minimise the need to change anything in 802. We are trying to learn from what is happening with 801 and to apply that to 802. However, we have to rely on Tim Hair, his team and the programme board and give them the chance to come forward with a detailed delivery plan and costings for the vessels.

As I said, we should have that information by the end of October. Once we have it, I will be more than happy to engage with the committee, either with Mr Mackay or on my own, to deal with any questions that the committee may have at that point.

It is hard to give a precise answer, Mr MacDonald—I do not want to put a figure on it at the moment. I apologise for that, but we are trying to deliver the vessels as quickly and as efficiently as we can. That is the objective that the programme board has been set.

10:15

**Angus MacDonald:** With regard to the impact on other transport priorities, specifically what impact might the nationalisation of Ferguson Marine have on the HySeas III project to develop a hydrogen-powered ferry for use on routes in the Orkneys?

**Paul Wheelhouse:** In our comments on the yard and the work that the programme board is doing, we note that it is essential that 801 and 802 are delivered. However, we are conscious that there are contracts not just for HySeas III but for the work on barges for the Kazakhstan market and for fishing vessels that have been commissioned through Fergusons. We are very much aware of that work, and I am sure that the administrator is looking closely at how to ensure that those contracts are fulfilled. It is in everyone's interest that Fergusons is able to come through this difficult period delivering the projects that it has secured to ensure that its commercial reputation is protected and that it has a strong track record on which to spring forward.

HySeas III is an interesting project. We are engaging with Orkney Islands Council and other partners on that and participating in the development of infrastructure around the storage of hydrogen in Orkney through the building innovative green hydrogen systems in an isolated territory—BIG HIT—project and the surf'n'turf project. We have skin in the game, if you like, in seeing hydrogen as a potential fuel for ferries. From a ferries perspective, I am keen for the HySeas III project to conclude. However, we have

to wait to see the outcome of the market-testing exercise and, if the Government is directly involved in managing the yard, we will have to consider how we can ensure that other projects are completed.

**Angus MacDonald:** It is certainly encouraging to hear that the order book is fairly healthy. The minister may have noticed that last week the Norwegian Prime Minister launched an electric hybrid ferry in Norway for Color Line. I am curious as to whether there is any on-going work with regard to electric hybrid ferries being commissioned in the future.

**Paul Wheelhouse:** As you know, as part of the response to the climate emergency, the climate change plan, on which Roseanna Cunningham leads, will be upgraded, assuming that the Climate Change (Emissions Reduction Targets) (Scotland) Bill proceeds through Parliament and passes at stage 3. The plan will examine all policy areas across the economy. Transport is obviously one of the areas in relation to which we are very conscious of calls for more investment in low-carbon technology. In parallel, we are developing the ferries plan and the vessel replacement and deployment plan, which will feed into and draw from the national transport strategy and the strategic transport projects review.

A lot of work is going on in parallel to look at how we decarbonise our transport systems. We want to help decarbonise the ferry fleet, so I am very interested, as are my colleagues in the ferries unit, in looking at the development of alternative fuels and propulsion systems. We have two liquefied natural gas hybrid ferries with 801 and 802, we have HySeas III and we are also interested in battery technology. We are keen to find out what solutions will work in our market, where we have some unique conditions. I know that Mr MacDonald knows the Western Isles and the Hebrides well, and routes there have particular characteristics. We need to make sure that vessels that have those technological options available to them can operate in the environments in which they would be expected to operate. Modern vessels are clearly the way to go, and we will be taking a strong interest in developments.

**The Convener:** We will stick with finance. Stewart Stevenson has a question, and then I will ask a question.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** It is a very quick question—the minister might have had to answer it later anyway. With regard to ferries, propulsion units may need to be bought in because they are not built by Fergusons. Are we confident that there are rock solid contracts such that the propulsion units will be delivered to a schedule that will suit?

**Paul Wheelhouse:** I will need to come back to the committee on that. Chris Wilcock might confirm this, but I believe that the propulsion systems for 801 and 802 have already been purchased, so I do not think that that is an issue. If there is a change in ownership, we have considered—and I am sure the programme board will be looking at this too—the continuity of any guarantees and insurance in relation to the engines, but that would happen in any transfer of ownership. The propulsion systems are in place, I believe. I think that Mr Wilcock can confirm that.

**Chris Wilcock (Scottish Government):** That is the case, yes.

**Stewart Stevenson:** That is fine. Thank you.

**The Convener:** I have a question. When I used to manage projects, we would be allowed to draw down money at certain key points in the project to pay off the people who had been carrying out the work. I am assuming that exactly the same applies to the ferries project; in fact, that corresponds with the evidence that I have heard that £45 million has been drawn down by Ferguson Marine against the two ferries in what is a £97 million contract. You have made the point, minister, that it is a fixed-price contract that will cost only £52 million more. Surely you would not have paid the £45 million unless you knew that £45 million-worth of work had been completed. Could you shed some light on that?

**Paul Wheelhouse:** Forgive me—I do not have the precise timescales and figures in front of me, but I know that CMAL has tried to be as helpful as possible in order to ensure continuity of employment at Fergusons when it was—

**The Convener:** No—that is not the question, minister. The Government has allowed £45 million to be drawn down against a contract that is worth £97 million. The Government must have been sure when it allowed that £45 million to be drawn down that £45 million-worth of work had been completed, otherwise I would say that somebody has acted wrongly. I am asking whether you are confident that £45 million-worth of work has been completed on 801 and 802 and that only £52 million is still to be paid.

**Paul Wheelhouse:** It is difficult to cost the value of the work that has been completed on 801—

**The Convener:** Sorry, but how then can you allow somebody to draw down £45 million?

**Paul Wheelhouse:** If you would allow me to answer the question, I would be grateful.

**The Convener:** I will ignore that. Just carry on with the answer, Mr Wheelhouse.

**Paul Wheelhouse:** I appreciate the question and I will try to come to it. Obviously, the



programme board has been trying to assess exactly how much work has been completed on 801 and 802. We will get an assessment, and part of the exercise that the programme board will be doing so that it can report back to Mr Mackay by the end of October is to look at the cost of the work that has been done to date, what still needs to be done and where we are at on that.

I understand the contractual point that you are making about the degree to which payments may or may not have been made too early. I can come back to you on the precise timing if that would be helpful to the committee, but I know that CMAL has made strenuous efforts to try to support the continuity of employment at Fergusons when there were severe liquidity issues. I know that that is not the precise answer that you are looking for, convener, and I apologise for that, but at the moment I do not have a precise schedule against which I could give you an estimate, although I hope that we will be able to furnish the committee with that information.

**The Convener:** What would perhaps be helpful in answering the question is evidence that a quantity surveyor has signed off £45 million-worth of work to allow that money to be drawn down against the contract. Perhaps you could let us have sight of that information.

**Paul Wheelhouse:** If it would be helpful, Mr Wilcock, who is more familiar with the finances of the project at this stage, might be able to give further information. I will note the point that you have made, convener, and we will try to come back to that.

**Chris Wilcock:** It would probably be helpful to separate it out into two things. I am assuming that the figure of £45 million that the convener is referring to is the two Scottish Government loans that were made to the business. The loans were a combination of working capital and an allowance to diversify the business. Those loans have been drawn down and have been used to fund the vessels in part.

In terms of the £97 million in the overall fixed-price contract, there are also staged payments and certain milestones that the vessels have to meet. I do not have them in front of me, but they are things such as payments on launch, on laying of steel and at various design stages. What I can say is that the payments that have been paid out against the £97 million figure have been paid out in line with the staged payments as agreed in the contract.

**The Convener:** I am not quite sure that that answers the question but I take it that it is as far as I am going to get. Jamie Greene has the next question.

**Jamie Greene (West Scotland) (Con):** I want to clarify something with either the minister or Mr Wilcock. You are saying that there is a £97 million design-and-build, fixed-price contract, with payments made in instalments as progress is made and a process for signing off the release of funds. That was with CMAL being the client. However, you are also saying that the Scottish Government made available to the yard additional loan funding of £45 million, of which some, or potentially all, may be used to complete the ferries, with that money drawn down as key milestones are reached in the build. Is that the case?

**Chris Wilcock:** Those moneys were not necessarily tied to key milestones, but we had the draw-downs verified by an independent assessor—a consultant who was in the yard—as well as PricewaterhouseCoopers, which analysed all those payments in relation to the loan draw-down. I stress that this is not my exact area of expertise.

**Jamie Greene:** I appreciate that, but I am trying to get to the bottom of the Scottish Government's defence line, which is that £97 million was the price for the ferries. Clearly, there was a dispute in relation to cost overruns between the client and the yard, and you are admitting that there were overruns, given that an additional £45 million was made available on top of the fixed-price contract. I am saying that you are already admitting to a liability of around £145 million in addition to any subsequent overrun. I have asked Derek Mackay in the chamber numerous times what the £45 million loan funding was for, and I was told categorically that not a penny of it would be used on hulls 801 and 802. Are you now saying the opposite?

**Chris Wilcock:** Well—

**The Convener:** The minister wants to come in, so I will stop Chris Wilcock there.

**Paul Wheelhouse:** I do not agree with the premise of Mr Greene's point, although I understand why he is making it. I can explain that the additional £30 million loan facility, for example, was to help the firm diversify as well as to provide it with working capital, as has been mentioned. In response to Mr MacDonald's point, for example, I said that there are other contracts that the business is taking forward. It has also invested in the facilities, which, as an Inverclyde man, Jamie Greene will know. He will have seen evidence with his own eyes that there has been investment in the facilities at Fergusons. Funding of £30 million has been provided to Fergusons to enhance the yard's capabilities and sustainability and try to help broaden the business base—

**Jamie Greene:** With respect, I get all that, but that does not answer my question. My question is: was any of the £45 million additional funding that was given to the yard directly by the Scottish Government, not CMAL used towards the build of hulls 801 and 802? If so, surely that is already an admission of liability of overruns on top of the £97 million. Otherwise, none of that money could have been used for the build of 801 and 802.

**Paul Wheelhouse:** I want to avoid any confusion. It is a fixed-price contract. The yard was given a contract for a fixed price. There has been working capital as part of the £30 million loan and the previous £15 million loan. Those loans are available to help to diversify the business and provide working capital. It is up to the business itself as to how it then uses that funding, in line with the principles of why it was lent to them. That is not the same as assuming that all that money went into the cost of 801 and 802.

**Jamie Greene:** But we know that it did.

**Paul Wheelhouse:** With the greatest respect, I have just explained that there has been investment in the facilities. The firm is doing work on barges for Kazakhstan and fishing vessels and design work on HySeas III, as we have talked about, and it is trying to win work in the defence sector. It has been using funds for a number of different purposes. The loans are to provide liquidity to the business and to ensure that it can invest and diversify. That is not the same—and I want to make the point categorically—as funding going directly into 801 and 802.

**Jamie Greene:** I am happy to leave that there, although we know that there is a direct correlation between the draw-down of that £45 million from the yard—I presume that it was held in escrow or in the Scottish Government's accounts—and progress on the ships. There absolutely was a process of money being released on the premise of somebody signing off work being done on the hulls. That is the point that I am making. What you are saying to me is that the money was just made available to the firm to do whatever it wanted, and if it wanted to spend it on the CalMac ferries, that was up to it.

**Paul Wheelhouse:** As Mr Greene and other members may know, when the Scottish Government or agencies lend money to businesses, that is done under state aid regulations. That has to be done on a commercial basis and on the basis of proposals that are brought forward by the business. I would not want to imply that it is a completely laissez-faire approach and that the business can spend money on things that are irrelevant to the purpose for which it originally drew down the money. Money is lent on a commercial basis. In this case, the business was given loans to facilitate investment

in the business and to ensure its on-going stability and sustainability. I would hope that that is something that members would recognise as being of value.

Clearly, the money is providing working capital, and the business can then use that funding to maintain cash flow while it employs staff and makes sure that they are paid their wages. It has also been investing to try to diversify the business. I will not comment on the commercial merits of the areas that it has moved into, it is clear that Clyde Blowers Capital, as the owners, and the management team have been making an effort to try to broaden the base of the business and win private sector contracts.

10:30

**Jamie Greene:** Let us talk about the future of the yard, which is the key point. You will be aware of the dossier of information that Jim McColl, who was the owner of the yard before it went into administration, circulated among politicians and much of the media. It is a fairly short document and I have it in front of me. To say the least, it is quite damning. I appreciate that there is a public dispute between the former owners of the yard and CMAL and the Scottish Government on a specific issue, but Mr McColl seems to find a wider issue with the Scottish Government's plans. His document, which was sent to me, states:

"My fear now is with the prospect of the Scottish Government nationalising the shipyard on the horizon, FMEL will be unable to fully exploit the diverse range of opportunities which will be a huge missed opportunity for the revival of the Scottish ... shipbuilding industry".

In addition to that document, Mr McColl sent a list of potential orders for the yard, totalling many billions of pounds' worth of business. What exploration has the Government done of the effects that nationalising the yard and taking it into public ownership, if that were to occur, would have on the yard's ability to fully exploit those commercial opportunities, to participate in tenders and consortia and to win some of that business?

**Paul Wheelhouse:** Clearly, we are entirely supportive of businesses in Scotland winning work for their employees to undertake in Scotland. I would hope that that would be taken as given. In regard to the process that we have gone through, I will not comment on specifics that Mr McColl may have brought to the committee—

**Jamie Greene:** Do you agree with him or not?

**Paul Wheelhouse:** My interpretation of events is different from Mr McColl's, but I assume that there will be a process by which Parliament will wish to explore those matters.

The Government has gone to great lengths and worked strenuously with CBC, as the owners of

the business prior to administrators being appointed, and with professionals, to explore any commercial opportunities to support the business and avoid the situation that we have now entered. Mr Mackay, as the Cabinet Secretary for Finance, Economy and Fair Work, and the entire Government, with an extensive team of civil servants, worked hard to try to avoid the situation that we have arrived at and to ensure that the business had a viable future.

As it turned out, the proposals that CBC brought forward could not be taken forward. That was for various reasons, including the potential risks associated with those options. I regret that, but we are in a position where administrators have been appointed. Deloitte is now doing market testing for the yard. I believe that shipbuilding in Scotland has a bright future. As I am sure the committee will be well aware, we have discussed on many occasions in the chamber the need for investment in the ferry fleet, not just in the directly controlled ferries in CalMac and the northern isles routes but in internal ferries in Orkney and Shetland. There is a potential pipeline of work for yards such as Ferguson to compete for.

We need to bear it in mind that the billions of value that Mr McColl refers to relates to potential contracts and not won contracts. Clearly, we would be very supportive—as we tried to be with the loan finance that we have discussed—of the business in trying to diversify. I hope that it is clear that we are supportive of its efforts. Unfortunately, the business has now entered administration and we are supporting the administrators in trying to secure a bright future for the yard.

**Jamie Greene:** I—

**The Convener:** I am sorry, Mr Greene, but you have had a fair crack and I need to bring in other members.

**Jamie Greene:** That is fine.

**The Convener:** I remind everyone that short questions lead to short answers, and then everyone can get in. The next person on the list is Mr Lyle.

**Richard Lyle (Uddingston and Bellshill) (SNP):** I am sure that I will get the same time as Mr Greene had.

I do not have the same problems as Mr Greene has. It is common sense. If we had not done what we have done, the shipyard would have been away. We are damned if we do and damned if we don't. Basically, the £45 million is a liquidity. It might have been used to buy a crane to build another ship. With the greatest respect to Mr Greene, it is simple—it is not rocket science. He was lucky to be sent the dossier that he quoted. I was not sent it, and I wonder why. At the end of

the day, I want to know the truth, as does everyone. To my mind, the Scottish Government has done everything by the book. I do not come from Inverclyde and I do not have ferries in the middle of Uddingston and Bellshill—although I have a loch.

In order to get back to where the convener wants us to be, I will group my questions. What impact has the delay in the delivery of the two ferries, including the likelihood—

**The Convener:** I am sorry, but that is the next group of questions. We are still on the earlier issue. There are still members who want to come in on that. I will come back to you.

**Richard Lyle:** Okay. I have made my comment against Mr Greene's point. I will wait to ask my questions.

**The Convener:** Thank you for your statement.

Peter Chapman has a question.

**Peter Chapman (North East Scotland) (Con):** I completely disagree with Richard Lyle. This is not simple; it is a shambles. The situation is very serious for the future of shipbuilding in Scotland. We have two ferries that are two years late already, with the prospect that they will be double their original cost. Part of the reason for that is because CMAL made numerous changes to the contract and to the build. Communications broke down between CMAL and Ferguson Marine. Ferguson Marine tried desperately to get some kind of mediation in place. Why did the Government not facilitate mediation between CMAL and Ferguson Marine to sort out the numerous changes to the plans?

**Paul Wheelhouse:** I am not surprised that the member disagrees on the issue, because it is obviously a major story and there seem to be political dividing lines on it.

At FMEL's request, we convened a series of meetings between the parties to seek a resolution. It is not true that the Scottish Government or our agencies did not try to bring about a resolution to the dispute between the two contracting parties. Indeed, an independent review of the merits of the claim submitted by Ferguson Marine was carried out for the Scottish Government. We advised the interested parties, in confidence, of the outcome of that exercise, but it would not be appropriate to share the opinion further. However, it did not offer any legal basis for the Scottish Government or CMAL to pay Ferguson Marine more than the fixed-price contract. I will leave it to members to conclude from that what they will.

We have looked extensively at that issue. There were mechanisms in the contract for disputes about design to be resolved. If time permits, convener, I could bring in Mr Wilcock, because he

has looked closely at the mechanisms. There were specific measures in the contract to allow design issues to be exchanged between the parties and timescales for them to be resolved between the parties to allow design to move on. Therefore, some of the media focus on the issue is misplaced.

With your permission, convener, can I bring in Mr Wilcock?

**Peter Chapman:** Can I follow up on that? There may have been mechanisms as you say, but they failed to resolve the issues. As I understand it, there was a complete breakdown between CMAL and Ferguson Marine on the issue. Why was that allowed to happen? If there were mechanisms in place, they clearly did not work.

**The Convener:** I ask the minister to respond briefly, because I would like to hear from Chris Wilcock what the mechanisms were so that we understand them.

**Paul Wheelhouse:** That would be helpful.

In brief, I will just repeat that we have had an independent review of the contract based on the claim that Ferguson Marine put forward, and that exercise did not offer any legal basis for the Scottish Government or CMAL as our agency to pay Ferguson more than the fixed-price contract. I will have to leave the member to read into that what he will, but the exercise was done independently by a professional and it came to the conclusion that we had no legal basis to offer payment to Ferguson.

**Chris Wilcock:** A change mechanism exists in the contract. Again, I am not an expert in the area, but there is an opportunity for one party to request changes and for the other party to come back on those within a set timeframe. I cannot comment on all the various other allegations that have been made but, without going into the commercial detail, a series of changes were made and agreed between CMAL and FMEL through that mechanism. The mechanism exists and has been used.

**Mike Rumbles (North East Scotland) (LD):** As I understand it, we are talking about a dispute between CMAL and Ferguson about the contract, and the minister has just said that the Government rightly facilitated an independent review of the dispute. One side says one thing, and the other side says another. Both sides are aware of the independent review and the results of it, and the Government is aware of the independent review, but the committee is not. Our job is to try to drill down to find out what actually happened. The minister has just said that we can read into this what we will. I am sorry, but that is not good enough. The committee's job is to try to get to the bottom of what happened. It would be extremely

helpful if you informed the committee in writing of what actually happened with the independent advice. If it is independent, we would like to know what it was all about. We need to know what happened.

**Paul Wheelhouse:** I will take that point away and discuss it with colleagues to see what more we can say on the matter. I am not trying to be difficult. There is a convention around discussing advice of the nature that I am referring to and how that is revealed under the ministerial code. I will need to take advice on what we can and cannot say.

I just add—because it is relevant—that, at any point, Ferguson was free to pursue its claims in the courts if it felt that it had a strong enough case.

**John Finnie (Highlands and Islands) (Green):** Minister, it would be wrong to suggest that my constituents are disinterested in some of the areas that the committee has asked you about. I heard Mr Mackay say that he would make himself available, and I have heard you say the same. This is a question-and-answer session rather than an inquiry, although there will possibly be a parliamentary inquiry into the subject, and my constituents will be interested in the outcome of that, too. First and foremost, however, they want the ferries. They are already late; they are delayed. Can I get an assurance from you that, notwithstanding the Scottish Government's willingness to co-operate with whichever committee in relation to its inquiries, the primary focus will be on delivering the much-needed replacement vessels for the Western Isles?

**Paul Wheelhouse:** I absolutely acknowledge the point that Mr Finnie has made. Throughout the process that we have gone through, a major concern for me, as the minister who is responsible for the delivery of services under the supported ferry contracts, has been to ensure that we have the vessels so that we have the extra capacity—the headroom that we have discussed in the chamber, which is so needed to help us to have more flexibility and resilience.

I give Mr Finnie an absolute assurance that the Government has two priorities, both of which are equally valid. One is to protect and safeguard the employment at Ferguson, but we have also stated numerous times that we are absolutely determined to get the vessels delivered and in service. I am confident that the programme board will come forward with its best assessment as to when they will be delivered, which will give us a basis to then communicate with our stakeholders, including Mr Finnie's constituents, and the operators as to when the vessels will enter service after sea trials and so forth. I promise Mr Finnie that we are absolutely focused on that.

**John Finnie:** Okay. Thank you.

**The Convener:** Before we move on to Mr Lyle, I have a quick question. Apparently, there was a gentleman—a commodore—who looked at both FMEL and CMAL and reported to the Government. He was appointed in June 2018. Is that correct?

**Paul Wheelhouse:** Yes. Commodore Luke van Beek has worked for us. His primary role was to assess, as time was progressing, whether difficulties were arising at the yard and to communicate them to CMAL and to Government.

**The Convener:** In what month did you become nervous that his reports were indicating that the project was not going to work?

**Paul Wheelhouse:** I cannot say precisely. I have been nervous about the issues at Ferguson from the minute I was first engaged in this, because there were obviously challenges with a project that was already in some difficulty. However, I would not want to overplay that. We were relying on professional advice. Commodore van Beek was very helpful in assessing the degree to which activity was happening in the yard, and we were also having communication from Ferguson about its estimates of delivery timescales. We had some concerns because Commodore van Beek was challenging some of the assessments that Ferguson was producing.

10:45

**The Convener:** Was that before or after Christmas? Let us broaden it out. There must have come a stage when you read the monthly reports and said, "This isn't going to work."

**Paul Wheelhouse:** We were certainly concerned. I came into position last June, as did the cabinet secretary, and there were concerns about slippage in the already-revised timescales even last summer. I have had exchanges about these matters in the chamber with members across the Parliament. It was difficult when we had the yard providing estimates for delivery and evidence coming from Mr van Beek—and indeed others who were involved with the yard, including some in the workforce—saying, "Actually, we think it's going to be difficult to deliver on those timescales."

As both Mr Finnie and you have indicated, convener, Parliament may well want to scrutinise what has happened, and we will certainly do what we can to furnish the committee and others with as much information as possible as we go along. It has been a challenging project from the day it started because the designs are challenging, and it was already very challenging by the time I came into post.

**The Convener:** I will leave that there and we will move on to the next question, which is from Richard Lyle.

**Richard Lyle:** The designs are challenging. Given the delay, all these things may have to come out in an inquiry to find out exactly what happened, to whom and when. I love such inquiries.

What impact has the delay in the delivery of the two ferries, with the likelihood of increased costs, had on the wider CMAL procurement strategy? Will CMAL continue to procure untried ferry designs or will it revert to more tried-and-tested systems? Will the delay to the two new ferries impact on the timing of the procurement of other replacement ferry vessels that are required for the network?

Over the past number of months, I have continually suggested that we need to continue to buy or procure ferries over the next number of years in order to replace the ageing fleet. They do not necessarily have to be big; other people have suggested smaller ferries. Will you give a full answer to the questions that I have asked?

**Paul Wheelhouse:** Mr Lyle raises some really important issues, although I would not want to suggest in any way, shape or form that they have not been confronted before.

We are trying to address the long-term investment needs of the fleet. As I said to Mr Finnie, I am very conscious of the impact on his and other members' constituents of the disruption that is caused by unexpected maintenance issues on vessels. They are working hard and many of them have been in service for many years. That is not unusual, and there has always been a replacement cycle for vessels, but with the road-equivalent tariff and other measures being implemented, the demands on the ferry fleet are probably greater than they have been at any time in their history. The assets are being worked hard, which is a good thing because they are providing good services for communities, but it means that we have to look to replace and renew the fleet as we proceed.

We are concerned to ensure that we address the concerns of local communities, particularly those in the islands, who depend on them for lifeline services, and they are set to benefit from the deployment of the two new vessels that we have discussed. We share the frustrations about the delays, which members have mentioned. CMAL continues to search the second-hand market to see whether there are appropriate vessels that we can bring into service. So far, that has been challenging, because vessels in many theatres of operation are inappropriate for the waters that we have. They may have the wrong

centre of gravity for the wave environment that they would face, or the depth of water. The shallow draft that we need for some of our ports and harbours is a challenge, too.

In the vessel replacement and deployment plan and the ferries plan, we are looking at how we can standardise vessel design to address the cost of vessel fabrication. In general, the first of class loses a yard money and the yard subsequently makes money in building the second, third, fourth and successive vessels. That is challenging if we procure vessels on a bespoke basis for bespoke routes, so we are looking seriously at how we can perhaps standardise vessel design. That might mean investment in ports and harbours and dredging to ensure that we have interoperability of vessels and, when one goes out of service, another can take its place and provide the same service on that route.

CMAL is engaging closely with the operator, CalMac, and working with officials in Transport Scotland and CalMac to develop a programme for major and small vessels with the aim of achieving that increased standardisation, although that also has to take account of the many and varied CalMac routes that are served.

As always, we look to learn from previous ferry designs and apply that experience to new vessel projects, such as the forthcoming Islay vessel. The design for that, which is under way, is likely to be based closely on the Finlaggan, which is already in service, to minimise reinventing the wheel. We will engage with stakeholders to try to come up with vessels that are more resilient for the Gourock to Dunoon route, and we will consult with communities, trade unions and the operators in doing that.

We are trying to refresh the approach that we take, but it is worth noting that the ferries that we deploy need to be appropriate for the conditions in which they operate.

**Richard Lyle:** You have some ferries, and basically it depends on the type and on the energy that they use. My colleague Angus MacDonald asked you about an electric ferry, which is novel.

I ask you for a shorter answer to my next question, because I can see that the convener is getting a bit concerned about the time. With regard to the development of the Scottish ferries plan, when do you expect formal public consultation? The committee wrote to you last October, saying:

"it is imperative the Scottish Government develops a fully co-ordinated strategy for the staged, on-going replacement or refurbishment of vessels."

Given that we have so many different pier types and landing types, with shallow drafts and deep drafts, when do you intend to review the ferries plan? Will you deliver on those objectives?

**Paul Wheelhouse:** Your last point is a very significant one, but I will try to keep my answer short because I am conscious of the time.

We have an opportunity to get this right, to build on previous work including the previous ferries plan, which is still in force, and the previous vessel replacement and deployment plan, and to innovate in how we do that. We are already beginning to engage on the ferries plan. Maybe Chris Wilcock can come in briefly and remind me of the timescales for the delivery of that, but it is clearly a key exercise that we want to take forward. In parallel with that, we are already doing work on the Islay vessel. It is not the case that we are waiting for the ferries plan before we look at investment in additional capacity. We have the two vessels that we have discussed coming through the system and we expect the Islay vessel to be able to be deployed by 2023. That is our objective.

**The Convener:** Chris, will you give us the timescale for the new ferries plan?

**Chris Wilcock:** It has to be in place by the end of 2022. We are looking to conduct the work flowing through the national transport strategy and the strategic transport projects review, with the STPR2 being the key document that will lead for the ferries plan 2.

**The Convener:** Thank you. We have come to the end of that group of questions. Maybe Paul Wheelhouse can take a back seat for the moment as Colin Smyth heads off on the next group of questions.

**Colin Smyth (South Scotland) (Lab):** I will turn our attention to ScotRail's performance. A decision needs to be taken over the next few months on whether to end the current ScotRail franchise at its first expiry date of 31 March 2022. Cabinet secretary, will you clarify what the timescale is for that decision?

**The Cabinet Secretary for Transport, Infrastructure and Connectivity (Michael Matheson):** There is a provision in the franchise that there is an option for it to be rebased at the fifth anniversary. We are coming to the fifth anniversary, so Abellio ScotRail needs to submit a rebasing proposal by the end of this month for our consideration. That will allow us to consider the proposal and make a decision on whether we want to continue with the franchise. That decision needs to be made in order to make a decision in March 2020.

**Colin Smyth:** The final decision will have to be made in March 2020, which is around the time when ScotRail's remedial plan forecasts that it will exit breach level. Would you seriously consider extending the contract to 2025 if it was still in breach at that point?

**Michael Matheson:** A number of factors need to be taken into account in determining whether we continue with the franchise. They include the rebasing proposal, but also the progress with addressing issues in the remedial plans. Alongside those factors, we have to think about a range of other measures including the future direction of rail. The Williams review has been taking place, and we will need to consider the proposals that flow from that that could have an impact on us here in Scotland, along with the future options that we may wish to pursue.

There are a range of factors that we will need to take into account in coming to the decision; it will not be based on one factor on its own. Issues in relation to the progress that is being made in areas relating to the remedial plan will be one of the items that we will look at.

**Colin Smyth:** I presume that performance will be the key.

Will you clarify your position regarding performance targets? Last time you updated the committee on ScotRail's performance, you said that you expected it to hit its franchise performance target of 92.5 per cent by March 2021. Last week, Alex Hynes told the committee that ScotRail does not expect to reach that until the end of 2021. What is the reason for the difference between those two expectations? Do you stand by your previous projection to this committee, which was that ScotRail would hit the 92.5 per cent target by March 2021?

**Michael Matheson:** You may recall that we have covered that at committee before, in March. The figure that I used when I responded to a topical question related to the Donovan review trajectory for reaching the target. Subsequent to that, the Office of Rail and Road published a target, which it believes is the later target. I created confusion by not being clear about which target I was making reference to. The ORR, based on what it believes Network Rail needs to put in place, gives the 2022 target. The Donovan review's target was the one that I referred to back in March.

**Colin Smyth:** In effect, ScotRail has failed to deliver what the Donovan review said it would deliver, which was to meet the performance target by March 2021—or it is likely to fail to do that, based on what the ORR has said. What is your view? Is ScotRail going to hit the target in March 2021? Is it going to hit it at all? Will it be at the end of 2021?

**Michael Matheson:** First, it is wrong to say that ScotRail has not been implementing the provisions in the Donovan review—

**Colin Smyth:** But it will not meet the target. The Donovan review said that it would hit the target in

March 2021, and nobody is saying that it is going to do that.

**Michael Matheson:** Let me try to answer your question. ScotRail is implementing the provisions in the Donovan review. That set a trajectory for when it thought that ScotRail would reach the 92.5 per cent. Subsequently, in looking at the further works that Network Rail needs to take forward on infrastructure, the ORR said that it did not believe that ScotRail would be able to reach that target for at least a further year. We now need to see what further measures can be taken forward in order to try to exhilarate that.

The trajectory that the ORR has set is the 2022 date, which you mentioned. We need to make sure that Network Rail is making the necessary progress in order to help to deliver that 92.5 per cent.

**Colin Smyth:** Are you saying that ScotRail will hit that by the end of 2021?

**Michael Matheson:** No. I have said to you that there are two different dates. There is the Donovan review—

**Colin Smyth:** I am asking you on which date you think that ScotRail will deliver on its performance target.

**Michael Matheson:** The Donovan review trajectory was for it to be delivered in 2021—

**Colin Smyth:** March 2021. That is right.

**Michael Matheson:** However, the ORR, following its consideration and further assessment, does not believe that it can be met within that timeframe because of the work that has to be undertaken on infrastructure in order to deliver the 92.5 per cent, and that is what—

**Colin Smyth:** When do you think ScotRail will meet the target?

**Michael Matheson:** It appears to me that the ORR target is likely to be more accurate given that we have already seen progress with the Donovan review recommendations, which is delivering improvements, but the wider infrastructure improvements that are necessary will be critical to helping to support ScotRail being able to deliver the 92.5 per cent.

**Colin Smyth:** On the issue of performance, can I turn to the second remedial plan, which was around passenger satisfaction? It is projected that ScotRail's satisfaction level for this year will be 84 per cent, which is well below the franchise target. According to the franchise, that would normally constitute an event of default, because it is the second year running that it has failed to hit the target, but obviously that cannot be enforced because a remedial plan is in place. Why did you agree to a remedial plan when the level would

normally be a default of the franchise? It would be yet another failure by ScotRail to meet the customer satisfaction targets that we have set in the franchise.

11:00

**Michael Matheson:** We discussed that previously in the committee as well. The remedial plan is there to address the areas where a breach taking place. Measures have to be implemented over a set timeframe to address where the breach is taking place, and that is exactly what the remedial plan in performance is intended to do. The measures that are set out in the remedial plan address the issue relating to the breach that is taking place. That is exactly what the plan is intended to do. It is part of the contractual arrangements that were set out. When we have a contract with a rail provider and it goes into breach, there is a mechanism that we can choose to employ to address where it is in breach; in this case, there is a breach in performance. It then has to bring forward a range of measures that it will take to get out of breach. That is exactly what the remedial plan is intended to do and that is why we are making progress and starting to see improved performance in a number of different areas.

**Colin Smyth:** The reality is that that performance is still not good enough even within the remedial plan. It seems as if the remedial plan is very lax, because Abellio ScotRail would have been in default had it simply been the franchise that was being followed. In effect, your remedial plan gives Abellio ScotRail leeway to continue to fail to meet its contractual obligation. The reality is that it would never, based on its projections, even in year 3, meet the 88.5 per cent target in the franchise. It will meet the target only because it is projecting 88 per cent and Transport Scotland has reduced the target to 87.5 per cent. That means that there will have been a number of years in which it has failed to meet the targets. Why are we letting it off the hook with a remedial plan that, frankly, does not deliver what is in the franchise agreement?

**Michael Matheson:** I take it from what you are saying that you think that the remedial plan is not making any difference.

**Colin Smyth:** No, I am saying that it is not setting sufficient targets to ensure that Abellio ScotRail delivers what we said should be delivered in the franchise.

**Michael Matheson:** As we have discussed previously in the committee when we had exchanges on this matter, the remedial plan is there to address the breach; that is exactly what it is aiming to do. If the franchisee fails to deliver on any of the conditions that are set out in the

remedial plan, and if it fails to get out of breach, it is in default and the franchise can be terminated. The consequences for Abellio ScotRail of failing to deliver on the remedial plan are extremely serious. That is reflected by the fact that Abellio is making good progress in a range of the provisions that are set out in the remedial plan, including the additional financial investments that it is making.

However, some of the benefits that will come from the remedial plan will take longer to be delivered because of the complexity of addressing these issues. For example, an extra 55 drivers cannot be recruited overnight. It takes time for Abellio to go through the recruitment and training process and then to deploy the drivers into the rail network and for them to get route knowledge so that they can work in the route network. There is a range of different things that take time to realise the benefits that come from them. However, the consequences of failing to deliver on a remedial plan and to get out of breach are very serious for the franchise holder.

**Colin Smyth:** Do you accept that the remedial plan targets are lower than the original franchise targets and that what Abellio is being asked to do is deliver a customer satisfaction level that is lower than that in the franchise agreement, which is 88.5 per cent?

**Michael Matheson:** The remedial plan is to address the breach not to address the issue of the franchise target.

**The Convener:** I will have to bring in some other committee members—I think that you have had a fair run at that, Colin. Jamie Greene wants to come in now and we will see where we go from there.

**Jamie Greene:** I share Mr Smyth's concerns about performance targets and the metrics that the committee is monitoring, but my instinct is that the public are less interested in who runs the railway than they are in how it is run and how it performs. On that, if we get to a point next year where the current franchise operator is not meeting either its remedial plan targets or its contractual obligations under the franchise, what options are available to the Government and what preparatory work has been done to accommodate any eventuality? It is only six months away. For example, would you be able to put yourself in a position to be the operator of last resort if that option were open to you? What other options would be available to the Government to step in if it were deemed that Abellio was not operating the franchise as it should?

**Michael Matheson:** If Abellio fails to deliver on the remedial plan and get out of breach, it is in default and we have the option of terminating the franchise, which would then allow us to act as



operator of last resort, so it has very serious consequences for Abellio, which Abellio is fully aware of.

**Jamie Greene:** What preparatory work has been done at Government level to accommodate that option if it were chosen?

**Michael Matheson:** We have on-going plans for putting in place the provision for operator of last resort. We have various contracts with the consultants and agencies that would support us in delivering that option if it were necessary. That is part of our requirement as the franchise goes forward. We have arrangements and contracts in place so that, if we had to act as operator of last resort, we would be in a position to do so.

**The Convener:** Colin Smyth, do you want to come back with one more question?

**Colin Smyth:** My final question is about the significant disruption that we have seen in recent weeks, which has had significant impact on passengers. Are you personally confident that Abellio has both the resources and the ability to get its act together and deal with some of the shambolic service disruptions that passengers have suffered in recent weeks?

**Michael Matheson:** Some of the disruption that has been experienced, particularly on 24 August in Edinburgh, was completely unacceptable and we stated that at the time. The experience of some passengers on that evening was unacceptable. Abellio ScotRail accepts that.

It is worth noting that, during the festival period, there was a significant, 20 per cent uplift in train capacity as a result of the new rolling stock, which allowed greater seating capacity to be provided, plus the extension of the lines in Queen Street, which allowed eight carriages to be used. Some routes into Stirling and Dunblane saw a three-digit increase in capacity during that period because of the additional rolling stock. By and large, up until that point, performance had been going relatively well.

The issues on 24 August clearly demonstrate that the rail system was overwhelmed by the demand that was placed on it. As I mentioned in the chamber last week, it is important that we look at the existing mechanisms and systems that we have in place for the planning and management of these types of events to identify where there other measures that we have to take forward. That work is being done at present. As part of that, ScotRail has also commissioned a review of how it handled the planning and the day itself and what lessons can be learned. ScotRail expects that review to be completed by the end of this month.

We need to look at what lessons can be learned from the events of that particular evening and, until

we have the completed report and have done further assessment of it, I am not able to advise you as to what further measures will be put in place to prevent that type of thing from happening again.

**The Convener:** I was quite confused by Alex Hynes's comment to the committee last week. He said:

"the weather was rather good that day. We took many people into Edinburgh and, clearly, the number of people who wanted to travel back at the same time created pressure on the system."—[*Official Report, Rural Economy and Connectivity Committee*, 4 September 2019; c 10.]

The rather suggests that it is the passengers' fault. ScotRail must have had some indication from the quantity of tickets that it was selling that there would be a huge demand to get out again in the evening once all the events had finished. Alex Hynes's option was that he could close the station, which would mean that the passengers would have to walk further to get their service. Is that really what the passengers want to hear? It is not what I, as a passenger, would want to hear.

**Michael Matheson:** Part of the challenge is trying to assess the level of demand on a particular day, because we have a turn-up-and-use rail system. Many people turn up without a ticket, so it is very difficult to predict how many people will come along. That in itself creates pressures and creates particular challenges in managing events.

There were a variety of events taking place on that day that were in the calendar and were known. We need to take a step back from 24 August to look at whether the planning process to manage the potential demand from those events was sufficient to manage the increase in passenger numbers. If we look at past experience of major events, the system has by and large managed very well. There will be times when there is congestion and long waits, but by and large it has been managed very well, so ScotRail has good experience, as have the other agencies that are involved in providing transport planning. It has good experience in managing these types of events.

I want to make sure that we take a step back to understand what measures were subsequently put in place in addition to the additional capacity that was provided to meet the Edinburgh festival demands. Given that the rugby match and the football match were taking place, that it was an English bank holiday and all the things that we know would have created demand on the system, did we take a enough of a step back to look at what further measures we needed to put in place to address it? It is that wider piece of work that is important. I know that Lothian Buses was also struggling.

There is a wider piece of work there that we need to do. We will have big events like those happening at the same time, which is fine. We just need to look at how we can manage such events more effectively. There is no doubt in my mind that what happened on 24 August was a breakdown in that process. Before we start putting new measures in place, let us make sure that we properly understand the planning process, how it was executed and what lessons can be learned from it.

**The Convener:** As an observation, I think that passengers were rightly annoyed that the money was taken off them to get them into the venue and to get them back from the venue but they could not get back because there was no transport. That reflects poorly on rail travel. We all want to see more people using the railways, so I would welcome that piece of work. Wide consultation on how to achieve that would also be welcome.

**Stewart Stevenson:** This calendar year, I am approaching 300 hours on ScotRail services and I estimate that I have had disruption that is less than 1 per cent of that period of time. That is approximately 11 train journeys a week. For us in the north in particular, the delays in the delivery of refurbished high-speed trains are causing low-level disruption and difficulties for ScotRail in scheduling some of its services. To what extent is the Government involved with Angel Trains and Wabtec in assisting ScotRail to demand and achieve delivery of the contracts that have been entered into?

**Michael Matheson:** We have had regular contact, particularly with Wabtec and Angel Trains, about the HSTs. I have spoken to the global head of Wabtec in the United States about that very matter, and to the chief executive and the chair of Angel Trains, in order to look at what further measures can be undertaken to speed up the refurbishment programme. Wabtec has extended its production line in Kilmarnock in order to undertake some of the HST work there to try to speed up the process. Wabtec has also, as you will be aware, looked at the use of unrefurbished HSTs in order to provide capacity. There continues to be engagement with Wabtec to try to press for the refurbishment programme to be completed as quickly as possible.

Mr Stevenson makes a good point, however. The delay in having the HSTs available has had an impact on performance and capacity on some routes, particularly in the north of Scotland.

**John Finnie:** I would like to ask about the Caledonian sleeper performance. Dwelling briefly on the figures—I think that people are not greatly hooked up on figures; they simply want their train to be on time—I note that there is a lower expectation on Serco, the present operator, whose

public performance measure is 80 per cent, which is well short of the low 90s that we have talked about for others. I would like you to comment on a number of aspects connected with the franchise.

Serco has been very strong on public relations, and the sell was that it was going to deliver a hotel on wheels. We are well short of that. The hotel does not go to the places where it was going to go. Serco has sacked its cleaning company. Could you comment on that?

11:15

Perhaps I should declare my membership of the National Union of Rail, Maritime and Transport Workers parliamentary group. The RMT is voting to take industrial action. Let me tell you what it is considering taking industrial action about:

“insufficient staffing levels, insufficient training, and an unresponsive management regime”.

We know that there is further delay connected with the delivery of the coaches. Is Serco subject to penalty? Serco is not meeting its contract. Is it subject to penalty for the rolling-stock failure or its performance?

**Michael Matheson:** Yes, it is. Serco is subject to penalties for failing to deliver on the new rolling stock and for the impact that that has on performance as part of the franchise.

**John Finnie:** What form will the penalties take?

**Michael Matheson:** I cannot give you the figures because they are commercially sensitive, but Serco is subject to penalties and they have been applied.

**John Finnie:** Why are the figures commercially sensitive? I do not go along with that. This is a public operation, funded by public money. Why would a penalty imposed for failure to deliver on a public service contract fall into that category? I know that Serco would like it to be considered as such, but why do you accept that situation?

**Michael Matheson:** As part of the franchise contract agreement, the penalties that are applied are commercially confidential.

**John Finnie:** That is different from what is in the ScotRail contract. We are fully familiar with the service quality incentive regime, with the penalties that are applied and how the money is disbursed, so why is it different for Serco?

**Michael Matheson:** SQUIRE is different for the ScotRail contract. I will ask Bill Reeve to explain that to you in more detail. A different arrangement is in place for the Caledonian sleeper service.

**John Finnie:** Before you pass over to Bill Reeve, I have an additional question to ask. One of the purposes of SQUIRE is to penalise if

standards of cleanliness are not met. Has that aspect of Serco's performance been penalised?

**Michael Matheson:** Serco was issued with an improvement notice because of the cleanliness issues. One consequence of that is that Serco has removed its existing cleaning provider and appointed a new provider for the carriages.

Bill Reeve will give you more detail on the SQUIRE aspect of that, and how the arrangement for ScotRail is different from that for the Caledonian sleeper, if that would be helpful.

**Bill Reeve (Scottish Government):** I confirm that SQUIRE applies to the cleanliness and preparation of the sleeper vehicles. We detected a deficiency in the level of cleaning. Serco has taken action to improve the quality of the cleaning, and a SQUIRE improvement plan is in place for Serco to address that.

With respect to the financial penalties, Serco is in dispute with its supplier, CAF. You will appreciate that it is not always helpful to have amounts of money in the public domain during periods of commercial dispute. However, I confirm that substantial financial penalties are being applied.

**John Finnie:** Mr Reeve, I do not suppose that you have to hand the figures on the application of SQUIRE to the Caledonian sleeper contract. Could you provide those figures to the committee clerk?

**Bill Reeve:** I do not have the figures immediately to hand, but I confirm that there is an improvement plan and that we can provide some more information.

**John Finnie:** I am particularly interested in financial penalties and what elements are or are not made public. We have two public train services operating in Scotland. It would be odd if the SQUIRE penalties were to be made public for one operator but not for the other.

**Bill Reeve:** I understand that point, and I will go away and check the provision with respect to SQUIRE as distinct from COPA—that is, the committed obligation payment adjustment—which is to do with the contractual provisions on the late provision of rolling stock.

**John Finnie:** I appreciate that—thank you.

Serco is not well regarded by the trade union movement and many others in relation to how it conducts its business—it is seen as a very predatory company. Serco is subject to legal action on a number of matters in Scotland, not least on the locking out of very vulnerable and homeless people. I have asked the Government before about its approach to the issue of reputational damage. When it comes to the

contract and its on-going assessment, what, if any, consideration is given to reputational damage caused by the operator to the Government during the contract?

**Michael Matheson:** I am conscious that the Caledonian sleeper is just one of a range of services that Serco provides.

On the strict legal procurement process for assessing and bidding for a contract, I would have to check with procurement colleagues, because there are obviously legal issues to do with that. I want to be careful and to check exactly what provision there is for reputational damage to be considered as part of any assessment of a contract.

I do not have that information, but I am more than happy to go away and try to come back with details on exactly how any contract is assessed through the procurement process in that regard.

**John Finnie:** Thank you; I would appreciate that.

That is the commercial legal aspect. Surely, as a cabinet secretary, you can comment on the political aspect of reputational damage. You cannot be pleased that the Government is associated with a company that conducts itself in this way.

**Michael Matheson:** We are very clear as a Government about what we expect companies to do in relation to trade union representation, the living wage and so on. We work with companies that have public sector contracts to encourage and support them to comply with our fair work agenda, and we will continue to do that.

If we were, in effect, to go down the route of saying that a company is not allowed to bid for contracts for a particular service on the basis that it has another contract for something that we do not agree with or do not like, that would be a very complex and difficult legal area to go into. It would be wrong of me to sit here and try to answer that for you. For example, would my not liking the fact that Serco has the contract for the lock-change system that is operated by the Home Office allow the Scottish Government or me to say that we would not allow Serco to bid for a contract for delivering rail services? I cannot answer whether legally we are in a position to pick and choose who bids for a contract on the basis of our not being supportive of a contract that a company has in an area of work with which we do not agree.

**John Finnie:** When your legal colleagues respond to you about the role, if any, of the consideration of reputational damage in the procurement process, you will be in a position to assess whether, if it is not a factor in existing contracts, it is something that could be applied to

future contracts. Contracts have various aspects, including value and price. Reputational damage is surely something—

**Michael Matheson:** We are getting into procurement and contract law here, and I will not try to give you an easy answer on that issue. I am happy to take away the point and explore what scope there is in procurement and contract law to offer such weighting to any contract.

**John Finnie:** You seem to have predicted and answered my next question, because it seems as though you will not be excluding Serco from the northern isles contract.

**Michael Matheson:** That live contract is being assessed, and it would be wrong to talk about that while it is going through the procurement process.

**Mike Rumbles:** I turn to Prestwick airport. I understand that, just before the summer recess, the Government put the airport up for sale. That is a very good thing—what the Government is trying to do is very positive. How confident are you about finding a buyer, given that the airport owes the taxpayer—us—more than £40 million and it has not made a profit in any of the past 10 years?

**Michael Matheson:** A number of parties had expressed or noted an interest in Prestwick as an aviation facility, and we decided that it was a good time to test the market, to see exactly how concrete that interest was. That is the principal reason that we agreed to the request from Glasgow Prestwick's management team to issue a notice for any interested parties to express an interest.

You said that the airport has not made a profit in the past 10 years. That may be the case. However, the facility is extremely important to the Ayrshire economy and plays an extremely important part in sustaining a number of businesses in the aviation and engineering sectors that are clustered around the airport. The Government stepped in at the time because of the potential consequences of the facility closing and the wider impact that that would have.

It is fair to say that the management team has been making good progress and continues to work hard to reduce its losses; it also continues to make good progress in looking to grow the market in which the airport operates.

**Mike Rumbles:** When I asked you in the chamber yesterday whether you were aware that the largest single source of income for Prestwick airport was the US military, you gave me a lot of other information, but you did not answer my question. I take this opportunity to ask the question again. Are you aware that the largest single income stream for Prestwick airport comes from the US military?

**Michael Matheson:** Yes.

**Mike Rumbles:** You are aware of that.

**Michael Matheson:** Yes.

**Mike Rumbles:** What implications does that have for any potential new buyer of the airport?

**Michael Matheson:** In what way?

**Mike Rumbles:** Would knowing that that is the largest income stream for the airport have any implications for whomever buys the airport?

**Michael Matheson:** Any company that was going to purchase the airport would go through a process of due diligence and would know the airport's income streams. That is normal practice in any company going in to purchase a facility.

**Mike Rumbles:** That is my point, because I do not believe that it is widely known—until now—that the largest income stream for Prestwick airport is from the US military. I am interested in who might be—

**Michael Matheson:** On what basis are you saying that companies that might be interested in Prestwick would not know that that is a major source of income?

**Mike Rumbles:** I genuinely do not think that that was widely known. I do not think that members of this committee have known that.

**The Convener:** Hold on. I am a little bit concerned that the cabinet secretary is now asking the committee questions. It is the committee's job to ask you questions, cabinet secretary.

**Mike Rumbles:** The point that I am trying to make is that the situation with Prestwick airport is unique. I am trying to find out whether you, as the owner of the airport, think that it is a viable prospect for other companies to purchase.

**Michael Matheson:** That is for other companies to assess.

**Mike Rumbles:** I am asking your opinion, minister.

**Michael Matheson:** Yes, it is a viable option—we would not have put it up for sale otherwise.

Any company coming in to purchase the airport would have access to all the data relating to the airport's income, including the source of that income. It would have access to all that through the data process and would be able to make that assessment.

Any company that is thinking of purchasing any business will go through a process of due diligence, so that it understands what it is purchasing and where the income the business makes is coming from. I asked you why anybody who is interested in purchasing Prestwick would

not go through that process, because that is the normal, standard due process that any responsible company or individual would go through in looking to purchase a business.

**Mike Rumbles:** I make the point that we have interrogated the company and we did not find out that information. When we were trying to find out the sources of income, we were told the one major operator is Ryanair and so on. All that information was not given to the committee. It has not been widely known until now, and I am glad that you have confirmed it. Thank you.

11:30

**Michael Matheson:** Prestwick, as a company that operates at arm's length from the Government, has to comply with commercial legislation in publishing its accounts. Those accounts will detail the information that it is legally obliged to place in the public domain. They will give details about how much income it has from individual businesses that make use of it.

**Mike Rumbles:** That is my point.

**Michael Matheson:** The reason why that information will not be available is because it is commercially sensitive. Potentially, that is information that a company's competitors would want in order to challenge it. It is common practice in the commercial sector that such individual information is not placed in the public domain; it is not peculiar to Prestwick airport.

**Richard Lyle:** Thank you, Uncle Sam. As far as I am concerned, Prestwick airport can take money off anybody. There are such things as data protection and official secrets legislation as well as commercial secrecy. My view has always been that Prestwick airport is a jewel in the crown of Scotland. Because you have now upgraded the M74 and the M8, I can reach Prestwick airport from my house more quickly than I can reach Edinburgh airport. People tend to forget that.

Are we deliberately speaking to any airline provider to give them slots? We have an excellent airport that is well served by roads and rail and that has plenty of parking. Why is no commercial airline looking to fill the slots at Prestwick?

**Michael Matheson:** Because the airport operates at arm's length from the Scottish Government, it is not the Scottish Government that is pursuing commercial interests and looking to have other suppliers to contract with Prestwick. The Prestwick airport management team is responsible for that.

You will be aware that there are financial challenges in the regional airline industry because of contraction in the market, which we can see right across Europe and North America. That is

obviously having an impact on the decisions that airlines are making. Prestwick airport will continue to face challenges in attracting passenger services, largely because we have Glasgow and Edinburgh airports, but also just because of where the marketplace is.

However, the management team at Prestwick has been pursuing a range of other areas to improve the airport's financial position, including the growth of stopovers and refuelling provision for planes. That has been successful because of the market that the management team has targeted, which has resulted in growth in that sector. I understand from information that I have received from the management team that the number of military aircraft has reduced but the volume of fuel the airport is selling has increased because of the nature of the aircraft that are landing. The aircraft that come in to refuel tend to be C17s, which take more fuel, or tanker aircraft, which are for refuelling other aircraft. Strictly speaking, the numbers are down, but the aircraft that are coming in require more fuel.

**The Convener:** I ask members to keep their questions as brief as possible. We are halfway through the questions and we are more than halfway through the time that we have.

**John Finnie:** I will be brief. Will the Scottish Government rule out selling Prestwick airport, or any part thereof, to the US military?

**Michael Matheson:** We are in the middle of a process in which the management team at Prestwick airport has advertised the airport for sale. I will not enter into speculation about who, if anybody, would purchase the airport, because that could infringe on the integrity of the process. I do not want to be evasive and I am not deliberately trying to be evasive. I am trying to protect the process that the management team at Prestwick is undertaking. I will not enter into any speculation about any potential purchase or purchaser of the airport.

**Jamie Greene:** We have had the conversation about Prestwick airport many times in the past few years. The passenger side of the business has been dwindling and only one client is left in that respect. Given all the other opportunities that the airport presents as an asset to Scotland and the Ayrshire economy, I fully support measures to keep it going, but the committee has a duty to ensure that taxpayers' money is being spent wisely and dutifully. Is the payback of the loan funding that has been given to the airport a prerequisite for the acquisition of the airport by any purchasers that may or may not come forward? If someone buys the airport, do they have to pay back that money or would some other form of commercial deal take place to allow a different settlement?

**Michael Matheson:** Given the sensitivity of where we are in the process, I will not be drawn into speculation about any potential deal for the purchase of the airport, which, unfortunately, Mr Greene, is what you are tempting me to do. That is largely because it would suggest that we have taken a particular position on the matter during a live process of considering any interests in the airport.

Again, I am not trying to be unhelpful. Once we are in a position to update Parliament and the committee on any decisions that are made in relation to the issue and the outcome of them, I am more than happy to do so. However, given where we are in the process, I am afraid that it would be inappropriate for me to enter into any speculation of that nature.

**Jamie Greene:** When might that be? Do you have a rough estimate?

**Michael Matheson:** The timeline was set out by the management team of Prestwick airport in the eligibility criteria, and it is continuing to work to that timeframe.

**The Convener:** Is the Government selling Prestwick Airport Ltd or Prestwick Airport Infrastructure Ltd, or is it both?

**Michael Matheson:** I would have to check. I am sure that that will be in the eligibility criteria, which are set out in the documents. Off the top of my head, I cannot remember whether it one or the other or both of them.

**The Convener:** They are different companies with different accounts. In March 2018, Prestwick Airport Ltd had a capital value in the balance sheet of £3.75 million, despite £40 million being invested in it.

**Michael Matheson:** I am more than happy to clarify that for you.

**The Convener:** It concerns me that, after paying in £40 million, we have an asset that is valued at £3.75 million in the accounts. That does not seem to stack up. We must have burned £36 million. Will you clarify that for the committee?

**Michael Matheson:** I am more than happy to do that.

**The Convener:** Thank you.

**Emma Harper (South Scotland) (SNP):** I want to add to Jamie Greene's point about Prestwick supporting the Ayrshire economy. It also supports the south-west of Scotland. Folk from Stranraer and Wigtownshire and from Dumfries use Prestwick airport as a passenger route, so there is also an opportunity to support travel from the south-west of Scotland.

However, my questions are on the Queensferry crossing. When the cabinet secretary was at the committee in May—I was not a member at the time—issues were raised about tower lifts that had not been installed prior to the opening of the bridge, problems with ice formation and other snagging works such as deck painting. I will keep my question brief. Are the remaining works on the Queensferry crossing, including works to rectify issues with ice formation, still on track for completion by the end of this year?

**Michael Matheson:** According to the contractor, the snagging works are on track to be completed by the end of this year. That is weather permitting, because some of the work is weather dependent. The issue of ice formation is not an unusual challenge on such structures, and some assessment work has been undertaken to look at what further measures could be put in place to address that. The snagging work should be completed by the end of this year, weather permitting.

**Emma Harper:** Is the ice formation particular to the road surface or to other structures on the bridge?

**Michael Matheson:** I understand that it is on the upper structures. Maybe Michelle Rennie, as an engineer, can give you some technical details about that.

**Michelle Rennie (Scottish Government):** I am an engineer, but I am not an ice expert. I understand that the phenomenon is not particular to the bridge or structure. It arises as a result of a combination of weather conditions, including wind and temperature. We are looking at a range of technological solutions and at the processes that we would put in place to clear ice and to give motorists advance warning of certain weather conditions.

**The Convener:** Cabinet secretary, some time ago, you kindly provided a list to the committee of snagging works that were outstanding. Could that list be updated and submitted back to the committee so that we can see it with completion times?

**Michael Matheson:** Yes. I am more than happy to do that.

**The Convener:** Can I confirm that, when the bridge is completed at Christmas—fingers crossed—that will be the end of the lane closures on the Queensferry crossing?

**Michael Matheson:** For the bits of snagging work that involve lane closures, yes, it will be the end, but there could be other instances where lane closures will be required.

**The Convener:** I accept that there could be accidents.

**Michael Matheson:** In relation to the work that is associated with the snagging, once that is complete, there will be no need for those lane closures.

**Peter Chapman:** We are moving on to the Aberdeen western peripheral route now. I am delighted to see that the road is up and running and working well, notwithstanding the fact that we cannot get tractors on it, but nevertheless—

**The Convener:** Now, Mr Chapman, you promised me that you would not mention that.

**Peter Chapman:** It is a fixed-price contract, but there is a dispute of hundreds of millions of pounds between Transport Scotland and the contractors. Has progress been made in resolving the claim by the AWPR contractors against Transport Scotland? If so, when might it finally be resolved?

**The Convener:** Cabinet secretary, before you answer that, I am sure that, because Mr Chapman has mentioned tractors, he wants to declare that he is a farmer.

**Peter Chapman:** I really need to declare that, convener. That is well mentioned, thank you.

**Michael Matheson:** I think that the member knows my response on the issue of tractors on the AWPR, and it remains the same as it was on the previous occasions on which he has raised this matter with me.

In relation to the contract, the committee is aware that the contractors have lodged a substantial claim. There is a process for that to go through, and that process remains live. What I can say is that, as it stands, the contractors have not been able to substantiate sufficient evidence to support their claim, and it remains for them to provide and submit evidence to support any justification for the claim they are making.

**Peter Chapman:** Have you any idea when this might be resolved? Is there any kind of timescale for that? I believe that it was reported recently that there is something like £800,000 of legal costs involved in trying to resolve the dispute. Is that the correct figure? Is that likely to balloon further before the issue is resolved?

**Michael Matheson:** I am not sure where the £800,000 figure comes from. If you want to provide it to me, I am more than happy to get it checked and clarified.

You asked me about timeframes. The onus is on the contractors to substantiate their claim. As it stands, the contract price remains as it is at the present time. I have stated previously that I am not prepared for taxpayers to pay over the price for mistakes or failings on the part of contractors. That remains the case. The onus is very much on the

contractors to substantiate any claim that they are making and to provide the necessary evidence to support it.

**Maureen Watt:** From your visits, you will be well aware of the AWPR junction with the A93, the Deeside corridor. A number of properties were purchased for the construction of the project. Residents nearby have written to me because some of them are being vandalised. How quickly can Transport Scotland dispose of those properties, either to private individuals or someone else, so that the vandalism can stop? I realise that the properties have been made more secure, but the vandalism is a concern of my constituents.

11:45

**Michael Matheson:** I am not aware of the specific detail, but I can ask Michelle Rennie to comment on the process for the disposal of the properties.

**Michelle Rennie:** As you are aware, we bought a number of properties in order to be able to construct the scheme. We handed that land over to the contractor to allow him to get the necessary access and what have you in order to undertake the construction. Because this is a non-profit-distributing project, and the NPD company will be responsible for the operation and maintenance of the project for 30 years, the contractor, at the end of the construction period, factors in what the operational maintenance requirements will be and then determines what land is surplus to requirements. That land is then made available for sale.

**Maureen Watt:** When will the contractor know whether it still requires them or whether it can dispose of them?

**Michelle Rennie:** We would hope to get confirmation of that in the next few months, and we will make the land available for sale at that point.

**The Convener:** Unless there are any more questions on that, we will move on to the next topic. The deputy convener is leading on this one as well.

**Maureen Watt:** We will move on to the A9 and the A96. Before I start on particulars, can I confirm that it is still absolutely the Scottish Government's intention that all our cities will be joined by dual carriageways?

**Michael Matheson:** Yes.

**Maureen Watt:** Thank you. I ask that because some people say that, now that they have spanking new roads, the upgrade work should not go any further. However, the congestion on the A96 between Aberdeen and Inverness is quite

substantial at times. Can you give us a progress update on the A9 and the A96?

**Michael Matheson:** Good progress is continuing to be made on the A9. We are in a position where one section has been completed and a second section, Luncarty to Birnam, is presently under construction. When I visited it a few months ago, the contractors were making good progress and expected to see it being opened to traffic in spring 2021. As with any project of this nature, the rate of progress depends on the weather this winter and on the contractor being able to get the necessary works completed during that time. We now have some 95 per cent of the statutory process of the dualling programme under way, with the preferred options for the remaining section, from the Pass of Birnam to the Tay crossing, expected to be announced later this year. Through the negotiation process that we have conducted in a number of local areas, we have been able to avoid going to public local inquiries in four different parts of the route because we have tried to address issues at locus as much as we can, which is welcome.

We are also in discussion with key stakeholders in the construction industry about the future phases of the programme for the dualling of the A9. That project continues to make good progress. We will continue to take it forward in the way in which we have been doing.

In relation to the A96 dualling programme, the Inverness to Nairn section, which includes the Nairn bypass section, was considered by a public local inquiry reporter. The reporter is considering the representations that have been made and is preparing a report that will be submitted to ministers for our determination. We expect that to be completed fairly soon.

We are also making good progress on the section between Hardmuir and Fochabers, and the development and the assessment of the preferred route options is well under way.

Route option assessment work is also underway on the section between the east of Huntly and Aberdeen.

A key part of any major infrastructure project is public engagement. It would be fair to say that there has been an effective and robust public engagement programme in relation to some of the work around the A96. The level of engagement from local communities along the length of the route has been very high. So far, more than 16,500 people have attended events that we have hosted, which I think is a reflection of the importance that the project has to those communities. We have had approximately 800 consultation responses to our May route options engagement event on the Huntly to Aberdeen

section. From my perspective, it is important that we reflect on the considerable level of feedback that we have had. We are taking that forward now and are taking time to collate that information. Transport Scotland will now undertake work around identifying preferred options as soon as possible. However, given the volume of responses that we have received, that work might take until sometime next year to be completed.

**Maureen Watt:** Thank you for that comprehensive response. What date are we looking at for the completion of both routes?

**Michael Matheson:** We are still working to the original timeframe but, as with any major infrastructure project, there are always challenges around completing to the original timeframes. We are continuing to work to the original timeframes at the present moment.

**Peter Chapman:** You say there has been lots of consultation on planning for the A96, and I accept that there has been, but there is concern about the planning of the project around Inverurie. You are well aware that there is a big push by the local people who think that the best option around Inverurie is to dual the existing road. I know that has been ruled out but the feeling is that it is the best option, the cheapest option, the most environmentally friendly option and the quickest option to build. How do you respond to the fact that that is generally the feeling of the local population?

**Michael Matheson:** When it comes to identifying preferred routes, I am always conscious that there will be competing demands and differences of opinion about what the route should be. For example, I suspect that if there was to be an upgrade through Inverurie, householders who were adversely affected by it would have a different opinion from others in the town whose preferred option it was. A balance always needs to be struck in such matters. However, I am conscious of the considerable feedback that we received during the consultation exercise, and I am grateful for the member's comments. There has been extensive public engagement.

I am also very conscious that the community will have to live with a major road for many decades to come, so I want to make sure that we get this right, and that we listen as much as possible to what the community has to say before we come to a final decision. That is why, given the very significant level of feedback that we have received, it will probably take us a bit longer to take forward some of the work around the preferred route option.

However, taking the work forward could have an impact on timeframes. To go back to Maureen Watt's point about the timeframe for completion, I



say that if we take more time to engage with the community and to listen to people's issues, that could have an impact on the completion timeframe. A balance has to be struck in such matters, but I am very conscious that we must make sure, given the nature of the road building programme, that we take the necessary time to ensure that we are listening to all the views from the communities that are affected in order to try to address them as best we can. That might mean that it takes a bit longer, but I would prefer to take the extra time than not give people the time and opportunity to make their comments known.

**Peter Chapman:** I welcome that response and I agree with the cabinet secretary's position.

**The Convener:** Let us see whether we can continue with agreement.

**John Finnie:** The Scottish Greens were very pleased when the Scottish Government announced the climate emergency a couple of months ago, albeit that it did so a few months later than it should have done. We were given an assurance that all policies would be subject to review, in light of the declaration of the climate emergency. Will you outline the review of the two major projects that has taken place in light of the climate emergency?

**Michael Matheson:** Most of the review work that has been undertaken has been in relation to future programmes—

**John Finnie:** I am sorry to interrupt you, cabinet secretary. Everything was subject to review.

**Michael Matheson:** Yes. Work has been reviewed on the basis of what measures we can take forward, but we are not in a position in which we will cancel the dualling of the A9 and work on the A96 programme. Within the national transport strategy, through the STPR 2 process, the lens that we use will focus very much on the climate emergency that we face. Some consequences of that process have already been demonstrated in the programme for government: bus prioritisation and the low carbon initiatives in aviation and in rail sector all reflect use of that lens in transport policy. STPR 2 and the national transport strategy will be viewed much through the lens of the climate emergency. That will shape the priorities that we set out, as part of the STPR 2 process.

**The Convener:** I think that John Finnie has another question. I am happy to let you ask it, then I will come to Emma Harper, because she had indicated that she wanted to ask about the climate emergency, and I would hate to think that you had trampled on her question. Please ask the question, then we will come to Emma Harper.

**John Finnie:** I beg your pardon.

It seems that there are options. You said to the deputy convener that you have no intention of stopping the projects; I appreciate that you enjoy the support of three of the Opposition parties in that respect. However, there are opportunities to slow down or modify projects. For instance, could there be less expenditure on the A96 through having roundabouts, as exist on the dual carriageway at the Aberdeen end at the moment, rather than expensive grade-separated junctions? I have been told, however, that you want the Rolls-Royce model

**Michael Matheson:** I will ask Michelle Rennie to speak from a technical point of view about grade-separated junctions as opposed to roundabouts, and the associated cost savings.

We are moving to the STPR 2 process, and the infrastructure commission is continuing its work. We have a draft national transport strategy, and next year we will have the capital spending review. All those will reflect the climate emergency. I want to assure John Finnie that in respect of transport expenditure, climate change is a key factor that we take into account.

I do not accept, as some people suggest, that we should quite literally stop building roads. I am not saying that John Finnie is suggesting that, but some people say that we should just stop building roads and put all the investment into green alternatives. The reality is, however, that we will always need good road connectivity because it is important to the national economy and to local and regional economies. We will continue to have road programmes, although we must look at a range of other measures that we could take to address climate change. They include modal shift, helping people to move to using public transport, and having a transport hierarchy that includes walking, cycling, wheeling and public transport—all are measures that we need to put in place to try to reduce car use. There is a plethora of measures that we need to take forward to address the agenda. I can give an absolute assurance on our commitment to that, but what we do will also involve investment in road infrastructure.

Do you want a technical explanation about grade-separated junctions compared with roundabouts?

**The Convener:** As interesting as that might be, if Michelle Rennie would write to the committee on it, we can pass that on to Mr Finnie.

**John Finnie:** I know the answer.

**The Convener:** I am concerned about time. If Emma Harper has a question on climate emergency, or climate matters, please proceed.

**Emma Harper:** I will be very brief. We are talking about road projects that are already

planned. There are issues in the south of Scotland with the A75, A76 and A77. We have debated them in the chamber numerous times. I am assuming that the climate emergency will not stop bypasses being built around villages on the A77: Lorries can have faster journeys by bypassing villages—they could have shorter drive times, so I assume that there would be less diesel emissions. Will the climate emergency be a consideration in continuing to look at improvements on the A77, such as the Maybole bypass? We have a climate change emergency, but I am sure that the people east to west, from Stranraer to Dumfries, would be very unhappy if improvements to that the road do not continue to be considered. I would appreciate feedback about that.

12:00

**Michael Matheson:** It is important we do not play one thing off against the other. We cannot just take forward non-road-building programmes and cancel all road-building programmes and instead invest in green initiatives. The approach that we are taking is a combination of both. We intend to continue to invest in road infrastructure, where that is necessary. I am very conscious of the regular lobbying that I receive from Emma Harper about the A77, the A75 and the wider transport infrastructure in south-west Scotland. However, we need to make sure that the decisions that we make as part of STPR 2 are made using the lens of the climate change emergency. That will be reflected in the priorities that we set out.

It is not about doing one or the other: it is about making sure that we take a balanced approach to help us to meet our very ambitious climate change targets, and to reduce carbon emissions from transport, which is one of the biggest contributors, while making the right infrastructure investments to support our economy and local and regional communities.

**Emma Harper:** I am sure that the climate emergency has impacted on the infrastructure commission's mission for connecting everybody better, especially in South Scotland.

**Michael Matheson:** I do not want to second guess what the commission will come up with, because it is independent of Government. However, its chair, Ian Russell, is very mindful of the declaration of a climate emergency so I expect that to be reflected in the commission's final report.

**The Convener:** I do not think that we will get through all the questions, but we will go for as long as possible within a reasonable timeframe.

**Stewart Stevenson:** I turn to the national transport strategy and related strategic transport projects. Some of my questions have been asked,

so we might be able to chop my contribution down a bit. I say, in passing, that it will be remiss if the STPR does not include a roundabout at the Toll of Birness and does not contemplate a bit of dual carriageway towards that area, but that is for another day.

The key thing that I want to focus on is how we manage demand for car use, which is one of the major contributors to the climate difficulties that we are experiencing. A predecessor committee—I think that I was sitting in the ministerial chair answering for the Government in session 3 on transport and land use—focused on the difficulty in achieving the transport hierarchy that the cabinet secretary referred to through planning by local authorities and Government. It focused particularly on incentivising people to use public transport, which is a positive action, and discouraging people from using their cars, which is perhaps a negative action. How will you strike the balance to make climate-friendly options attractive?

**Michael Matheson:** That is not an easy balance to strike, but it is a good challenge for us to take on and address. The announcement that we made last week on bus prioritisation is a practical example of how we can make bus travel more attractive to commuters by giving greater certainty to journey times. The reallocation of existing road space for high-volume passenger vehicles on the motorway network in Glasgow allows us to demonstrate that that is a priority and it gives greater certainty. Increased provision of bus lanes and rapid transit routes make it more attractive for the travelling public to make the modal shift on to public transport.

With the measures that we are providing in the Transport (Scotland) Bill—for example, the introduction of low-emission zones to encourage people coming into town centres either to have low-emissions vehicles or, preferably, to use public transport—we are incentivising people and encouraging people to make those choices. The provision in the bill for smart and integrated ticketing is in order to provide arrangements through which people can purchase a ticket that allows them on various modes of public transport on a journey.

The hierarchy of transport options that we set out in the draft national transport strategy—walking, wheeling, cycling and shared transport options—are the preferred options that we want to encourage. There is a range of measures to encourage people to make better use of public transport. At the same time we are putting in measures that encourage behaviour shift, such as LEZs, workplace parking levies and smart and integrated ticketing that make joined-up travel using different modes easier for the travelling public.

**Stewart Stevenson:** There are many modes delivered by many different bodies—Government, local authority and private operators—and one thing that the national transport strategy is focusing on is governance, which I presume relates to the co-ordination of those modes. Can you tell us how that will work, what it might look like and why, in particular, private operators would wish to sign up to that?

**Michael Matheson:** It is more to do with the regional transport partnerships. We carried out a piece of work to assess views on the existing regional transport planning arrangements that we have in place. What came out of that engagement process, which was undertaken in a very collaborative fashion with colleagues at the regional level, is that it is accepted that there is a case for changing the existing structures. What we have not come to a view on is what the future structures should be.

In the draft national transport strategy, we set out a commitment to take forward with regional partners what the future shape of regional transport planning should be—how it should fit in with wider planning matters in regions and localities, and with wider local strategies in a range of areas—so that we can try to take a much more integrated approach. We have not come up with a specific model.

We have agreed with other stakeholders that there is a case for change. Once we have finalised the national transport strategy, we will start the formal engagement process to shape what the future regional planning arrangement should be. We are trying to get a model that works. The model that will work in the Highlands will not necessarily be the model in that will work in Falkirk, so we do not have preconceived view on what it should be. We want it to be more effective, and we want to look at how it engages beyond transport.

**Stewart Stevenson:** I am looking for a very brief answer to this. You are looking at regional transport partnership reorganisation, perhaps. In the east coast, we have the south east of Scotland transport partnership, which is Edinburgh centred; we have the Tay RTP, which is centred in Dundee; and we have the north east of Scotland transport partnership in Aberdeen. How are you going to reconcile the quite different requirements to make transport work effectively in urban areas versus rural areas? Are you going to ensure that any new structure properly and adequately reflects the needs of rural areas, where often a very limited range of choice is available to travellers?

**Michael Matheson:** It will be a challenge to find a model that is effective in each part of the country. The likelihood is that any change in structure will probably require primary legislation,

so the committee will have an opportunity to scrutinise that. I want to emphasise that we are not entering this discussion with a preconceived view of what the future structure should be. We want to work closely with partners at the regional level to identify what the structure should be, ensure that those partners are able to shape it and ensure that it reflects local needs and circumstances. I do not have a fixed view on what it should be, but I am keen that we get it right for every part of the country.

**Mike Rumbles:** I want to focus on cycling and the cycling action plan. The vision was that 10 per cent of everyday journeys would be made by bike by next year. Just before recess, the cabinet secretary indicated in the chamber that

“progress to the overall figure has been slow”—[*Official Report*, 18 June 2019; c 19.]

and that the target is unlikely to be met by next year. It is not unlikely to be met—it is just not going to be met. We understand that.

I want to focus my question on a practical measure to try to up the level of cycle use, which Parliament has already agreed to. You voted for my amendment in Parliament when I lodged it. We all voted for it—the result was unanimous. However, there is no point in passing unanimous resolutions in Parliament if we do not take action to implement them. My amendment was focused on ensuring that every schoolchild has access to cycle training. When I raised the matter before, you said, “Well, the schools have got this, if they wish to take it up”. That is not what the amendment that we all agreed to said. The amendment said that every child should have access to cycle training, if they want it.

I would like the cabinet secretary to go away, speak to his officials and come back to this committee at a future date to tell us what action he will take to implement what we have already agreed is a good thing.

**Michael Matheson:** In my view, there are two important aspects in encouraging people to take up cycling. One is the need for the right type of infrastructure and the other is behavioural change and how that is supported. The type of training to which you referred is part of that behavioural change.

As you will be aware, we have asked Cycling Scotland to undertake a review of the action plan, which it is presently doing. I am more than happy to make sure the point that the member has made is considered as part of that review process and to assess how we can increase the number of young people who have access to cycle training.

**Mike Rumbles:** There is a good opportunity for the cabinet minister to come forward at the appropriate point and tell us all some good news.

**Michael Matheson:** I am more than happy to consider it.

**Angus MacDonald:** I will keep this brief, given that the cabinet secretary has already touched on it. However, for clarity and for the record, can the cabinet secretary provide any more information on the £500 million to support bus priority measures? Over what period are the funds spread, what areas will benefit and what type of infrastructure will the funds support?

**Michael Matheson:** What we announced last week was that we will form the bus partnership fund with local authorities to allow them to put bus prioritisation in place. The fund is over £500 million. It is intended to be long-term funding over the next five or six years for local authorities to take forward those types of projects. Many of the local authorities will not have projects to hand and cannot suddenly say, "Right, we have a £50 million bus prioritisation programme that we would like to execute next year," so there will be a lead-in time for projects to start to be delivered. The intention is that from next year local authorities and the bus industry will be able to start looking at how they can design projects and take them forward.

As part of the capital spending review next year, we will be able to set out the details on how the fund will be rolled forward over the coming years. I would see it as being a programme over the next five to seven years for local authorities and their partners to take forward. However, I expect that it will probably take them up to 18 months to get projects and ideas together to be developed before funding starts to be put in place for them to deliver on these projects.

We are keen to ensure that there is very clear evidence to demonstrate that the projects that are taken forward will deliver a modal shift and an improvement in bus use. There will be very strict criteria and we will look in a very detailed way at any proposals that come in from local authorities.

The purpose behind this is to support a big shift towards the use of the bus. We see that modal shift as being part of the strategy to meet the climate change challenges that Mr Finnie and Ms Harper have been raising with me.

12:15

**Richard Lyle:** For clarity, if there are areas where the number of buses is going down or bus services are not being provided, can the council approach you for access to these funds?

**Michael Matheson:** Do you mean areas where a bus company has decided to no longer provide services?

**Richard Lyle:** Unfortunately, there are some companies that have stopped doing particular routes in particular areas. That is a continual complaint to us. Is that something that the council or a bus company can access the fund for?

**Michael Matheson:** This is capital funding for bus prioritisation. It is for providing rapid transit corridors and bus lanes for bus prioritisation—it could be new traffic-light systems and so on for bus prioritisation. It is for creating segregated road space for buses. Of course, we also put in funding of £250 million a year to support buses and the industry through the national concessionary travel scheme and the bus service operators grant. However, this is specifically capital for creating those types of projects.

**Colin Smyth:** The infrastructure is very welcome, but it will mainly be focused on cities, for example bus lanes to tackle congestion in our main cities. Congestion is less of a challenge in some of our more rural areas. I am keen to know how the fund will benefit rural communities. Do you accept that the biggest challenge in maintaining the bus network in rural communities is not capital infrastructure but revenue funding—the cost of the service itself? Services in rural areas are very precarious. There will not be bus lanes in the small towns and communities in the south of Scotland, but the bus network is in a state of collapse in some areas. The daily cost of running the buses is the challenge and the infrastructure fund will not cover that. I am keen to know what funding will be available to maintain and improve that network. Does the fund cover the cost of buses, or is it purely for the physical infrastructure of bus lanes?

**Michael Matheson:** We have the green bus fund and we set out in the programme for government that we intend to look at how the new national investment bank can provide support to the bus industry for the procuring of new buses. We will be working with the sector to look at how that can be scoped out and shaped to help to support it.

In relation to the very specific point that Colin Smyth makes, which is one that I am very conscious of, it is revenue funding that is the challenge in many rural areas. Major bus infrastructure in places such as Glasgow and Edinburgh will not necessarily have a direct benefit for rural areas. However, it is clear to me from my engagement with the bus industry that, given the patronage decline that it is facing and the way in which services have become increasingly financially difficult to manage, it is the more marginal services that are very often the ones that

the industry ends up cutting in order to meet the financial challenges.

Part of the purpose of the bus infrastructure investment is to drive up bus patronage and for the bus to be seen as a much more important form of public transport that can be utilised. That should generate greater scope for the industry to look at how it makes its wider investment. What I have said to the bus industry and the bus sector is that, in setting out a very ambitious financial investment in bus infrastructure, I also expect the bus industry to step up and recognise that it has a contribution to make in improving bus services overall. If services are more financially sustainable across a broader area, it will have scope to maintain and sustain services in areas where that is more challenging and it will become more realistic to do that.

That is not a direct answer to your point, but there is an issue with financial sustainability across the sector and very often rural communities are the first to be impacted by that when services are cut. If we can make the industry more financially sustainable by making it a more attractive mode of transport through infrastructure investment, it takes off some of that potential financial pressure.

**The Convener:** People may have forgotten after the summer break that it is good to keep an eye on me just to see whether I am happy that the answers and the questions are nice and short and whether it will be possible to get another one in. There are still some questions to go.

**Emma Harper:** This is a quick question, as I know that we have been here for more than two hours. We talk about incentivising people to use buses and trains, and shorter journey times are an incentive to get folk on to bus or rail. Alex Hynes said last week that we might need to look at electrifying the train from Stranraer to Ayr or through to Glasgow in order to tackle climate change. Part of the incentivising of people is having shorter journey times. Would the Government support that, given that we are looking at decarbonising as well?

**Michael Matheson:** Absolutely. Part of the purpose behind the bus infrastructure investment relates to the fact that I am told by the bus industry that the average speed of a bus going through Glasgow city centre is 3mph because of congestion. That means that journey times are longer, which acts as a disincentive for people to decide to use a bus—it takes too long and it is too unreliable. Having priority bus infrastructure in place allows us to speed up that journey time, gives people greater certainty and makes it a much more attractive mode of transport for people to make use of.

We still have a rail electrification programme being taken forward in Scotland. We are currently assessing the East Kilbride line for potential electrification.

We are making very good progress on decarbonising our rail network. Between 70 and 75 per cent of all the passenger journeys that are made daily in Scotland now are on electrified routes. However, there are some very significant long-distance routes that are not electrified.

Technology is changing though. We are moving into an age in which electric battery and hydrogen trains are being developed that will remove the need to electrify the line. That is an area of technology that we are keen to introduce into the network here and we are engaged in discussions on how we can do that. Electrification is still an option on some routes, but there will be others where it may be more appropriate for us to look at battery or hydrogen technology. We want to look at how that can be utilised in the network here.

**John Finnie:** I may jump about a bit here. First, I have a follow-on to Emma Harper's question. Decarbonising the rail transport network is of course good and very positive but, given that it produces only 1 per cent of Scotland's greenhouse gas emissions, how does the Government calculate the benefit of that when set alongside the high cost of electrification?

**Michael Matheson:** It goes back to the point that I was making to Emma Harper. Electrification is very expensive. It costs roughly £1 million per kilometre to electrify a railway line, so it is an expensive option to pursue. However, new technology can play an important part in decarbonising rail. I recognise that it is not a major contributor to climate change but, nevertheless, if you stay next to a railway line or a railway station that HSTs or diesel trains go through, I am pretty sure that you would like to see those removed if possible in the interest of air quality. It may not be important in terms of the global contribution to our overall carbon levels in the transport sector but, nevertheless, it is still important for us to look at. My view is that there are routes where we are more likely to look at the use of hydrogen and battery rolling stock than at the electrification of the lines.

**John Finnie:** I have a brief supplementary question and then my final question.

**The Convener:** It sounds as if you are pushing the envelope, but go ahead.

**John Finnie:** I am sure that the Scottish Government would love me to do so, but I am not going to repeat the headline figure connected with the bus priority measures—

**Michael Matheson:** Feel free.

**John Finnie:** —but the more information you can provide on that, the better, particularly on the policy development. I would like to see, for instance, what regard in the policy development there was to rural communities. In particular, perhaps you could aid the committee by providing it with the island communities impact assessment that you have done in respect of that proposal.

**Michael Matheson:** I am more than happy, as we work this forward with our colleagues in local authorities, to keep the committee up to date on it. The vast majority of the bus partnership funding capital investment is likely to be in urban areas, but there will be wider benefits that come from that. It is clear from the engagement that I have had with the bus industry that it can see how that will deliver wider benefits in the network, making it more sustainable. I am more than happy to keep the committee up to date as we roll this forward with our colleagues in local government.

**John Finnie:** I am sure that the committee is grateful for that. My question was very specific because, of course, it was this committee that dealt with the Islands (Scotland) Bill, which is now an act, and, of course, an island communities impact assessment is supposed to accompany any proposal. I acknowledge that it is likely to say that what is proposed has little impact in the islands, but if you could provide the island communities impact assessment associated with that proposal, that would be very helpful.

**Michael Matheson:** I am more than happy to provide what information we can.

**John Finnie:** Thank you very much indeed.

My final question is about something that is mentioned in the programme for government. It is about the decarbonising of aviation in the Highlands and Islands. What proportion of Scotland's aviation-related greenhouse gas emissions are produced in the Highlands and Islands and what impact will that proposal have on Scotland's total emissions from the aviation sector?

**Michael Matheson:** The figures are not broken down on that regional basis, so I cannot give you a figure as to exactly what internal aviation in Scotland contributes to our overall carbon output. We do not have data to that level.

**John Finnie:** With the greatest respect, that makes no sense whatsoever. You have a proposal, but you do not know what the implications of that proposal will be.

**Michael Matheson:** No, what I am saying to you is that the data is not broken down to that level. There is no doubt aviation makes a contribution to our carbon output overall. This is a specific measure about decarbonising our internal

flight network in Scotland. It is about the development of hybrid and battery technology in the aviation sector and decarbonising landside operations as well within Highlands and Islands Airports Ltd. The figures for aviation's contribution to our overall carbon output are not broken down into that granular regional level.

**John Finnie:** I am trying to understand how at future meetings the committee will gauge the success or otherwise of this ambitious proposal. What is our starting point?

**Michael Matheson:** At present, all the aircraft that are used in internal air flights in Scotland are aviation-fuel based. If we can start off by using battery or hybrid-operated planes for short internal flights, such as interisland flights, the carbon output that comes from those types of flight is reduced. If we decarbonise the landside operations in those airports as well, it reduces the carbon output that is contributed by them. As the technology develops, that can be expanded into Glasgow to Sumburgh, for example, and other routes further afield within the internal network.

This is not just about reducing our contribution through aviation; it is also about capitalising on the new technology that has been developed. During the summer, I was at Cranfield University, just outside London, looking at the way in which the industry is developing new technology in aviation. There is an opportunity for us to be leaders in this technology. It is about trying to capitalise on the economic benefits that come from the development of this new technology. The work that will be undertaken in Orkney gives us a chance to reduce our carbon output and to get the economic benefits from being at the forefront of the new technology that is being developed in the aviation sector.

**The Convener:** Cabinet secretary, to save labouring the point, I think that it would be very helpful if you could ask your officials to look at the figures for carbon output from airports in the Highlands and Islands, compare those to the figures for the rest of Scotland and give us a figure that we can then base future assumptions on to see whether you have reached your target. It is you and your Government that set the target and it is right that the committee has the opportunity to look at it. We look forward to receiving that in writing.

That brings us to the end of the meeting. Before I conclude the meeting, I would like to thank all the witnesses for being here this morning. It has been quite a long session. I ask the committee to remain behind for a quick informal discussion relating to the subject of this meeting, which we will do in private. I ask the witnesses, the cabinet secretary and the minister to leave as promptly as

possible to allow us to do that. I conclude this meeting. Thank you.

12:30

*Meeting continued in private until 12:43.*





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