

FINANCE COMMITTEE

Tuesday 26 April 2005

Session 2

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FINANCE COMMITTEE

12th Meeting 2005, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Alasdair Morgan (South of Scotland) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)
*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)
*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)
*Jim Mather (Highlands and Islands) (SNP)
*Mr Frank McAveety (Glasgow Shettleston) (Lab)
Dr Elaine Murray (Dumfries) (Lab)
*John Swinburne (Central Scotland) (SSCUP)

COMMITTEE SUBSTITUTES

Gordon Jackson (Glasgow Govan) (Lab)
David Mundell (South of Scotland) (Con)
Alex Neil (Central Scotland) (SNP)
Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Jonathan Dennis (Scottish Executive Development Department)
John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
Roger Harris (Scottish Executive Development Department)
John Howison (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
Nicol Stephen (Minister for Transport)
Archie Stoddart (Scottish Executive Development Department)
Jean Waddie (Scottish Executive Development Department)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Judith Evans

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 26 April 2005

[THE CONVENER *opened the meeting at 10:33*]

Items in Private

The Convener (Des McNulty): I welcome the press, the public and our witnesses to the 12th meeting in 2005 of the Finance Committee. I remind everyone to turn off their mobile phones and pagers. We have apologies from Elaine Murray.

The first item on the agenda is to ask the committee to consider whether to take item 6, on witness expenses, in private. As that item concerns an individual, I propose that we deal with it in private. Do members agree?

Members indicated agreement.

The Convener: Does the committee also agree to consider the draft reports on the Housing (Scotland) Bill and the Environmental Assessment (Scotland) Bill in private at our meeting on 10 May?

Members indicated agreement.

Housing (Scotland) Bill: Financial Memorandum

10:34

The Convener: The second item on the agenda is scrutiny of the financial memorandum to the Housing (Scotland) Bill. The bill was introduced on 7 March by Malcolm Chisholm, the Minister for Communities. The committee agreed that it would adopt level 2 scrutiny of the bill, which involves taking written evidence from organisations on which costs could fall and oral evidence from Executive officials. We welcome the witnesses from the Executive. Archie Stoddart is head of the bill team, Roger Harris and Jean Waddie are from the private sector and affordable housing policy division and Jonathan Dennis is economic adviser from the analytical services division. The committee has copies of submissions from the Convention of Scottish Local Authorities and the Scottish Association of Landlords. We could probably have written those submissions ourselves, because the stances that the organisations have taken were easy to anticipate. Nonetheless, we have the information. I ask the witnesses to make a brief opening statement before we move on to questions from members.

Archie Stoddart (Scottish Executive Development Department): Thank you for giving us the opportunity to come to the committee to give our view on the bill. I will make a brief comment about the bill, the people who are before the committee today and our focus.

The bill is largely concerned with the condition of private sector housing. It has three main strands. The first strand is on local authority powers and is about dealing with individual disrepair and area-based disrepair. The second strand is on improving the repair standard of private sector houses and providing easier redress for tenants in the private sector. The third strand—part 3 of the bill—is on providing information on the sale of houses. The bill is underpinned by the principle that individuals should take responsibility for maintaining their home, but that support should be available to those who need it and should be targeted by local authorities. The bill addresses two further issues in some detail. The first issue is houses in multiple occupation—that part of the bill is largely a consolidation of various other pieces of legislation. Secondly, the bill also contains some quite technical provisions on the rights of owners of stances and mobile homes.

The bill has been informed by a large developmental process, including the work of the housing improvement task force, whose two significant reports formed the basis of consultation. We also conducted a consultation

exercise last year under the title “Maintaining Houses—Preserving Homes”. That is how we have got to where we are today.

I will give a little detail on my colleagues. Jean Waddie will deal with detailed aspects of the scheme of assistance and HMOs. Roger Harris will deal with issues about the private rented sector and mobile homes. Jonathan Dennis is from our analytical services team and has dealt with the underpinning economics of the financial memorandum.

The Convener: Thank you. As the Finance Committee, we will focus on the financial memorandum rather than on the policy aspects of the bill, although sometimes I have to keep members in check, because they are interested in policy. We will try to focus on the finance issues.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): As the convener indicated, the submissions that we have received were not surprising, in as much as they suggest that perhaps inadequate funds have been allocated. COSLA notes in its submission that the financial assumptions that underpin the bill were not shared with it before the bill was introduced. Its submission states:

“even with more time, it would have been difficult to accurately reflect the financial costs for local government in such a far-reaching piece of legislation.”

Why was COSLA not consulted on the financial assumptions made about costs for local authorities?

Jonathan Dennis (Scottish Executive Development Department): We spoke directly to four local authorities from around the country. We tried to take account of the different kinds of authorities by speaking to urban local authorities, to a local authority with both an urban area and a rural hinterland and to a completely rural authority. Having spoken to those authorities, we also spoke to COSLA to ask whether it thought that we had considered a representative set and whether it wished to add anything. We showed COSLA the questionnaire that we had sent to the local authorities to ask them for the information on which we based the financial memorandum. COSLA was consulted at that stage. The individual local authorities were given an outline of my findings on the cost of the bill to comment on. Therefore, COSLA was asked in the first instance and I also returned the information to the authorities that had provided information.

Archie Stoddart: More generally—I will leave aside the detail of how we have engaged with local authorities—I should explain that, as much of the bill is about giving local authorities powers to act, costs will depend very much on the policy decisions that individual authorities take about how to use those powers and on the nature of the

housing stock in their area. That makes it difficult to be extremely precise on what the costs will be.

Mr Brocklebank: COSLA says in its submission that the estimate in the financial memorandum of £3 million in additional costs on local authorities

“is not necessarily at the ‘high end’ of the possible range.”

It cites figures for Angus Council and argues:

“Rural areas are likely to face significant costs due to the remoteness and inaccessibility of the areas.”

Did you seek submissions from rural authorities as well as estimates from urban authorities?

Jonathan Dennis: Yes. We sought submissions from two local authorities, Western Isles Council, which is both a rural and a remote local authority, and Stirling Council, which has both an urban centre and a rural hinterland.

Mr Brocklebank: If the figures that Angus Council submitted were extrapolated over the whole country, the costs to local authorities would be considerably in excess of the £3 million that has been allocated.

Jonathan Dennis: We looked at four examples—Edinburgh, Glasgow, Stirling and the Western Isles—to form a picture. Angus Council is only one local authority. We are reasonably happy that the broader spectrum of councils that we have examined is representative. As we have said, it is difficult to pin down what the bill will cost. There are differences of opinion about what the cost will eventually turn out to be.

Mr Brocklebank: The bill will require the Executive to pay for extended surveys of right-to-buy properties. The estimate in the financial memorandum is £700,000, based on historic request levels multiplied by “a minimum” of £40 extra per survey. Where did that figure come from?

Archie Stoddart: As part of the right-to-buy process, the Executive pays for the valuation. The arrangement is that we negotiate a fee, so we must be slightly careful about how we deal with the figures that have been cited. In the exploratory work that we did, we extrapolated the costs of the additional elements from the core valuation where the person is already on site. We identified some key additional elements about which we wanted to get information and estimated a price based on the marginal cost of a right-to-buy survey.

Mr Frank McAveety (Glasgow Shettleston) (Lab): COSLA’s submission is an attempt to get a snapshot of the position. It concedes that its figures are a fairly rough estimate. If the costs of the development of the policy are estimated at £3 million, how will those be broken down in each local authority area? What contribution will each authority make towards the costs? What elements

will be required? I should have thought that 80 or 90 per cent of what happens will be the same, irrespective of whether an authority is urban or rural. The process must be broadly similar as regards officer time and so on, although the scale of it may be different.

Archie Stoddart: Our bottom line is that we are building on an existing framework. We are not introducing many new types of powers, but are extending and developing the range of powers that local authorities have. As a result of the bill, local authorities will have to introduce some new measures. There will be costs to operating the scheme of assistance, for example. There will be a core cost—authorities will have to have the necessary infrastructure in place—but costs will also depend on the number of houses and people caught and the priorities for action that authorities set. You asked how we extrapolated the figure of £3 million. Glasgow City Council gave us a detailed breakdown of costs for both staff and activity. We do not think that much of that activity will be fundamentally different across the country. There will be differences on some issues because of local circumstances, but we believe that it is reasonable to extrapolate that task approach across the country.

Jonathan Dennis: The information that Glasgow City Council provided was helpful. I asked the council whether the bill expands the range of services or whether it builds on the offices and services that are already in place and the tasks that staff are already expected to perform. The council responded with some hard evidence. It said that it needed resources for people to do more of the same sort of tasks. I refer to people such as building surveyors, accountants, administrative officers and contact staff. The council saw the bill as building on existing legislation.

Mr McAveety: How do you see the £3 million being allocated among local authorities, given that they may have different and competing demands?

10:45

Archie Stoddart: The figure of £3 million is the estimated cost of implementation. There is a broader issue of how local authorities are resourced to fund that. There are two strands. First, the Executive funds private sector housing grant, which is made directly available to local authorities. The baseline is £65 million, although £72 million will be made available this year. It is possible for some of that money to be used to meet administrative costs. Secondly, there is a specific budget line of £10 million for housing improvement task force implementation. We will reach a view with stakeholders on the distribution of that money, which will fund implementation and

set-up costs. We anticipate that a number of the costs will be met by the Executive.

Mr McAveety: There is a fair amount of private rented stock in the constituency that I represent. There are officials in place who know what is required and some good community-based housing organisations, which may consider ways in which they could intervene and assist if they were brought into ownership. However, in places such as Glasgow, there is a genuine fear that, even if there are enough staff to carry out assessments, the scale of the investments that are required to deal with some of the property will be way beyond the capital allocation that is available or may impact on other areas of spending. It is not the case that authorities do not recognise the problem. However, if they open the can, they may find that it contains much more than they would normally want to deal with in a given financial period.

Archie Stoddart: First, it is important to hold on to the fact that local authorities and COSLA have broadly welcomed the powers in the bill. I guess that they do so with their eyes open. Secondly, funding to local authorities to address issues of private sector disrepair has increased dramatically in recent years.

Roger Harris (Scottish Executive Development Department): The private sector housing grant, which was introduced recently, replaced an arrangement under which local authorities borrowed to fund their activity in the private sector. When the decision to change the arrangement was taken, authorities were borrowing less than £50 million on that account. Last year private sector housing grant was £70 million and this year it is £72 million. The spending review set a base level of £65 million. It remains to be seen whether in the future we can top it up beyond that, as we have done this year and last year.

Clearly, dealing with private sector housing is a substantial task. Local authorities are involved in situations where the owner of a property is finding it difficult to meet their responsibility to maintain their house adequately. There are limits to what can be done with the available resources in any one year, but there has been an increase in the resources that we make directly available to local authorities. Authorities can also choose to direct other resources at this priority. The broad powers that we are introducing in the bill will give local authorities greater ability to target assistance in an appropriate way to overcome barriers. I am not talking only about financial assistance. There can also be practical assistance to enable authorities to make the most effective use of the resources that they have to address the needs of as many people as possible.

Archie Stoddart: Grant aid will be one way of assisting people, but the underpinning principle of the bill is that individuals should be responsible for maintaining their housing. In some cases, grant aid will not be the best way of ensuring that that happens. The bill frees up local authorities to make strategic decisions.

Mr McAveety: What do we do about individuals who cannot—or who indicate that they cannot—afford improvements and landlords who have chosen not to make improvements? Local authorities will be concerned about non-recoverable costs. Do you have a sense of where those may fall in Scotland? Is the situation fair and equitable? Will costs be different in different areas, because of differences in the scale of problems?

Roger Harris: The private sector housing grant is a relatively recent arrangement. We allocated it for last year and this year on the basis of a formula that reflects past spend and past local authority priorities, as well as the bidding process for identifying projects. The grant is managed through Communities Scotland, partly through its area offices' detailed contact with individual authorities. Therefore, the system is already sensitive to variations in local authority circumstances, including variations in the proportion of older stock. We will review how the allocation of the grant is managed this year, but it is intended to be managed in a way that reflects the varying demands on local authorities.

Archie Stoddart: We are currently locked into a system in which a statutory notice is followed by a mandatory grant. That is an incredibly restrictive approach for dealing with issues relating to condition and quality.

Jim Mather (Highlands and Islands) (SNP): The financial memorandum estimates that the total cost for the single survey and the valuation survey will be £650. However, in oral evidence to the Communities Committee, the Law Society of Scotland provided a ballpark figure of £750, with the caveat that the cost could much higher than that. How did you arrive at the estimates in the financial memorandum for single survey and valuation costs?

Jonathan Dennis: I spoke to the Law Society of Scotland to try to get a handle on the matter and asked it for its general opinions on what additional tasks might arise in the house buying and selling process as a result of the bill. The figure that was arrived at took into account greater guarantees and collecting all the additional information that is required in purchasers packs, for example. A figure of £100—which is set out in the financial memorandum for the solicitors' side of things—was reached for bringing together everything from a legal point of view.

I spoke to the Royal Institution of Chartered Surveyors and to surveyors in that organisation about the survey side and asked for their professional opinion on what the costs might be and what the bill would look like if the surveying requirements were akin to those in a level 2 survey or a home buyer report, for example. They estimated that the home buyer survey would be around £400, although the cost would depend on market conditions and the details of the bill. We were also informed that a valuation report—which is like a mortgage report—would cost £150.

As a result, we are looking at an additional cost of £250 for moving everyone from valuation to home buyer reports. Moreover, multiple surveys—as a result of either the same house being surveyed more than once or people surveying more than one house before finding the house that they buy—will be taken out. We arrived at a figure of £13 million for the legal side and an additional £22 million on the RICS side through using those numbers and considering the number of transactions throughout Scotland through information that statisticians provided. Both organisations that I have mentioned were consulted on whether the costings were of the right order.

Jim Mather: Are you satisfied that the extra £13 million to the legal profession and the extra £22 million to the surveying profession represent added value?

Jonathan Dennis: Additional information will be given to the consumer about the properties and the value of a house. The valuation report is, in effect, a mortgage survey—it does not go into any more detail than the building's fabric. People might be slightly blind when they want to buy a property—they can move in and find problems that were not identified beforehand. Indeed, in its work for the housing improvement task force, DTZ Pidea Consulting Ltd asked people about the reports that they used when they moved in and the problems that they found with their houses. The additional costs will allow people to see a few more warts on the house and to judge whether they want to make a bid for a property and what price they should bid at. Purchasers will receive information for the additional money. Personally, if I wanted to buy a house, I would like to know more details about it.

Jim Mather: However, the £35 million represents additional costs and there is nothing to offset them. Given that we are talking about moving to a single survey, there must surely be something to offset those costs. Are you telling me that, in acting as the reservoir of provision, the legal and surveying professions will tool up to the extent of an additional £35 million?

Archie Stoddart: Two strands are involved. We estimate that, if there is a level 2 requirement, there will be an additional cost for surveys, which we have tried to identify. The cost to the legal profession depends on the information requirements; the profession has quoted the extra £100 for dealing with the duties in the bill relating to checking the authenticity of documents and so on.

On the added value of the survey, the valuation survey represents precisely that, as Jonathan Dennis said. On the added value to the consumer, the DTZ Pida Consulting report found that a quarter of house buyers had unanticipated repair bills of £3,700. There will clearly be a return for the interaction. However, the issue again relates to impacts in a complex market and it is difficult to be precise.

Jim Mather: The question in the undercurrent is whether we can take other steps to increase competitiveness rather than simply having additional overheads going—absolutely untampered with—straight on to the consumer's shoulders.

Archie Stoddart: We are not specifying fees but, equally, we must try to have a realistic picture of what costs will be, which has very much been the basis of our discussion with the professional bodies. You are right. Ultimately, the market will determine things. I have a brief additional point to make.

The Convener: Before you make that point, I want to press you on what you are saying. My experience of professions is that, if the Government says that something is a reasonable amount to specify, that amount will become the fee or the fee will become that plus something. Are you frightened that you will set a threshold or a floor for fees?

Archie Stoddart: No, because the market is quite dynamic. There is a market of individual surveying practices, for example. I cannot be sure of setting a threshold or floor, but there is a dilemma. If we do not try to establish what the costs will be, we will rightly be vulnerable to accusations that we do not know what things will cost. I cannot know what will happen, but the market is pretty dynamic. Of course, we are talking about the market over time and the housing market in particular quickly changes and evolves.

Jim Mather: Have you considered other jurisdictions in order to find out what they do in a similar climate and how they have created genuinely competitive markets for legal and surveying services?

Archie Stoddart: Addressing the competitiveness of the surveying and legal services was not part of the bill's remit. However,

we have considered other examples of how people deal with the house buying and selling process. The system in England is the obvious example. Although the issue of multiple surveys does not arise there, a whole raft of other issues is being addressed through the introduction of home information packs.

As for other jurisdictions in Europe, Denmark, for example, does not have the approach of caveat emptor. The system has been managed through the introduction of surveys, as sellers could be liable for a considerable time. There are many different approaches, but we and the task force have built on the strengths of the Scottish system and have tried to address perceived weaknesses. We believe that the cultural weakness is that condition does not impact enough on price—hence the survey—but there are the secondary issues relating to multiple surveys and artificially low upset prices. We think that our approach of building on the Scottish system addresses such matters.

Alasdair Morgan (South of Scotland) (SNP): When single surveys were first mooted, many people argued in favour of them, saying that buyers would be saved the expense arising from multiple surveys. For the record, will you clarify that that is not the bill's purpose? It is clear that buyers will pay more money on average.

Archie Stoddart: Two issues are involved. The primary purpose is to have condition reflected in the price. Addressing the problem of multiple surveys is a secondary issue. Whether people will save money will very much depend on market conditions at the time. It is not that long since prospective buyers in hot markets got a whole series of valuation surveys done. Market responses will be different—in Edinburgh, for example, the practice of making offers that are subject to survey has developed. I am sure that the committee will be aware of the issues around that. The bill will result in significant added value—although it is difficult to predict the extent of that precisely, because there are many factors to take into account—in that people will have a much better picture of the house that they want to buy.

11:00

Alasdair Morgan: Yes, but the purpose of the bill is not to save people money through stopping them having to have multiple surveys.

Archie Stoddart: That is a secondary purpose. The bill will save people money in that way, because of the single survey.

Alasdair Morgan: Yes, but that single survey will be much more expensive. You estimate that, alongside a saving of £7 million, there will be an extra cost of £29 million. That means that the bill

will result in a net additional cost of £22 million, so the average seller will be worse off by £22 million divided by the number of transactions.

Archie Stoddart: The arrangements to do with who pays for that will be a matter for each transaction.

Alasdair Morgan: Okay.

The point of the bill is to make people clear about the condition of the property that they want to buy, which we hope will feed through to an improvement in the condition of property, because people will get repairs done. Is that fair to say?

Archie Stoddart: Yes.

Alasdair Morgan: How much evidence do you have that that will happen? We can argue about the figures, but it strikes me that when the bill comes into force, there will be £35 million less money sloshing about between buyers and sellers—in most cases, buyers are also sellers—with which to carry out repairs. The people who will have to carry out repairs will be £35 million less well off; that money will have gone to lawyers and surveyors. Is there not an argument that repairs are less likely to be carried out, because people will not have the money to do them?

Archie Stoddart: There are two or three factors at play. The fact that most sellers are also buyers means that they will get a financial benefit at the other end because the buying process will involve a different order of costs. We cannot net those off, because we do not know how people's payment behaviour will be affected. It is important to remember that, as most sellers are buyers, they will benefit from the proposal.

There is no question but that we want condition to impact on price. We think that that is a major motivator to get people to improve property before they sell it or to get buyers to bid appropriately when they want to buy a house. Whether that will happen depends largely on the dynamics of the housing market.

The third point to bear in mind is that I am sure that the dynamism of the housing market and the highly significant accumulation in property values over recent years will significantly outstrip the £35 million. Jonathan Dennis might be able to advise me on that. We think that we are setting a framework that will make a dynamic market more informed, but we will have to wait and see how that plays out.

Alasdair Morgan: A likely scenario is that if someone got a single seller's survey that said that £1,000 of roof work needed to be done—the figure would probably be much higher, given how much it costs to get roofs fixed—some kind of cosmetic repair would be done or the price would simply be dropped by that amount. In other words, the

required repair would not necessarily be carried out. How will the bill achieve its object of improving the state of our housing stock, rather than ensuring that sellers achieve values that more realistically reflect the state of that stock, which of course is not the same thing?

Jonathan Dennis: Our aim is to provide people with better information. To continue with your roof example, if X thousand pounds' worth of work needed to be done and everyone who was interested in buying the property was aware that the roof would have to be replaced in a number of years, I would have thought that they would make a bid that reflected the cost of repairing the roof. Although they would spend an additional £250 on the survey, the fact that they would submit a lower bid would mean that, if they were successful in securing the property, they would have access to funding that they could use to repair the roof. If they then did not go ahead and do that repair or got a cosmetic repair done, one would hope that that would be picked up when the house came back on to the market. The surveying profession should be able to pick up on the fact that the roof has not been repaired, which would mean that the value of the house would again be adjusted accordingly.

Archie Stoddart: There could be a price penalty for not doing maintenance, which would be a powerful driver in the housing market. At the moment, more than 90 per cent of people get only a valuation survey. The provision of more information will have a positive impact.

Alasdair Morgan: If the fact that maintenance has not been done will have a price penalty, why do we need to introduce new legislation to make that happen?

Archie Stoddart: At the moment, it is not apparent that maintenance has not been done because more than 90 per cent of people rely on a valuation survey. It is acknowledged in all quarters that the purpose of such surveys is simply to satisfy the lenders that they will be able to secure the loan.

Our pilot single survey scheme was not a great success. In our view, that was not because the product was wrong, but because a voluntary model just will not work.

Jonathan Dennis: I back that up. The DTZ work said that when people moved into their houses, they had to spend more than £3,500 on unexpected repairs in the first year. One could argue that if the necessary information had been available up front, the cost of those repairs would have been offset by a lower bid price. We know that the market is not working efficiently, in that people are moving into houses and then covering significant levels of expenditure. In some cases,

the fact that a buyer has bid the maximum amount that they can afford to get the house of their dreams means that they do not have the finances to undertake the necessary repairs. The bill is an attempt to give purchasers of houses the information that is required to make informed decisions.

Jim Mather: I want to return to the £35 million, which seems to be a rather large sum of money. Have you calculated how much of an uplift that represents on current legal and surveying fees? I have done some back-of-an-envelope calculations. If there are 2 million homes in Scotland, that additional cost amounts to £17.50 per house per annum. If 10 per cent of those houses are sold in a year, the uplift will be £175 per deal; if only 5 per cent of them are sold in a year, the uplift will be £350 a deal; and if only 2 per cent of them are sold in a year, the uplift will be £875 a deal. It seems that the uplift will be large. Do we know the size of the surveying and legal-fee market?

Jonathan Dennis: When I spoke to the RICS, I asked whether the industry had sufficient capacity. It said that, whereas at present its members carry out a certain number of valuation surveys per day, in future they would carry out more detailed surveys on fewer properties in a day. Its opinion is that sufficient capacity exists in the profession for the work to be undertaken.

Jim Mather: You have not answered my question. I asked how big the market is at present and how much of an uplift the figure of £35 million represents.

Jonathan Dennis: Are you asking about the surveying market?

Jim Mather: I am asking how much is being spent by Scottish consumers on legal and surveying fees and how much of an uplift on that the £35 million represents.

Jonathan Dennis: I will have to come back to you with the precise figures. If I base my answer on the DTZ work, I think that people are spending £1,000 per house on legal fees and payments to the surveying profession. There are about 130,000 transactions a year, which represents about 10 per cent of the market on the owner-occupier side.

Jim Mather: I trust that you understand my concern, which is that we are on the cusp of giving certain professions a state-sanctioned sinecure that allows them to charge Scottish consumers considerably more. We do not know how much of an uplift on existing levels the £35 million represents. That means that we are scrutinising the situation in the dark and that you are putting forward numbers in the dark.

Archie Stoddart: On the basis of the assumption that it costs about £150 to obtain a mortgage valuation report and that it will cost £400 to obtain a single seller survey, we reckon that individuals face an uplift of £250 in surveying costs. That must be netted off against the benefits that a single survey will offer. For example, people will no longer have to get multiple surveys done when they are unsuccessful in buying a house. It is not a straightforward case of saying that there will be an uplift of £250. We face the difficulty that our ability to give precise figures depends on how the market is operating at any given time. For example, the practice of submitting offers that are subject to survey—around which there are issues—changes the dynamics of the game, but the practice is not followed throughout Scotland. Such matters are extremely difficult to pin down.

The Law Society of Scotland has estimated that there will be an uplift of about £100 per person in legal fees, but that will have to be determined by market conditions.

Jim Mather: I think that there is still more work to do on that. When will detailed information be available to assist people who are likely to incur costs to work out what the full costs will be? How will that be managed?

The Convener: Do you mean landlords?

Jim Mather: The bill will provide for mandatory assistance to be given to people. How will that work in practice?

Archie Stoddart: Do you mean assistance with carrying out work?

Jim Mather: Yes.

Archie Stoddart: The principle of the scheme of assistance that is set out in the bill is that local authorities should be able to target assistance, which will be drawn from a raft of measures, including grants, loans, subsidised loans and practical advice. We are not at a stage at which we can comment on the detail of how the scheme will work for individuals: first, because much of the process will be driven by local authority priorities and policy decisions when the bill has been passed; and secondly, because the bill gives ministers powers of direction on how the scheme of assistance will be applied, which will be used in the context of enacted legislation, when ministers form a view on how the scheme will operate. In the context of the bill process and given the nature of the powers, we cannot say how individuals will benefit from the scheme.

Roger Harris: The bill provides that a local authority should devise and publish its criteria for using the provisions in relation to the scheme of assistance. The local authority will take a decision in the light of its strategic housing priorities, but it

must make a public statement of its criteria. At that point, people will have a clearer idea of the assistance that they are likely to receive in different circumstances.

Jim Mather: Do you expect there to be uniformity in local authority criteria?

Roger Harris: The intention of giving ministers powers to give guidance and directions is to enable us to achieve reasonable consistency throughout the country. That does not necessarily mean that there will be uniformity, because it is obvious that housing circumstances differ enormously. For example, the approach to dealing with substandard housing in the Western Isles is very different from the approach in Glasgow. However, both areas are making substantial efforts to address the problems that they face.

The Convener: I want to ask about the rights of people with disabilities. I do not think that anyone would argue against the provision, but my question is about its financial implications. During the pilot exercise, did you ascertain how many people might benefit from the rights that the bill will confer? Did you examine carefully the potential costs for local authorities or other social landlords?

Roger Harris: I take it that you are referring to the right of a tenant to carry out adaptations to suit a disabled resident. The provision is geared towards the private sector, on the basis that the tenant will bear the cost, so there should be no cost to the landlord. There are approximately 170,000 private sector tenancies, but we do not have firm figures on how many of those households include a disabled occupant who might need an adaptation that would be sufficiently significant to require the exercise of the new right. Furthermore, we do not have information about the number of occasions on which a landlord might have refused consent for an adaptation, who, when the bill is passed, will be obliged to agree to the adaptation because there is no good reason to refuse consent. We do not have that level of detail about the provision's potential impact. However, the impact on the landlord should be minimal, because it will be the tenant's responsibility to pay for work, possibly with assistance from the local authority.

The Convener: That is the issue. The money will come from somewhere. Reading the provisions carefully, I suspect that the local authority will be expected to make a contribution. As I understand the financial memorandum, the bill could lead to a situation in which a tenant's legal entitlement becomes a legal obligation on the local authority to provide grant assistance or support that is not budgeted for.

Roger Harris: The provision gives tenants the right not to be refused unreasonably. It will be for

tenants to decide whether to proceed with the work. A tenant can approach the local authority for assistance, as can an owner-occupier who has a disability or whose household includes a disabled occupant. Under the terms of the bill, the local authority will be obliged to give assistance of some sort. Whether that is financial assistance will depend on the circumstances and on the local authority's decision.

11:15

The Convener: Let us look at it from a local authority's point of view. It is quite likely that a local authority occupational therapist, or someone from the social work department or a specialist part of the local authority, would be involved in assisting an individual in identifying whether they have a right under the legislation. Presumably then another part of the local authority would be asked to make a financial contribution to meet the costs that notionally—according to the bill—fall on the tenant, although the tenant might be looking to the local authority to provide financial assistance because of their financial circumstances. Have you no quantification of that?

Jean Waddie (Scottish Executive Development Department): The local authority already has a duty to assess the housing needs of anyone with a disability and to help them to meet those needs. A disabled tenant can already access grants to deal with adaptations. The provision in the bill simply says that a landlord cannot refuse a tenant consent to do stuff to that landlord's property. We would hope that landlords would not refuse at the moment, and any tenant whose landlord is willing has access to grants anyway, so the bill does not change the position on assistance to get adaptations done.

The Convener: I understand the point, but you are now creating a new mechanism whereby a local authority might be asked by a disabled person to establish their right to a specific adaptation in relation to their landlord. As a follow-up to that, the local authority might then be asked to make financial provision for that adaptation. Although I appreciate that the bill says that the landlord cannot refuse, the reality from a local authority point of view might well be that it gets drawn into a cycle that has significant financial consequences. As you know, adapting houses to meet the requirements of disability can involve significant expense.

Archie Stoddart: We considered the issue in a rather different way. As Jean Waddie said, there is already a framework for funding adaptations. We see the new measure—as do disability representative groups—as freeing a blockage in the system rather than introducing a new system. Again, the bill builds on the existing system and

allows people to get work done where needed. The context for landlords is that they cannot refuse unreasonably.

The Convener: Tim Hooton, the drinking water regulator, has drawn attention to the fact that there are new European requirements on the quality of drinking water and that Scottish Water will need to address the connections between reservoirs and people's houses. I understand that a significant number of the pipes running into people's houses are lead pipes, and lead in the water certainly has a significant health impact. I would have thought that one of the major health priorities would be to get that lead out of the water. Is there an opportunity through the bill to identify whether there are lead pipes going into a house? You have identified electrical safety. Is water safety another issue that might be addressed in the context of the bill?

Archie Stoddart: Our approach is based on the European Union drinking water directive, under which what comes out of the tap is measured. The directive was transposed into our Water Supply (Water Quality) (Scotland) Regulations 2001, so it struck us that our approach should be to measure what comes out of the tap rather than to engage in trying to identify lead piping. Are you suggesting that the presence of lead piping should perhaps be a factor in the tolerable standard?

The Convener: I was wondering whether it might be considered in the survey. If the single survey is introduced and one of the tests is on what comes out of a drinking water pipe, I am sure that people would want to know about that.

Archie Stoddart: Our regulations are driven by such considerations because they transpose the European Union directive. There will be a measure of what comes out of the tap and that will be the determinant. The tolerable standard is a condemnatory standard. If a house falls below that standard, it cannot be lived in and a raft of powers come into play, including powers on compulsory purchase and demolition.

We could find ourselves in a difficult position if we are imprecise about lead. A tiny bit of lead, which could be extremely expensive to get rid of, could condemn a whole house. However, it might not affect the house, or we might be able to deal with it through other amelioration measures. That is why we feel that what comes out of the tap is the important thing.

The Convener: Yes, but the single survey process does not have a test of what is coming out of the tap.

Archie Stoddart: No, but the regulations that transpose the EU directive do include tests for water quality. We feel that that is the appropriate approach.

The Convener: I am not sure about that.

Another issue that arises is local authority grants. Some local authorities provide for the removal and replacement of lead water pipes, and some authorities do not. Might we move towards a general standard across local authorities?

Jean Waddie: Grants are available at the moment, and assistance will be available in future, to deal with lead piping that has become an issue in a particular house. Local authorities differ in the policy priority that they give to dealing with lead piping. Depending on where one is in the country, there might be a significant amount of lead in properties and the water might be such that it causes a problem—the chemical composition of the water might or might not dissolve the lead. It will be for local authorities to determine how high a priority they give to dealing with lead. At present, there is a minimum percentage grant. If someone gets a grant for removing lead piping, they receive at least 50 per cent. That is the kind of measure that we use to highlight national priorities. We would imagine that that sort of thing would continue.

The Convener: I am interested to hear that local authorities can set priorities in relation to health standards. It seems a rather strange approach, but I will not pursue it because it is a policy issue rather than a finance issue.

How will the Executive review costs after implementation of the provisions in the bill? You say that there are a number of uncertainties, so how will those be dealt with?

Jonathan Dennis: We have a number of statistical and other tools that we can use to monitor the effects of the bill—for example, monitoring of tolerable standards, the cost of repairs and whether those repairs are urgent or critical. We have a statistical database that will allow us to monitor impacts and to see whether those impacts are starting to disappear. I am not suggesting that that will be easy. Obviously, things other than the bill will have an effect. Houses deteriorate irrespective of other measures.

We will be able to talk to local authorities about how they have implemented the provisions of the bill. COSLA will let us know how things are working, as will the legal profession, the Royal Institution of Chartered Surveyors and the Scottish Association of Landlords. Having consulted those people and talked to them, we have a conduit that will allow us to monitor the impact of the bill. That is one of the things that we have to do as part of the regulatory impact assessment.

The Convener: I do not think that committee members have further questions, so I thank the witnesses for coming.

Archie Stoddart: May I make one further brief point? I want to make it clear that water does indeed feature in the tolerable standard: there has to be a wholesome supply of water in the house. Issues to do with lead could feature, but it is not lead in itself that would feature.

The Convener: Is there a test? Is water quality tested as part of the single survey?

Archie Stoddart: It would not necessarily be tested as part of the single survey.

The Convener: Should it be?

Archie Stoddart: That is an interesting question for the professions.

The Convener: I thank all the witnesses.

The clerks will be preparing a report for next week. Unless members have other points to raise, we will ask the clerks to produce a report based on the responses to our questions. Is that agreed?

Members *indicated agreement.*

Annual Report

11:25

The Convener: Agenda item 3 is our draft annual report. As members can see from the clerk's paper, the report is a very factual document about the work that we have done. The standards for the format and length of annual reports have been set down by the Conveners Group to ensure consistency across committees.

If members have no points that they want to raise about the annual report, are they content to agree the report as drafted?

Members *indicated agreement.*

Efficient Government

11:25

The Convener: Agenda item 4 is a paper that outlines possible case study visits in connection with our monitoring of efficient government. When we agreed our forward work programme, we agreed that we would take evidence from some non-departmental public bodies and councils. The paper proposes that we visit people on the ground rather than have formal evidence-taking sessions in Edinburgh. Therefore, I seek members' agreement to have two visits on 7 June and two visits on 21 June.

The paper suggests that we visit Scottish Natural Heritage and VisitScotland on 7 June and that we go to Glasgow and Stirling on 21 June. However, I now understand that the chief executive of SNH will not be around on 7 June. Therefore I propose to swap the dates around, so that we visit Glasgow and Stirling on 7 June and SNH and VisitScotland on 21 June.

The paper's suggestion about which members should be in each group has been made on the basis of proximity, in an attempt to make travel arrangements straightforward. If individuals want to be swapped round, they should ask the clerks after the meeting rather than raise such issues just now.

Do members have any points that they want to make about the paper? Are members agreeable to the approach that the paper outlines?

Members indicated agreement.

The Convener: I will suspend the meeting for two minutes to allow the Minister for Transport, who has arrived for our next item, to take his place.

11:27

Meeting suspended.

11:30

On resuming—

Infrastructure Investment Plan

The Convener: Agenda item 5 concerns the infrastructure investment plan. Last week, we took evidence on the plan from the Minister for Finance and Public Service Reform; this week, I am pleased to welcome the Minister for Transport, Nicol Stephen, to the committee. With the minister are: John Ewing, head of the transport group; John Howison, head of the trunk roads design and construction division; Damian Sharp, head of the public transport major infrastructure team; and Claire Dunbar-Jubb, head of the finance and business planning team. Officials have very long titles in the transport division.

I invite the minister to make an opening statement, after which we will move on to questions.

The Minister for Transport (Nicol Stephen): I thank the committee for the opportunity to discuss the Executive's infrastructure investment plan. In 2005-06 we will, for the first time, spend more than £1 billion of our departmental budget on transport. That funding will increase to almost £1.4 billion by 2007-08 and will be used in part to fulfil the commitments in the transport capital programme. Of the total budget, 70 per cent will be directed at improving public transport over the period of the transport long-term investment plan, at tackling congestion and at promoting more sustainable transport.

The major infrastructure projects that the Scottish Executive currently supports were published last year in the 2004 transport white paper "Scotland's transport future" and have also been included in the infrastructure investment plan. They are our flagship projects, which, once they have been driven forward to completion, will make a significant difference to Scottish businesses, people and communities. For example, the Edinburgh and Glasgow airport rail links will be good for travellers and business and will help us to achieve our target of growing our economy, and the Airdrie to Bathgate rail link will help commuters to get to work and will provide new journey opportunities. Our targeted roads investment—for completion of the motorway infrastructure in Scotland and for our trunk road improvements—will improve traffic flow in the central belt, reduce congestion and significantly improve safety.

We are determined to provide high-quality transport that will strengthen Scotland's economy and support all our communities. The major increase in transport investment underlines the importance that we attach to transport's role in

growing Scotland's economy and in providing greater prosperity.

When last I appeared before the committee with other ministers as part of the review on cross-cutting expenditure in December 2004, I was asked to comment on the decision-making process by which investment in transport projects is prioritised. I mentioned then that we would be developing our national transport strategy over the following 12 months to ensure that we would have a strong framework for transport policy decisions for all parts of Scotland over the next decade. Work on that strategy is under way and I am happy to undertake to keep Parliament and the committee informed and involved as the strategy develops over the next year. I have consistently said that that process will be heavily informed by public consultation; discussion with individual MSPs will form an important part of that. The national transport strategy will set the context for our strategic projects review, which is due to start by 2007. That will be the mechanism by which we make major investment decisions beyond the period of our current investment plan.

I also said in December that the Transport (Scotland) Bill would require the new statutory regional transport partnerships to develop regional transport strategies that will tie in with the national objectives and with the plan that will be set out in the national transport strategy. Progress on those matters has been good: work has commenced on the planning that is necessary to support the production of a national integrated transport strategy and we are on the way to creating a national transport agency to improve central Government's delivery of transport. However, national changes are not enough on their own; we need to get things right regionally and locally, which is the reason for the Transport (Scotland) Bill's proposals on regional transport partnerships. I will be debating those proposals again at the Local Government and Transport Committee this afternoon.

The national transport strategy will underpin the work that regional transport partnerships will do, but there will also be funding for the partnerships. We intend to allocate £35 million a year to the regional transport partnerships so that they can deliver capital projects that have not received support and funding in the past. That will provide a good opportunity to make progress on projects that are of major regional or strategic significance.

In short, we are providing the support structures—the national strategy, regional strategies, and improved delivery arrangements through the national agency and regional transport partnerships—to ensure that we achieve our objectives. The private bills for Edinburgh's tramlines 1 and 2 were introduced to Parliament

on 29 January and are currently proceeding through consideration stage. The Waverley Railway (Scotland) Bill was introduced on 11 September 2003. Its preliminary stage hearings have yet to be completed, and an additional hearing by the Waverley Railway (Scotland) Bill Committee is due to take place this week.

Trunk road projects are promoted through local statutory instruments, rather than through the private bill parliamentary process. Promotion has now been completed for the M74 extension and is making progress for the improvements to the M80, for which a public local inquiry has been arranged for autumn this year. We are well placed to progress efficiently to the construction stages, in line with our plans.

The IIP that we are discussing today does not include additional funding that will be added to the transport budget to support the increased functions that the Executive will assume as a result of the United Kingdom Government's review of the structure and organisation of the rail industry, which is an important new development. The outcome for Scotland of the review is that greater responsibility for rail within Scotland will be devolved to the Scottish Executive, which will in the future be responsible for all aspects of the Scottish passenger rail franchise and for the specification and funding of rail infrastructure in Scotland. Those new responsibilities will be transferred under the Railways Act 2005 and will be accompanied by a budget transfer of about £325 million, which gives us a real opportunity not only to take responsibility for projects in Scotland, but to drive forward and ensure delivery of some of the long-delayed projects that have caused much frustration and of which committee members will be aware from local experience.

Together, the new rail responsibilities, our responsibilities for the trunk roads and motorways network and our responsibilities for investing in the flagship public transport projects to which I have referred constitute a significant challenge for the transport division, but we are determined to ensure that we deliver on that challenge.

The Convener: You will have received our report on economic growth. We are waiting for an official reply to that from—I presume—your colleague Tom McCabe, but we hope that it will be a co-ordinated reply from all the ministerial departments to what we had to say in the report. We were particularly concerned about co-ordination of investment at spatial level, particularly regional and conurbation levels. To what extent are the transport projects that are listed in the IIP integrated with strategies for housing, renewal and business growth? What evidence is there to support the argument that they are?

Nicol Stephen: Better integrated planning and transport is important for Scotland and we have not yet achieved the required level of integration and co-ordinated partnership working. Transport is vital in terms of planning for future housing and business or industrial developments, so the review of planning will, I hope, lead to improvements from a planning perspective. However, from a transport perspective, the lack of a national transport strategy or co-ordinated regional transport strategies has been a weakness, so it is good that we are making progress in those areas.

At local authority level, it is clear that, if a development impacts on a trunk road, we—as the trunk road authority—will be asked for comments. There are opportunities to ensure that transport is appropriately considered through community planning and through the work that will be done on local plans and city region plans. However, on green transport plans, for example, delivery is patchy and is at different stages in different parts of the country.

If the committee wants support for the view that more needs to be done in transport, it has my agreement. Obviously, transport has always had a role in planning, and comment on transport issues has always been asked for. However, transport has not been considered in a fundamental way early enough when we have considered future development proposals for ambitious projects in Scotland. That should change; we should think far more about the public transport impacts of any new developments. That applies not just to industrial or housing developments, but to reconfiguration of services such as health services.

The Convener: We are looking to move beyond the aspirational; we want to move from “This is what we ought to do” to “This is what we plan to do.” That has been done in the context of the central Scotland corridor study, which was a multi-modal approach that examined options and provided at least a basis for making decisions. Why has that not been done elsewhere?

John Ewing (Scottish Executive Enterprise and Lifelong Learning Department): There has been an element of catch-up in some of the current programme. The central Scotland corridor study is a good example of a study in which we were able to draw on local planning data and to work closely with local authorities to identify strategic needs along that particular section of road. Particular projects flowed from that, so it is the kind of model that we want to develop and grow.

Similarly, the proposals for the Aberdeen western peripheral route flowed from local authorities’ concerns about how to achieve economic regeneration in that part of the country.

The project was a response to that need. In developing specific proposals, we try to relate to and respond to what local authorities and other partners say about the needs of their areas. The national transport strategy will provide us with a more coherent and cohesive framework to do that. We are improving in this regard.

The Convener: How do you, for example, assess competing road and rail projects? I know that there is a formal mechanism, but I would like the panel to explain how a decision is made, such as, for example, that project X is in but project Y is out.

Nicol Stephen: The Scottish transport appraisal guidance approach—the STAG approach—is relatively new but is widely accepted as being a major step forward in that we examine the key factors that are associated with a particular project. In that process, consideration is not specific to any single mode of transport; we consider a variety of options for tackling a particular problem and we try to find which option will deliver the best results. As the convener noted, that approach was taken in the central Scotland corridor study, and it will be taken in considering the possibility of dualling a section of road from Inverness to Inverness airport. For that project, I have made it clear that the appraisal should focus not only on the road, but on public transport and a range of associated issues. In the past we would not have done that; we would simply have looked at a single issue or approach.

11:45

Perhaps John Howison wants to comment from a roads perspective. There are many demands for road improvements in Scotland and we are now trying to take a broader approach and to consider all the issues—trunk roads, public transport and environmental and safety issues—within the context of STAG.

John Howison (Scottish Executive Enterprise and Lifelong Learning Department): Our roads programme consists of various elements. One of the more visible elements is completion of the Scottish motorway network. On that, the planning parameters are built in through the traffic models that are used to help us to understand changes in traffic patterns. We are also considering measures such as route action plans, whereby we propose to improve some of our long-distance single carriageway routes. That will involve upgrading the parts of the network that do not have very high traffic levels but which are the communication points that connect remote parts of Scotland to the central area. Again, it is a matter of examining current traffic requirements and assessing how those will develop in line with authorities’ aspirations for the future.

The Convener: I have a difficulty with that. The Treasury's "Green Book: Appraisal and Evaluation in Central Government" guidance, which is based on 60 years of use, is used to decide whether a project is in or out. Some of the projects on the list of priorities seem to barely stagger through even that assessment. How is it that systematic decisions based on priorities in, say, Edinburgh or Glasgow can be made in a realistic timeframe? How does that work through into policy? It is not clear to anybody how the process works—certainly not to members of the committee who have considered it.

John Ewing: The selection of any set of projects is a complex process. An economic appraisal is made and the "Green Book" is looked at, which provides one set of parameters and gives one set of decision points or factors to take into account. However, one must also take into account factors such as the contribution to accessibility, to safety, to the environment and generally to better integration of the Scottish transport network. One has also to look at the cost of a particular project; a project or idea might score very highly, but would not be affordable in a realistic timeframe. Other issues might also affect the deliverability of a project. A number of factors must be weighed up in addition to the "Green Book" conclusion. At the end of the day, it is a political decision about priorities and which projects should proceed.

The Convener: From the point of view of a scrutinising committee such as this one, that explanation could justify any decision, however irrational. Although I am sure that no irrational decisions have been made, unless there is a net present value figure or something of that nature that suggests, for example, that project A clearly passes the test in purely economic terms and there is little scope for political deliberation around that, but project B does not or is marginal, then it becomes very difficult for us to accept that politicians' decisions are justifiable.

Nicol Stephen: There are two points to be made in that regard. First, the STAG appraisal provides for net present value figures and a cost-benefit analysis. If we were to base our investment decisions purely on net present value figures, we would probably undertake very few public transport schemes but very many road schemes—my officials can correct me if that is inaccurate.

That brings me to my second point, which is that the STAG appraisal is based on a set of criteria or rules that can be changed over time. We introduced the STAG appraisal quite recently. It might be questioned whether the STAG gives sufficient consideration to environmental or safety issues or to issues that might enable public transport schemes to score better, but if it did, an economist might say that we were rigging things in

favour of public transport and that that would not be a rigorous approach. We had to strike a balance but, at the end of the day, it was a political decision rather than an economic or analytical one to favour greater spend on public transport schemes and to invest in major schemes, even where the cost benefit is marginal. Very few of our public transport schemes have a significant positive net present value; one or two do, but not many.

I will bring in Damian Sharp, but my final point is that we are only as good as the schemes that we come up with and that we can analyse. Anyone who has been involved in a local authority will know that many schemes—certainly in the local authority on which I served—would stay in year 5 of the capital programme every year and so, as programmes rolled forward, there would be a long tail of projects which politicians did not want to take off the priority list, but which were never funded and just did not happen. How many projects would the committee want us to appraise and take to the level of engineering and other works to properly analyse them? The truth of the matter is that our capital programme is heavily committed to delivering the projects that are on our list right here and now.

Damian Sharp (Scottish Executive Enterprise and Lifelong Learning Department): Some public transport schemes have strongly positive net present value—if that is the criterion that we are considering—such as the Edinburgh Waverley scheme, in which the net present value is more than £2 billion. That is a very strong scheme in anyone's book. Few schemes are in that category, although some produce good numbers, including the Edinburgh airport rail link and the tram schemes. Many schemes perform a bit better than just being marginal; even if they are not as strong as the Edinburgh airport rail link they bring significant inclusion and environmental benefits.

It is difficult to bring together everything and I do not think that we can find a single number. To reduce the matter to that level of simplicity does not deal with the fact that we are dealing with complex problems. The advantage of STAG is that we can examine situations, but ultimately it is a political decision whether to attach weight to raw economics, social inclusion, the environment or to a combination of those, or whether we take the view that different parts of the country have different problems and that we should therefore adjust the decision-making criteria.

Alasdair Morgan: Can you give us examples of schemes that have been shelved as a result of a STAG evaluation? You have told us about projects that are going ahead, but what about the other list of projects that, by definition, were not political priorities?

Nicol Stephen: There are relatively few in that category because the STAG process is relatively new. When did we do our first STAG appraisals?

Damian Sharp: STAG came out in draft in 2001.

Nicol Stephen: The process is significantly onerous, so we tend to do STAG appraisals on the major projects on our current list that are proceeding.

Alasdair Morgan: I just wonder what the point is. It seems to me that there are only two categories—projects that get a good score in the STAG appraisal and go ahead, and those that do not get a good score but go ahead because of political priorities. That is it.

Damian Sharp: I can think of some schemes that, because of the STAG process, have not come to us for a decision. The minister is right to say that very few have come to us—

Alasdair Morgan: To whom did they go?

Damian Sharp: In the corridor study, the STAG process considered options including, for example, joining Glasgow Queen Street and Glasgow Central stations by means of an underground tunnel. The STAG appraisal assessed that project as not meeting the objectives of the study. That is not to say that such a tunnel will never happen, but the scheme was not suitable when it was measured against the objectives of the STAG appraisal. The same thing happened to the scheme for electrification of the Shotts railway line. There were options for meeting the objectives of the STAG appraisal, but those schemes were not the best way of doing that. Those were not decisions for the Executive, but were part of the process that led to the advice that came to ministers. Projects tend to fall away quite early in the process.

Nicol Stephen: Similarly, different schemes were proposed for the Glasgow airport rail link and the Edinburgh airport rail link. Indeed, a cheaper scheme was proposed for the Edinburgh link, but we went for a more expensive scheme because it had the best cost benefit. The project's net present value seemed to be so much better when compared to the other schemes, so we decided to go for the more ambitious and expensive scheme.

STAG appraisals are also done by developers and local authorities. I know of some projects for which the cost benefit is not sufficient to generate a positive response from the Executive.

The Convener: We seem to be in difficulty. At one level, you have set several goals that you want to reach through allocation of transport spend. All of that is in the context of the Government's overall top priority of economic growth. However, you seem to be saying that you

consider the projects and come up with a number and then, in some cases, you ignore the number because you do not like it or, in other cases, it knocks out a scheme such as the Glasgow tunnel, which Damian Sharp mentioned.

I will focus on one of the issues that have caused controversy: Borders rail. As I understand it, the housing regeneration that is linked with the STAG appraisal for the Waverley line will be mainly in Midlothian, as will the economic growth benefits. Is there a net present value for taking the Borders rail link only to Gorebridge? Would that be different from the net present value of taking the line out to Galashiels? If the NPVs are different, what is the justification for building the line out to Galashiels?

Nicol Stephen: If we were to build the line to Gorebridge only, the net present value would be more significantly positive. You should remember that the appraisal for the full line that is now being considered is also positive. If the line went to only Gorebridge, it would give a higher net present value, but it would not then be a Borders railway.

The Convener: So it is a political totem rather than an economic growth-based calculation.

12:00

Nicol Stephen: You are implying a lot.

The Convener: I am not. I am simply asking what the objective justification is for making that decision and not any of the other decisions that could conceivably have been taken.

Nicol Stephen: The position is that the Executive cannot promote major public transport infrastructure projects itself. We have to rely on others to promote proposals through the private bills process—that said, I believe that the position needs to change. In this instance, a partnership has made a proposal, which is for the reinstatement of the full Borders railway and not for a scheme to Gorebridge. We evaluated the proposal in the same way that we evaluated proposals from Transport Initiatives Edinburgh and the City of Edinburgh Council for the Edinburgh airport rail link or from Strathclyde Passenger Transport for the Glasgow airport rail link.

The Executive evaluates a proposal in close co-operation with the promoter. We have to bring some objectivity, rigour and appropriate scrutiny to the process and that is what we have done with the evaluation of the Borders railway scheme. The Waverley Railway (Scotland) Bill Committee also does that; it looks closely at the business case, the full proposal and objections. The committee sees that everything is done in an open and transparent way in order to ensure that the project stacks up.

I return to your previous point about schemes that have a poor or negative net present value. As

yet, we have not given approval to any scheme with a poor or negative net present value. At one point, I think that the net present value of the Stirling-Alloa-Kincardine railway project was marginally negative—Damian Sharp may confirm whether that is right. Clearly, if ministers wanted to give the go-ahead to a scheme that had a significantly negative net present value, an accountable officer direction would be needed. The senior civil servant with responsibility for the appropriate investment of Government money would seek such a request. Ultimately, approval would still be at the discretion of ministers, who could decide to go ahead with a scheme for political reasons, because of its importance or in order to ensure that spending on transport infrastructure is spread across all Scotland.

One of the inevitabilities of making decisions that are based only on net present value and cost-benefit ratio is that the investment will tend to be pulled towards the central belt. The return on any given investment tends to be greater in densely populated areas, yet there is a duty on ministers to ensure that a reasonable spread of investment is made across Scotland. Investment needs to reach rural areas and areas of deprivation; transport investment must be seen to benefit all parts of Scotland.

John Ewing: In the case of the Borders railway, it is perhaps worth remembering that the Waverley railway partnership consists of the City of Edinburgh Council as well as Midlothian Council and Scottish Borders Council. All three councils signed up to the concept of building the railway out to Galashiels. I understand that the City of Edinburgh Council sees the railway as part of a longer-term process of gaining access to labour and housing markets that will encourage growth in and around Edinburgh. The City of Edinburgh Council views the decision to build the railway to Galashiels as a key strategic decision. The initial benefits would be higher if the railway were to be built only to Gorebridge.

The Convener: I am sure that the City of Edinburgh Council would be in favour of lots of transport projects in Edinburgh, particularly if Scottish Executive money is involved. I assume that other local authorities with proposals for their areas think likewise.

There is a paradox in what we are hearing this morning. You say that the intention behind the STAG appraisal process is to deliver an objective basis for decision making, a core element of which is net present value, as support for economic growth has been identified as the top priority for Scotland. However, you also seem to be saying that the decision is ultimately a political one and not one that holds to the principle that it is better to start with schemes that deliver the best return on

investment. Why does the Executive go to the elaborate trouble of requiring STAG appraisals and looking for net present value only to ignore what the process tells it?

John Ewing: We are not saying that we ignore what is said in the STAG appraisals. The process means that we have to have clear reasons why we favour one scheme over another. Given the choice between two schemes with slightly different NPVs, it may well be that we would favour one because of its more strongly positive environmental impact or because it will achieve greater benefits in terms of integration. The critical thing is to have a clear rationale for the decision to back any given scheme.

The Convener: If I understood him correctly, I think that Damian Sharp said that the Waverley scheme met the criteria absolutely and delivered a high rate of return in terms of net present value. I assume that the part of the Borders rail line to Gorebridge meets a higher threshold. I do not want to pick on Borders rail; I am simply trying to understand the issues.

Is the Executive adopting a fundamentally business-like approach in making these assessments? How are decisions made? If a scheme is politically sensitive, what are the reasons for deciding not to proceed with it?

Damian Sharp: There is a fundamental difference between what a railway to Gorebridge and a railway to Galashiels will deliver. That is reflected in the STAG appraisal, which shows the different outcomes.

The Convener: Will you tell us what those different outcomes are?

Damian Sharp: The appraisal of the line to Gorebridge shows that, in transport economic terms—I am referring to the TE efficiency tables—a better return will result on the investment. However, the economic and locational impact assessment of going only to Gorebridge shows that that would have little, if any, economic impact on the Borders. The work that DTZ Pida Consulting undertook, which was updated by Tribal HCH Ltd, shows that that is the case.

There is a difference of emphasis in the—

The Convener: But surely the point of reference is not the Borders but Scotland. Surely the Executive makes an assessment of projects based on the contribution that they would make to Scotland.

Damian Sharp: Yes. STAG also requires an assessment of how the impact is distributed within Scotland; it shows what the different emphasis and impact of a project will be. It is then clear to ministers what they will get for a given investment.

The Convener: I think that we should move on from this line of questioning. Before I proceed to a question about the management of costs, I think that Andrew Arbuckle wants to come in.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): My question is in a similar vein to those of the convener. In his introductory remarks, the minister referred to the £35 million that is to be given over the next three years to the regional transport partnerships. Have schemes been identified for the partnerships or will the RTPs be given the money and asked to decide on their own priorities, with no STAG appraisal process and therefore no commonality between them? The question that I should have asked first is why the figure is £35 million and not £45 million or whatever?

Nicol Stephen: It is £35 million because that is a significant new amount of funding for transport and specifically for the new regional transport partnerships. The simple answer to your other question is that the approach to allocating the funding has not yet been agreed. We want to ensure that there is a proper appraisal of projects and that we invest in the best-value projects.

We also want to ensure a consistency of approach between the regional transport partnerships. I say that with the proviso that I gave in my previous reply, which is that it is important that all parts of Scotland access the £35 million. If all the projects that are announced are those in the central belt with the best cost-benefit ratios, we would hear an outcry from the regional transport partnerships in other parts of Scotland. There would be an outcry if all the funding were to be concentrated in one area.

We have to make sure that we have a sensible approach, that we get cracking with projects and that we encourage the voluntary partnerships to start considering projects this year, because the STAG appraisal process is reasonably lengthy and we have to get up and running. There is broad cross-party support for the new regional transport partnerships and I am determined to ensure that we encourage the voluntary partnerships to get moving. Where there are no voluntary partnerships—it is only a small part of Scotland where that is the case—we have to create a structure to start thinking about projects soon.

Before you move on to the next section of questions, I make a final point in relation to the questions that you asked on the current appraisal process and the cost-benefit studies. If you are suggesting that we have given approval to a number of projects that have negative net present values or non-existent cost benefits, or that we have been ignoring STAG appraisal outcomes, that is completely wrong. Some projects have had different net present values and different cost-

benefit figures, but in no instance have we reached the stage at which an accountable officer direction has been required. I do not hide the fact that we could get to that point, but all the projects that we have taken forward since the STAG appraisal process was introduced have been good projects, because projects are examined carefully and there is a sifting process. People proceed with projects only if they believe that there will be a positive case for them. Our projects have been positive and we have not had to ignore the outcome of the STAG appraisals.

The Convener: To clarify, my argument is slightly different. It is possible to suggest that some projects have had to be worked hard in order for them to pass the STAG appraisal test and get a positive indication. You say that the test is whether ministerial direction is required, but I think that we are looking for a higher test involving a balance between different projects, each of which can show real benefits in global terms.

I said that I was going to move on to cost overruns and the management of projects. We know that all capital schemes have the capacity to run over cost and that some cost overruns are predictable and some are harder to predict. There are values against projects in the infrastructure investment plan, but there are also indications that some of them are overrunning. A recent example, which I am sure you know about, is the Aberdeen western peripheral route. Decisions are still to be made about the alignment and components of the route. Can you give us any information on the latest projections of the costs, perhaps in the form of a band of costs?

Nicol Stephen: We are considering a number of route options. John Howison can provide more details, but we have not yet reached a decision on the preferred corridor for the road. The consultation ends on 29 April, so we are near to the end. We will take decisions on the preferred route in the late summer or early autumn once we have had a full opportunity to consider the comments that have been received—there are a significant number.

John Howison: The present cost forecasts are in the range £210 million to £280 million as outturn prices.

The Convener: How does that relate to the indicative allocations that have been made for the project?

John Howison: When we inherited the scheme from the councils, the budget was about £120 million, I think.

The Convener: So you are saying that the costs have more than doubled.

John Howison: The costs will be what the costs will be. The other way to look at the matter is that the estimates that were given previously do not match our present expectations of cost.

12:15

John Ewing: It is important to reflect on the process from which the cost of any capital project emerges. An estimate will be made, but it will probably be a largely desk-based estimate; there will be some understanding of the route conditions, but in general it is a paper exercise that produces an indicative set of numbers. That is why we talk about the concept of optimism bias, which involves adding a big percentage chunk on top because we know that the first guess will be wrong. It will be a stab and it will give an indication of the broad scale of the project, but it will be wrong.

As we go through the process, we refine the project and, in the case of a project such as the Aberdeen western peripheral route, we identify the route options. We also do more detailed analysis of the ground conditions, which involves deciding where the road will need to go and considering where bridges and other infrastructure will have to be built. By doing that work, we create a bigger package that is better designed and engineered. The costings that John Howison described represent a much more designed cost for the route. If one of the other routes is chosen, the cost will change again, depending on the ground conditions.

After that, we go through the process of working up the detailed design of the project and putting it out to tender. John Howison said that the costs will be what the costs will be and, in a sense, it is at that stage that the markets tell us what the cost will be. We then have to run cost-control mechanisms to make sure that the project is delivered within that cost. We have delivered our roads projects using design and build contracts with a cost overrun of about 3.5 per cent against the tender price—that is the firm price.

At each stage in the process, as the cost information becomes firmer, one has to step back and assess whether it is still worth while to go ahead with the project and whether its benefits still justify the expenditure. There is a review mechanism at each point; we do not work on the premise that because the project looked all right at the beginning, it must be delivered. The project must be analysed at each stage and one must ask whether it is still worth while.

The Convener: How does that process become transparent and subject to parliamentary scrutiny? The initial announcement that is made is based on a cost figure and a STAG appraisal, but if the

costs change significantly—as in the case of the Aberdeen western peripheral route, although my point could apply to any major capital project—at what point does your internal review process become something that we as parliamentarians can scrutinise in a sensible way? We might say, “Perhaps project X is no longer sensible, given the new cost factors.”

John Ewing: I suppose that that would come at the next stage of the project, when the minister makes another announcement. In the case of the Aberdeen western peripheral route, that will be when the consultation process has been completed and ministers take a view on the preferred route. We can then give a clearer view on what its costs will be.

The Convener: The ministerial announcement might be about the preferred route and not about whether the project has satisfied a second test, which is what you were talking about.

Nicol Stephen: We need to find a better way of achieving that, particularly in relation to private bills. You have concerns about the way in which the financial resolutions on private bills come before the Parliament, and we are talking about big sums of money for some projects. I am happy to provide information and appear before the committee whenever you think it appropriate. We are developing an approach; part of the reason why that is happening only now is that although capital spend was quite restricted in the early days of the Scottish Parliament, it is now expanding significantly. We now have some major projects costing £500 million or more and a number of projects on which expenditure is more than £100 million, and it is important that the Parliament and the Finance Committee are involved in a better way than at present. It is for all of us collectively to put in place mechanisms that will allow proper scrutiny. If we put such mechanisms in place, they will enable us to deliver on projects more effectively and will benefit schemes. It is important that we are tested on projects regularly and that we consider costs and timetables. Appropriate accountability for all that must be in place.

The Convener: That would be welcome. The ministerial announcements process raises an issue, because ministers tend to announce projects that will proceed. We are interested in the process by which such decisions are made. Perhaps we need to examine the timing of dialogue between the committee and the Executive to ensure that the announcements that are ultimately made fit in with the transparent process that we would all like to have. We could discuss that with your officials later.

Nicol Stephen: That would be helpful.

The Convener: I realise that I am hogging the questions a wee bit, so I will ask just one final question. If a large rail or road scheme were delayed by unforeseen circumstances or for legal reasons, we could have a significant underspend, because resources could not be committed. What mechanisms are in place to ensure that money that is allocated to transport continues to be spent on transport in the given timescales—to ensure that problems with one project do not lead to major delivery issues in the transport budget? Is there a mechanism to put other schemes through the process faster? The question is for John Ewing and the minister.

Nicol Stephen: I emphasise that such a problem has no perfect solution. It is vital to manage the capital programme actively and to ensure that we are still working on several smaller and medium-sized projects that can be brought forward and delivered in a relatively short time. It would be wrong to end up with a capital programme that squeezed out important smaller projects.

I have worked hard to ensure that the capital spend that is allocated to transport contains funding for our major projects and funding to safeguard the capital projects about which many members write to me each week—projects that have a high priority in their areas but which are often squeezed out of the programme or pushed to another year.

If we adopt that approach—which we have taken—and have overspends on major projects, the big issue is whether we can obtain additional funding for transport infrastructure projects in that year or whether the pressure is on to delay other major projects or to stop some small or medium-sized projects. We are determined to address openly and effectively those big issues for the future management of the capital programme, should they arise.

John Ewing: As the convener recognises, the situation is difficult when we deal with very large projects. When we have a programme of smaller projects to work on, including projects with local authorities, the potential exists to combine a judicious bit of over-allocation with bringing forward projects. That can be managed. However, the situation is extraordinarily difficult with the big and chunky major projects that we are discussing. In that situation, we must rely on the end-year flexibility rules on 100 per cent carry-forward of capital slippage.

The creation of the central unallocated provision mechanism will also give us a basis when a big project looks as if it will be delayed. As we know, one major project has the risk of legal challenge. If a challenge were made, it would affect our procurement strategy and we might well have to

tell the minister that our best estimate is that the project might slip and that money could be put away into the CUP for future years when the challenge is removed. Alternatively, money could be spent on another project.

We invest the time and effort to work up designs and obtain approvals for some projects that are parked, so that if something goes awry, we can try to bring in another project. That depends on the relative values of schemes.

The Convener: It would be useful to have in writing a description of how such brought-forward arrangements might work. We all understand how the CUP operates. That is an important aspect of the financial management of underspends. However, the minister and his officials must also undertake strategic anticipation to ensure that we do not lose momentum throughout the transport portfolio because of the delays that can occur.

Jim Mather: Minister, I am trying hard to resist your bringing out the Alan Sugar or Donald Trump in me, but I am disappointed by the lack of passion and positivity about the projects that are at your disposal. Will we see some passion in the strategic projects review, which was announced in June 2004? What impact will that have on the flagship projects that are identified in the infrastructure investment plan?

Nicol Stephen: The strategic projects review concerns the next phase. In the current phase, the projects are identified and we are determined to proceed with them and to deliver them on time and on budget. They are as set out. If we are to deliver them, our capital spend will have to increase significantly.

Jim Mather: I will scratch at the review's purpose. What evaluation criteria will be used? How open and objective will the review be? Will it fuel parliamentary scrutiny by allowing us to evaluate the likely impact on the economy?

Nicol Stephen: The process will be major and open. The regional transport partnerships will have a key role to play in proposing projects, but they will also have a duty to work together. For example, the west of Scotland partnership will work with the east of Scotland partnership on issues that relate to the linkages between Edinburgh and Glasgow. Other parts of Scotland have similar important cross-boundary issues. MSPs, local authorities, businesses and business groups will have the opportunity to contribute. As I said, we are only as good as the projects that we come up with. I hope that some projects will be exciting and major and will set the tone for transport infrastructure investment in Scotland for the first half of the 21st century.

Jim Mather: The feedback from the committee will have shown you that we have an appetite for

openness and objectivity to fuel the debate and to generate excitement and pace. Is that envisaged as part of the design criteria in the review?

Nicol Stephen: I am interested that you talk about excitement, pace and dynamism. Much of what I have heard has been about cost-benefit analysis, net present values and ministers not using their political powers to approve projects unless they have the right economic appraisal context. If you suggest that the dynamism and the pace come from members' side of the table, I have not sensed that today—perhaps I should leave it at that.

12:30

Jim Mather: A review of the tapes might be quite illuminating for all of us.

It might be helpful if I were to move to a more specific issue. Reports in the media have indicated that the Executive is considering buying out the Inverness airport public-private partnership contract. Can you shed any light on that?

Nicol Stephen: Yes. Provided that the cost benefits and the net present values are in our favour, we would like to buy out the contract at the Inverness airport terminal. We have been in discussions and negotiations with the current owner of the contract. The ownership of the contract changed last year, which meant that there was a delay as we had had discussions with the previous owner. However, I am still optimistic that we can get a positive outcome. Clearly, however, the negotiations are commercially confidential. I think that our proposal to remove the burden of that contract would make a significant difference to the development not only of Inverness airport, but of the Inverness area and much of the Highlands.

Jim Mather: Is removing that burden likely to have an impact on the finances that are available to Highlands and Islands Airports Ltd, especially with regard to other airport developments that might otherwise be happening in the Highlands?

Nicol Stephen: It could have, depending on how we structure the funding that we would give to HIAL to enable it to carry out the buy-out. That is the way in which we would do it: rather than having a direct deal between the Executive and the current owners, the buy-out would be executed through HIAL. I do not want to do it in a way that will burden HIAL. If we did so, we would be replacing one millstone with another. The important thing to achieve is the development of the economy in Inverness and the Highlands, and the removal of something that is a significant burden on that economy and will continue to be so unless something is done about the structure of the contract.

Jim Mather: I take comfort from that answer, which saves me from having to ask the supplementary question that I was going to ask.

In relation to the options of introducing tendering for the west coast ferry services or not doing so, have you given consideration to the impact of investment in new harbour and linkspan facilities and new and refurbished vessels? Is there a plan A and a plan B in relation to the capital programmes for the funding of those assets?

Nicol Stephen: There are plans for the funding of new vessels and for improvements to the ports and harbour facilities. The proposal is that, if the tendering were to proceed—of course, it is on hold at the moment and we do not know what the outcome of our discussions with the EU will be—those assets would go into a separate vessel-owning company that would also have responsibility for the port infrastructure, which is currently the responsibility of Caledonian MacBrayne. If we can avoid the requirement to introduce tendering, we would have to either maintain the current position or come up with further arrangements that would comply with the EU laws and regulations in this area.

As a general comment, I would say that the more that we can get into the long-term, 10-year planning of infrastructure investment and longer-term capital programmes for investment in new vessels and harbour facilities, the better. One of the criticisms of Government is that we do not have those longer-term investment plans. One of the reasons for that is that, often, investment has been haphazard. Vessels would be bought as and when they could be, such as when there were end-year resources or when a minister was able to make a particular case to the minister with responsibility for the purse strings. I hope that we can move away from that ad hoc approach and put in place a more substantial programme of investment across the transport portfolio.

Jim Mather: That is another useful answer. Given what you have said in that answer and in answer to my question about the Inverness airport PPP contract, is there a case for coming up with a set of criteria and targets for growing the economy of areas such as the west coast or the area around the airport? A broad aspiration regarding population figures, for example, or on the number of economically active people in the area could be taken on board by the transport division in moving in the right direction to energise those economies.

Nicol Stephen: There is a case for that approach, but I would not put the responsibility purely on the transport division, which will have a major task simply to deliver those projects on time and on budget. I would rather see the transport division working closely not only with the new regional transport partnerships and the local

authorities, but with the local enterprise companies and Highlands and Islands Enterprise, which would have a crucial role in that area. A better-integrated approach between transport and the enterprise agencies, involving planning—getting back to the convener's first point—in a much more substantial and co-ordinated way, could be exciting for the future of infrastructure investment in Scotland.

Mr Brocklebank: I share some of the convener's difficulties in getting to grips with how you differentiate between your priorities and the different modes of transport and how you come to your decisions. It is a bit surprising that, although you have your strategy, Scotland does not have a national integrated plan for transport. When you consider the allocation of investment funds between the differing transport modes and investment opportunities, are you satisfied with the information that you have available?

Nicol Stephen: One of the major policy decisions that I took after being appointed in 2003 was to move to a national transport strategy—call it a strategy, call it a plan, but there has never been such a thing in Scotland. I could make a party-political point in relation to that. In the past, the attitude has been to let the market decide, to let ad hoc schemes emerge and to leave matters to the responsibility of individual local authorities and individual developers. In relation to transport, the attitude in the final decades of the previous century was that the main responsibility was for roads. Very few significant public transport projects were being funded in Scotland. We funded CalMac and, to a small extent, Highlands and Islands Airports Ltd; the funding of both has gone up dramatically in recent years. However, what we did was for no better reason than the historic structure of the transport spend.

We must get away from that, move forward and start taking the decisions that the committee is asking us to take. There are two ways of doing that, one of which would be for me to say, "We do not have a strategy—or plan—and we need one quickly. I, as Minister for Transport, will take a centralised approach and put a plan in place within the next few months". The alternative is that we could take a bit longer and involve MSPs and organisations such as local authorities and the new regional transport partnerships. It is important that we take an open and inclusive approach. However, I share your frustration that we could do with that plan now. We could have done with it a few years ago, and we have got to get cracking with it.

Mr Brocklebank: The response to the party-political point is that you have now had six years. Much of what you say is aspirational, but where is the hard evidence? Apart from the M74 extension,

with its claimed cost-benefit ratio of 9—perhaps you can explain what that means—what are the typical cost-benefit ratios of the road and rail schemes that are listed in your plan?

Nicol Stephen: The simple answer is that there is a range. Damian Sharp could best describe the range for the public transport projects and John Howison could best describe the range for the road projects.

John Howison: The larger schemes—the motorways—typically have a cost-benefit ratio of about 4 up to about 9. That is because the present traffic conditions cause fairly substantial congestion for a large number of people. Things such as route action plans, which provide connection to rural areas, typically have lower cost-benefit ratios of between 1 and 2. They are positive and worth doing, but they do not deliver the same sort of returns on the investment as the bigger schemes do. Nevertheless, they are still worth doing to ensure that Scotland maintains an integrated transport capability.

For example, in 1960 it would have taken about 10 hours to travel from Carlisle up to Caithness. Because of all the benefits of the improvements to that road, the journey can now be done in about six hours during periods in which there is no congestion. The investments that we have made in all the routes together have shrunk Scotland, in terms of getting around it. The challenge that is now reflected in the very high cost-benefit ratios of the motorway network is the resultant congestion.

Mr Brocklebank: I do not want to concentrate on the Borders rail link; it is probably not appropriate for me to do so, given that I am on the committee that is dealing with it. Nevertheless, I will make one brief point. You mentioned cuts in journey times. Is it not a fact that the journey along the proposed Borders railway will take longer, because of the number of stations, than the journey along the railway that it will succeed, which closed 30 or 40 years ago? Is not that one of the problems?

Damian Sharp: The journey will take approximately the same length of time.

Mr Brocklebank: I have heard that it will be 15 minutes longer.

Damian Sharp: That is not correct. It would be true if the trains had not stopped on the way, but the trains on the previous railway stopped at all the stations that are proposed except Tweedbank. Compared with the current public transport, the Borders railway offers a 30-minute journey time saving.

Mr Brocklebank: Okay. I had probably best leave that issue.

How much of the investment is allocated on grounds other than ranking according to the Scottish transport appraisal guidance?

Damian Sharp: The Scottish transport appraisal guidance does not rank schemes. It does not produce a list that starts at the best and proceeds to the bottom, although that can be done with the net present value or the cost-benefit ratio. The Scottish transport appraisal guidance appraises across five criteria that cannot be combined into a single number, therefore it presents the impacts of a scheme to decision makers. It does not produce a list from one to 100.

Mr Brocklebank: Should it not?

Damian Sharp: We are dealing with very complex problems. I am not sure that trying to cram down those problems into such a list would not over-simplify the world that we are trying to deal with.

John Ewing: One of the advantages of STAG—one of the reasons for its introduction—was the fact that it introduced a capacity to assess and evaluate benefits and costs that could not be translated into monetary terms, which is what assessment by NPV and economic assessment does. STAG builds on the economic assessment. Some pretty heroic assumptions would then have to be made in any attempt to quantify those figures. A ranking of projects could be produced, by NPV and the other factors that need to be taken into account in making a decision on them. However, STAG produces a more comprehensive report on any individual project; it does not just look at the cost-benefit ratio or the NPV.

The Convener: As you say, there are some heroic documents to wade through. The one that I am holding is for the Borders railway; the one for the M74 is twice the thickness. Perhaps it is necessary to separate out rail and road projects, for the reasons that you mentioned, because of the difference in the criteria. However, is it not possible to do what a project assessment might normally be expected to do, which is to produce a grid in which a range of criteria is given 10 points or five points—or whatever the appropriate number might be—to find out how the more objective indicators compare from one project to another?

12:45

Damian Sharp: Although the STAG summary table, which is typically two or three pages long, does not assign numeric values in that way, it sets out whether various factors have a strong, moderate or weak impact.

The Convener: But that is for each individual project. Is it possible to use the same criteria to find out how all the projects score against each

other? For example, five of the major projects that are proposed are for Edinburgh, and I presume that you have to take some decision about timescale or funding priorities with regard to Waverley station, the Edinburgh airport rail link, the Borders railway and the tram proposals. After all, in order for any judgment to be made, one of those projects must emerge as a more urgent priority or as something that will provide a better return. However, the problem is that we have no evidence that you make such comparisons or judgments. Our report suggests that that is a defect in the way in which such matters are handled. Am I right to say that you do not make such comparisons?

Damian Sharp: We make those comparisons explicitly with regard to proposals that are alternatives to each other. As far as your example is concerned, we will very soon strengthen my team in order to manage the many projects in the greater Edinburgh area that interact with each other and the fact that they will have to be done in a certain order. Indeed, I was interviewing yesterday for that role.

However, it is a question not just of priority but of literal dependencies. For example, we cannot put additional rail services into Fife until we have carried out phase 1 of Waverley station. We must work with the complexities of what we can and must do within the network and the order in which projects have to be done. Much of that is to do with the art of the achievable rather than with the theoretical order in which we carry out projects, because in that regard we are severely constrained by the rail network.

The Convener: At this point, Jim Mather would usually make a comparison with business. However, I would have thought that a business organisation that had to spend much smaller sums of money than those that you are talking about would still identify a critical path of investment decisions and make judgments about different investment options based precisely on the issues such as deliverability, value and rate of return that you have identified. You do not seem to be making such judgments or to be able to communicate clearly to us how comparative assessments could be made.

Nicol Stephen: A major projects review reported when—as I recall—Sarah Boyack was still the minister, and judgments were made then. I was not involved in them. However, I must emphasise that this is not about the lack or availability of a plan or strategy; we must also take into account the availability of funding. In 1999, the total funding for all roads and public transport projects was between £350 million and £400 million. We are now moving up to a budget of £1.4 billion a year, which is transforming the level of

investment in our roads and public transport infrastructure.

We intend to have a national transport strategy; we will have a strategic projects review; and we are putting in place a transport agency and regional transport partnerships. As well as investing the additional funds, we are tackling exactly the issues that the committee rightly draws to our attention. One could say that we should have done all those things two or three years ago, but we are where we are today. I am pleased that we are now planning a national transport strategy, that we will have the agency in place before the end of the year, that we have decided where the agency will be located and that we have advertised for a chief executive.

If we had had those measures in place in the early part of this decade, that would have been preferable, but we are making progress. The detailed points that members are making would be far more substantial criticisms if there were a list of public transport projects that had better value-for-money returns and a better cost benefit and which we were holding back because we had given preference to those projects that happened to be first on the list or that happened to have political priority at the time. However, the situation is not like that.

We are developing all the good projects that have been suggested by transport experts in Scotland. I am not aware of anyone clamouring out and saying, "You should drop that project in favour of this project" if it has not yet been analysed or should be scrutinised. No doubt there are a number of projects that will come forward in the next phase as part of the strategic projects review. Those projects should be properly scrutinised and in some way ranked or judged with regard to which of them has priority. We will be able to do only a small number of the very big projects. The Finance Committee and others, as well as the Minister for Transport, will have to take a view on the sort of blue-skies projects that get spoken about, such as a new crossing of the Forth or a super-fast rail link between Edinburgh and Glasgow. I am sure that other suggestions will be made and we have to start to take a view on them. It is better that we do that soon—now—rather than waiting until beyond 2010.

The Convener: I agree that we need to do things better. Substantial amounts of money are involved and, as we have seen, there are shifting costs. We cannot say that certain decisions have been made and that we will not look at them any more. The Finance Committee is required to look at the management of such projects systematically.

Nicol Stephen: Other European nations are making significantly greater levels of capital

investment. I ask members to look at some of their decision-making processes. I question whether any European nation has in place the sort of robust, economic, almost academic approach that the committee seems to suggest would be a good approach for Scotland.

I am not in any way resisting or trying to argue against some of the suggestions that members are making—some of them are good suggestions and we need to put in place those systems over the next few years. However, if Scotland had a weakness, that would have been not its decision-making process, but its complete lack of investment and lack of a plan and strategy.

The Convener: I do not disagree with that point, but the substantive points that came from our report are that we are concerned that each project seems to have been considered in a silo context rather than on a regional or conurbation basis. The primary criteria seem to be confined to each project and not transferable across projects; nor do they look at broader ends such as economic growth. The critical path that we talked about earlier is not clear to us. We are not absolutely clear why certain projects are in or out, the grounds on which a project is rejected or could be changed, or how you respond to changes in the parameters. Perhaps it is our fault that we have not read the documents carefully enough.

John Ewing: As the minister said, a number of the projects flowed from previous strategic reviews of what was required, such as completing the central Scotland network. The Executive has been clear in the partnership agreement that it wants to deliver those projects and that is what we are committed to doing; in a way, that offers value for money and ensures that there is proper protection for the investment that is being made. Each of the projects is being evaluated in a way that tries to ensure that when ministers have to take key decisions on the funding of projects, they have the information that enables them to say whether they will go with a project or not, or whether something needs to be changed or adjusted.

John Swinburne (Central Scotland) (SSCUP): The contribution of the minister and his team has been refreshingly honest, transparent and non-evasive. I am an outsider looking in and am not on the same high financial level as some of my compatriots on the committee.

Despite the STAG appraisal and the infrastructure investment plan, you admit quite candidly that you can be susceptible to influence from pressure groups, be they political or otherwise. I was particularly taken with your statement about the financial criteria not being sufficiently robust to allow you to deliver projects at the original cost. That was very honest and straightforward.

What can the committee do to ensure that the cost of a project will be kept within the parameters that you envisaged when it was laid before the Parliament?

John Ewing: It would be for the committee to consider, but I suggest ensuring that the information is the best that is available at the time, and recognising that the quality of the information will improve as a project is worked up and developed. It should be acknowledged that no one is trying to pretend that the original estimate is wildly wrong; it was made on the basis of a set of assumptions that underpinned the project and, as the project plan is developed and the process is gone through, those assumptions are refined and risks are analysed and quantified. We begin to identify the measures that are needed to manage those risks, and that refines the cost. It is about making sure that there is a robust process and that the cost is always being challenged as the project is being progressed.

The Convener: We have probably finished our questions. Given John Swinburne's point, it might be helpful if you and I and the clerks could have a further discussion about identifying the correct point in the process at which we can exercise such scrutiny.

Nicol Stephen: Yes.

The Convener: That would then feed into our work plan for the period.

On behalf of the committee, I thank you for coming along and answering our questions.

12:57

Meeting continued in private until 12:58.

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