FINANCE COMMITTEE

Tuesday 25 September 2007

Session 3

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FINANCE COMMITTEE
4th Meeting 2007, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Elaine Murray (Dumfries) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Joe FitzPatrick (Dundee West) (SNP)
*James Kelly (Glasgow Rutherglen) (Lab)
*Liam McArthur (Orkney) (LD)
*Tom McCabe (Hamilton South) (Lab)
*Alex Neil (Central Scotland) (SNP)

SUBSTITUTE MEMBERS

Roseanna Cunningham (Perth) (SNP)
Ross Finnie (West of Scotland) (LD)
Murdo Fraser (Mid Scotland and Fife) (Con)
Peter Peacock (Highlands and Islands) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Alastair Andrew (Forth Estuary Transport Authority)
John Connarty (Forth Estuary Transport Authority)
David Dorward (Tay Road Bridge Joint Board)
David Dow (Scottish Government Transport Directorate)
David Patel (Scottish Government Transport Directorate)
Christopher Rogers (Scottish Government Transport Directorate)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 25 September 2007

[THE CONVENER *opened the meeting at 14:00*]

Abolition of Bridge Tolls (Scotland) Bill: Financial Memorandum

The Convener (Andrew Welsh): Good afternoon and welcome to the fourth meeting of the Finance Committee in the third session of the Scottish Parliament.

I ask everyone to turn off their mobile phones and pagers. We have received no apologies.

Agenda item 1 is scrutiny of the financial memorandum to the Abolition of Bridge Tolls (Scotland) Bill. The committee agreed to adopt level 3 scrutiny of the bill, which involves taking oral evidence from bodies that are financially affected by the bill and from Scottish Government officials. We will then produce a report, which we will send to the lead committee.

I welcome our first panel of witnesses: Alastair Andrew, general manager and bridgemaster, and John Connarty, treasurer, from the Forth Estuary Transport Authority; and David Doward, the treasurer of the Tay Road Bridge Joint Board. Gentlemen, would you like to make brief opening statements?

Alastair Andrew (Forth Estuary Transport Authority): FETA's number 1 priority is the continuing safe maintenance and operation of the Forth road bridge. At present, that is funded entirely by toll income of approximately £12 million each year. Before the income stream is removed, a financial settlement must be agreed that safeguards the integrity of this vital transport link in the years to come.

The Forth road bridge is one of a kind in Europe, and FETA's experienced staff understand its unique maintenance requirements. Routine maintenance and inspection go hand in hand with a strategic 15-year capital programme. Capital expenditure can vary considerably from year to year. Because the structure is unique, a great deal of work is unpredictable in relation to both requirement and cost, and of course all bridge work can be delayed due to adverse weather.

As Parliament seeks to replace toll revenue, it is vital that a flexible financing structure is established that takes into account the unique, variable and long-term nature of the bridge's maintenance programme.

David Dorward (Tay Road Bridge Joint Board): In submitting written evidence—I hope that it has been issued to the committee—I had two objectives: first, to update the committee on the level of capital and resource grant required by the Tay road bridge for 2008 onwards; and secondly, to confirm that, in the main, the principles behind the proposed future funding package for the Tay road bridge are acceptable.

I have three further comments, the first of which is on the accuracy and sensitivity to movement of the figures that have been provided on the capital grant. The bridge engineer and I have prepared a 20-year capital plan, but actual capital expenditure may differ from the plan because of delays in letting individual capital contracts or in their delivery. In addition, the board recently experienced a situation in which the tender submission received for a large capital contract exceeded the board's capital budget for that project. Such movements in the planned capital spend can be accommodated by the Scottish Government allowing the carry-forward of capital grant after an underspend and by the board using its retained borrowing powers, if required, for any excess capital spend during the year.

Secondly, on the resource grant, the figures that we have provided are the best estimate at this time. They are based on the proposed staffing structure for the bridge board. We are in negotiations with trade unions and hope to agree the staffing structure in the near future so that we can take it to the bridge board for its approval. We have carried out a sensitivity analysis on the revenue budget and resource grant. If pay awards and inflation were 1 per cent higher than those assumed in the budgets provided, the bridge board would need to find a further £15,000 in any one financial year. We are asking that the general reserve balance of £500,000 be retained, so that money could be found from within the balance.

Thirdly, on the grant settlements, in my opinion, the bridge board should be treated in a similar fashion to a local authority and should receive at least a three-year resource and capital grant settlement. That would allow the bridge board to manage and operate the bridge in a reasonable fashion.

The Convener: Mr Connarty, do you have anything to add?

John Connarty (Forth Estuary Transport Authority): No. I do not wish to add anything.

The Convener: Treasurers are always the strong, silent people behind every organisation. I thank the witnesses for their opening statements. We will now move to questions.

Joe FitzPatrick (Dundee West) (SNP): Paragraphs 42 and 46 of the financial memorandum state that one-off costs for the removal of toll plazas and changes to road layout and signage are included in the 2007-08 or 2008-09 figures. For the Forth bridge, those are estimated at £3.5 million in 2007-08 and £2 million in 2008-09, and for the Tay bridge, they are estimated at £0.825 million in 2007-08.

My first question is to both the Forth Estuary Transport Authority and the Tay Road Bridge Joint Board. Are all those costs incorporated in the estimates for capital costs for those years?

My second question is specific to the Tay Road Bridge Joint Board. Why are all the costs expected to be incurred before the end of the current financial year for the Tay bridge? Is there an add-on there? Having looked at the figures, I could not see what had happened to the proposed expenditure of £13 million or £14 million to keep the tolls and move the toll plaza to the Fife end of the bridge in order to ease congestion. I just cannot see where that cost fits in. Where has it gone?

Alastair Andrew: The capital cost of toll removal is included in the figures that have been quoted. The cost of the physical civil engineering works on the toll plaza and an allowance for possible redundancies for the staff have been included.

David Dorward: I have confirmed with the bridge engineer that we hope to take the toll booths away from the Tay bridge and complete the road works before 31 March 2008 at a cost of £100,000. The bridge engineer has made an allowance of £150,000 for the new signage that will be required when the tolls are removed. I have to say that those figures are lower than those that were included in the financial memorandum, in which the combined figures for those two items come to £625,000. There is no allowance in our 20-year capital programme, which has been approved by the bridge board, and in the recent one that the engineer and I produced, for the relocation of the tolls to the Fife end of the bridge. Quite simply we deferred that matter, because we knew that the Parliament was considering the possible abolition of the tolls—we made no provision for it.

Liam McArthur (Orkney) (LD): Even after taking account of the major reinstatement work costs, the capital estimates for both bridges for 2008-09 and 2009-10 seem to be well above capital spend trend levels. Can you explain those trends? What are the main purposes of the projected capital costs?

Alastair Andrew: The committee will be aware that FETA is funding the M9 spur extension, which is a £39 million project. We have £24 million in grant aid from the Executive, so £15 million is being taken from the tolls income. We are also in the middle of a dehumidification contract for the main cable, at a cost of £8.9 million. We have just started on the weekend resurfacing programme, at a cost of another £3.5 million. This is the point that we wish to make about the irregular profile of spend: capital expenditure for the current year is higher than we would normally expect it to be because of those necessary works.

David Dorward: Historically, the Tay road bridge capital programme has run at £1 million to £2 million per annum. In 2005, we identified a significant problem with the bearings on which the bridge rests. Civil engineering work identified what repairs were required, which resulted in an £18 million tender for bearings replacement, spread over three years—that was a unique tender for the Tay road bridge.

The only other major piece of work in the 20-year capital programme is for the navigation spans, between which boats go up the Tay. The cost of work on the spans, which is due to commence in 2009, is included in the capital plan.

Liam McArthur: I am happy with that. Colleagues will return to the point about the irregular spend profile.

James Kelly (Glasgow Rutherglen) (Lab): The policy memorandum says:

> "The redundancy costs are included in the projections discussed in the Financial Memorandum."

However, the details are not separately identified in the financial memorandum. What is the split in the one-off transitional costs between the costs for road works and so on, and redundancy costs?

John Connarty: For FETA, the estimates are £3.5 million for road works, and £2 million for severance costs. Those were the early estimates at 24 July, to pick up on Mr Dorward's point. Work is on-going to confirm the figures.

James Kelly: Will you give us feedback on the figures when they become available?

John Connarty: The figures will be discussed with Government officials as we go forward, but they could be fed back to the committee.

The Convener: Could I ask you to shout at us, please?

John Connarty: Sorry.

Alastair Andrew: There is an issue about revealing the information to which Mr Connarty referred. We are working closely with staff and the trade unions on the new structure that will be required to operate the bridge without toll collection. Clearly, it is an iterative process that involves reaching agreement on the new structure and identifying possible new posts to which existing staff can be matched, before starting to assess the severance costs. Should any employees choose the early retirement route rather than the redundancy route, that would have a major effect on the calculations. Therefore, we must proceed carefully and wait until the board and the unions reach an agreement, and staff are given that information, before going into print with the exact severance costs.

David Dorward: We have had a series of meetings with the trade unions; we will have another meeting with them tomorrow. I am confident that we will reach agreement with them in the near future. We will then take a report to the board. We have fewer staff than FETA does, so we have less of a problem in dealing with severance costs. We believe that our estimated figure of £200,000 for redundancy and early retirement costs will be sufficient. The costs will be met from our general reserve balance, which sits at £2.9 million. The road works element of £250,000 is for the removal of the toll booths and signage.

The Convener: Before we leave this subject, I think Tom McCabe would like to come in.

Tom McCabe (Hamilton South) (Lab): No. I have a separate question.

The Convener: Sorry. James Kelly has another question.

James Kelly: My question is on the staff issue. I realise that the matter is sensitive, but can the witnesses put a figure on how many staff are likely to be made redundant?

Alastair Andrew: FETA has a permanent staff of 105 full-time equivalents. We envisage a reduction of between 35 and 40, depending on which model we adopt for the new structure.

14:15

David Dorward: The Tay Road Bridge Joint Board believes that there will be a reduction of 11 posts. Because of early retirement and the redeployment of toll collectors to maintenance posts within the bridge board, the number may be as low as two or three.

Joe FitzPatrick: Has FETA had any discussions with the neighbouring local authorities about whether they will be able to absorb some of the 35 to 40 people that Alastair Andrew envisages will be involved?

Alastair Andrew: Yes. The first priority within our support package is to seek redeployment, but members may be aware that the City of Edinburgh Council faces a recruitment freeze because of current spending problems. Some of our staff have limited training because their task in life has been toll collection, so we anticipate some difficulty with redeployment, but it will be our first course of action. We have already alerted the partnership action for continuing employment team and are working with the appropriate agencies to minimise the number of redundancies.

David Dorward: We wrote to the neighbouring authorities and Tayside Contracts, which is the direct labour organisation in Tayside. We had quite a positive response on the potential for redeployment to those organisations, so we will take up those opportunities to try to avoid redundancies at all costs.

James Kelly: The resource costs for the Tay bridge are pretty evenly spread over the next three years but, for the Forth bridge, there is a significant spike in 2008-09: £6.98 million running costs, as against £4.715 million and £4.833 million for the subsequent years. What is the explanation for the uneven expenditure on the Forth bridge?

John Connarty: That relates to the estimate for severance costs. We have assumed that severance costs of £2 million would fall in 2008-09, which is why the figure is higher in that year.

James Kelly: The figures in the summary of expected income and expenditure do not seem to reconcile. For the Tay bridge, the 2005-06 costs are £6.4 million, while income is £7.7 million; in 2006-07, costs are £11.3 million and income is £13.5 million. For FETA, the 2005-06 income is £19.7 million against costs of £18.6 million and, for 2006-07, the income is £25.9 million while the costs are £32.5 million. Are you able to provide an explanation for the gaps between income and expenditure?

The Convener: Does Mr Connarty wish to respond?

John Connarty: I cannot see the figures. Can direct me to them in the memorandum, please?

James Kelly: The figures for FETA are in paragraph 26 of the financial memorandum and those for the Tay bridge are in paragraph 33.

John Connarty: Paragraph 26 shows the previous accounts for FETA. A reduction in the authority's reserve balance would account for the difference between income and expenditure.

James Kelly: If we take 2005-06 as an example, income was £7.7 million, which is greater than the expenditure of £6.4 million. Can you explain what you mean by the reserve movement accounting for that difference?

John Connarty: I am sorry, but you just quoted the Tay figures.

James Kelly: I am sorry. If we look at the Forth figures, we see that in 2005-06 income was £19.7 million and costs were £18.6 million. Income was therefore greater than costs, and you attributed that to movements in the reserve. How has reserve movement affected income and costs?

John Connarty: FETA has held a fairly significant reserve. As you can see, in 2006-07, there was exceptionally high expenditure: there was work on the A8000 and on the main cable. To balance the expenditure for that year against regular toll income and grant assistance from the Scottish Executive, FETA had to use some of its reserve balance to fund its expenditure.

James Kelly: I understand. In 2006-07, costs were greater than income. You are saying that that was because of particular projects, and you drew down from the reserve. In 2005-06, income was greater than costs. Why was that?

John Connarty: As I have said, expenditure fluctuates from year to year. In 2005-06, there was a small difference and the balance contributed to the reserve. That reserve was then used the following year to smooth out the fluctuations in expenditure.

James Kelly: So, in 2005-06, the reserve increased; and in 2006-07, you drew money down from the reserve to fund work that was being done.

John Connarty: That is correct.

The Convener: What is the size of the reserve?

John Connarty: At the start of this financial year, the reserve was £12.8 million. However, with the planned dehumidification of the main cable, and with other works, the reserve is expected to reduce and actually to be eliminated during this financial year. Before the proposal to abolish the tolls, FETA had planned to borrow during this financial year.

David Dorward: The answer for the Tay is slightly different. I have the audited accounts in front of me and it appears that there is an omission from the expenditure side of the interest payable on finance charges. For 2005-06, that would add approximately £800,000 to the running costs. In that year, we made a total surplus of £600,000. In 2006-07, a similar adjustment would be required of approximately £800,000 on the expenditure side. The actual position is that we made a surplus of £1.4 million that year, £800,000 of which was a one-off payment for the cessation of a car park. The car park is part of the Dundee waterfront development; it was bought by Dundee City Council and the whole of that payment had to be recorded in our revenue accounts. It was a one-off—a unique payment that will not happen again.

The reserve level was £2.16 million in March 2006 and £2.87 million in March 2007. We plan to use approximately £2.1 million of that reserve to fund our 2007-08 capital programme.

James Kelly: Have future interest payments been built into your projections?

David Dorward: No. The assumption for our resource grant is that our capital programme will be funded 100 per cent by capital grant. There will therefore be no finance charges in future years' revenue budgets.

Elaine Murray (Dumfries) (Lab): Looking again at the tables in paragraphs 26 and 33, we see rows labelled "Other income". What are the other sources of income? Mr Dorward mentioned the £800,000 from the sale of the car park in Dundee, and I presume that that is included in the figure of £906,000 for 2006-07 for the Tay bridge, but will you explain the other sources of income?

David Dorward: Yes. In 2006-07, £800,000 of the £906,000 was the income from the sale of the car park. The rest of the other income that is shown in the table is interest on revenue balances, on which we earned interest; rental income from the rent that we received from Dundee City Council—we rented the car park to the council before we sold it; and rental income from a kiosk on the Fife side of the bridge. We are entering into an agreement with a fibre optic company to lay fibre optic cables across the bridge, which will give us an annual rental income.

Elaine Murray: Is the Forth road bridge in the same situation?

Alastair Andrew: The situation is similar. We already rent out duct space for fibre optics. Advertising hoardings and so on are rented out on some land holdings, which are a carryover from the 1960s when the bridge was built. The summary indicates the income other than tolls income.

Elaine Murray: Leaving aside the £800,000 for the car park, which is probably an unusual circumstance, is the other income likely to fluctuate over the years?

Alastair Andrew: The rental of ducts on the bridge for fibre optics should provide a steady income. From time to time, other communications companies make inquiries about renting ducts, so that income may go up. The situation with the advertising hoardings on the approaches to the bridge is similar. Income should be fairly constant.

Elaine Murray: I have a more general question. Some items of income or expenditure have nothing to do with the bill—they will remain whether or not the tolls are abolished. Does the financial memorandum include a lot of additional material that is not about the cost of the legislation?

Alastair Andrew: It certainly provides an accurate picture of income and expenditure, which is what is required in the memorandum. The other incomes are highlighted in the audited reports, which are freely available.

Elaine Murray: But they will not be affected by whether there are bridge tolls.

Alastair Andrew: They should not be. As we understand it, only the toll income will be removed.

David Dorward: I believe that our reason for including all the expenditure and income was to arrive at the net effect of the loss of the toll income and to indicate the net amount that will have to be met by resource grant. That is why those items were included in the figures that we supplied to the Scottish Government.

Tom McCabe: Ministers are funding the repayment of all the debt, which should remove the need for any future borrowing—although I see that there is a provision for borrowing in exceptional circumstances. What is the rationale behind removing the statutory repayment deadline?

David Dorward: The statutory deadline of 2016 was included in the original Tay Road Bridge Order 1962. The thinking then was that all debt from the original building of the Tay road bridge would be repaid within 50 years. That was not very forward thinking, because repair work that carried a significant cost had to be funded by borrowing over the following 50 years. The deadline of 2016 meant that, as we got closer to that date, the finance charges on new borrowing had to be spread over an increasingly short period—five or six years. The finance charges on the new borrowing were therefore bearing heavily on our reserves and on our revenue spend. The bill includes the continuation of borrowing powers, but leaving the 2016 deadline in place would have meant that if we had to borrow in 2015, the finance charges on that borrowing would have been almost the whole cost of the borrowing, because there would be only one year left in which to repay that debt. Therefore, it was imperative that that anomaly—no other public sector body has a deadline by which it must repay its debt—was removed.

14:30

Tom McCabe: One could say that that would be no bad thing for some other public sector bodies, but we had perhaps better not go there.

If the board decided to take up those powers for dealing with exceptions, would the repayment period for any such borrowing be open-ended?

David Dorward: We would apply public sector accounting principles. We would look at the asset on which we were borrowing and work out the calculation for the works over the useful life of that asset. In addition, the finance charges that would be generated by any such borrowing would need to be reflected in the resource grant that we received from the Scottish Government in future years.

Tom McCabe: I think that the financial memorandum states that the policy will cost about £15.5 million in lost income and will require a one-off payment of around £14.7 million for the repayment of debt. However, according to the financial memorandum, the expected costs on the Scottish Government come down to around £10.6 million in 2010-11. Will that lower cost be the trend going forward? What will be the expected annual cost of the policy on the Scottish Government's budget in the longer term?

Alastair Andrew: In my opening remarks, I made a plea for flexibility. We operate on a 15-year capital programme. Under the current programme, spend on capital alone will be some £107,000 over the 15-year period, in addition to running costs. The difficulty that we perceive is that we will be required to plan works according to the three-year spending review budget, whereas we currently plan the works and then look at our expenditure. At the moment, we have a borrowing consent that allows us to smooth out the peaks and troughs. So far, we have never had to borrow since the original debt on the Forth road bridge was repaid. That is primarily because traffic growth has outstripped inflation. My board is keen to have a flexible funding mechanism that would look further than the three-year spending review cycle. For example, the painting contract runs for 15 years. That does not present us with a difficulty at the moment because we have our own income and FETA has obtained borrowing consent to borrow £15 million to see us through a period of higher expenditure while keeping the toll at the same level. With toll removal, we seek to have in place an equally flexible funding mechanism.

David Dorward: A distinction must be drawn between the resource grant and the capital grant. I believe that the resource grant will be fairly steady. Once we have a staffing structure in place, the expenditure on running the bridge year on year will be fairly constant apart from inflationary increases in pay awards. However, quite significant fluctuations can occur on the capital side. That is why I agree with Mr Andrew that we need some flexibility to ensure that the bridge can let longer-term capital contracts with the confidence that the Scottish Government will provide the capital grant to meet those.

The Convener: Mr Andrew, will you just confirm whether the capital cost over 15 years that you mentioned was £107,000?

Alastair Andrew: I meant £107 million.

The Convener: Thank you for that clarification. You will now understand why I asked for it.

Tom McCabe: I understand everything that has been said. However, have you factored in the possibility that in future years you might be required to borrow—for whatever purpose we can only speculate—when the flow of traffic over the current bridge might have been reduced by a second crossing from which you would not get any income? Does that have an impact on your thinking about the degree to which you might need to enter the market to borrow money?

Alastair Andrew: No predictions were made on the influence of a new crossing simply because we expect that a new crossing would take at least 12 years to deliver. When we estimate future works for up to 15 years, there is obviously some uncertainty in the values that we use. In looking forward, we have not taken into account a reduction in traffic, but we have taken into account the average growth of traffic in the past 20 years.

The Convener: Mr Dorward, do you wish to respond?

David Dorward: I am not aware that a second crossing is planned for the Tay, so—

The Convener: Not yet, anyway. I beg your pardon.

Tom McCabe: You are spending money on everything else, so why not? [*Laughter.*]

The Convener: Mr McCabe, do you wish to ask a supplementary question?

Tom McCabe: I understand that, in considering a period of 15 years, there is a great deal of speculation. There has to be projection even though it is by no means a precise science. However, do you agree that there is a risk in projecting forward the same traffic growth that has occurred in the past 20 years, given that we now have greater concern for the environment, measures to try to reduce the number of journeys that people make and the possibility of another crossing?

Alastair Andrew: I have to come back with the defence that it is well within the bounds of our ability to estimate traffic growth.

Two years ago, we were not thinking about a £9 million project to dehumidify the main cables. In our written submission, I also mention our work on pier defences, which resulted from the Government in the 1990s asking for a risk analysis of shipping impact. That led to expenditure of £10 million. We have a history of unforeseen work being required.

Also, when the wind-loading codes were changed, we were required to stiffen the cross-bracing on the main towers. There is a history of trying to keep up to date with design criteria and the increases in weight of heavy goods vehicles, including the increase from 22-tonne to 44-tonne trucks.

Our estimates of costs have been less accurate than our estimates of percentage growth in traffic. When works are required, it has always been the case that they are planned and then funding is sought. The most recent difficulty that we had caused us to increase the toll from 80p to £1, which saw us through the crisis. Now we are prepared to borrow £15 million and the projections show that the repayments fall well within our income stream.

The Convener: Given that financial memoranda to bills often present the costs that might arise as falling within a range of estimates, what degree of uncertainty or variation ought to be considered in the figures for the Abolition of Bridge Tolls (Scotland) Bill?

John Connarty: FETA's written submission mentions a number of the unforeseen events that have occurred, and Mr Andrew mentioned some of those today. FETA carries out detailed analysis of the risks of projects and tends to go into three-year capital programmes with a reserve of about £6 million. However, the reserve depends on the specific details of the programme.

The Convener: Your submission states:

> "It is difficult to predict future bridge maintenance requirements."

It lists several possibilities, but it also states:

> "The uniqueness of the work can also mean significant differences between estimated and actual costs".

In one of the examples in your submission, the estimate was out by 30 per cent and, in the other, it was out by 33.7 per cent. Why were those estimates wrong to such a large extent?

Alastair Andrew: We have a unique structure. It is the oldest suspension bridge in Europe. When we are faced with a consulting engineer who has been employed to do a feasibility study of replacing the vertical suspender ropes—something that we have done—there is no book of rates for the brickwork, plasterwork or concrete work. The engineer starts from scratch and asks how we can replace the supports that hold the bridge up without disrupting the traffic.

The engineers whom we employ will make their best estimate of the costs, but we will start to realise how accurate the estimates have been only at the tendering stage. Obviously, we follow European tendering procedures and the contractors working on the bridge are, predominantly, major foreign companies. It is not necessarily a matter of an error in estimating; rather, it is simply a matter of the work not having been done before.

I will give a simple example. When strengthening of the towers started, it was assumed that the steel on the bridge was up to the British standard of 1958. However, the contractor kept breaking drill bits on coring machines because there were so many flaws in the steel. In such circumstances, the contractor will say that it was reasonable to expect the steel to come up to the British standard but it clearly did not, and the contractor will make a claim.

The estimates to which you referred appear to be well out from the finished costs, but that does not mean that there was wastage. If we spent more time on the estimates, perhaps we could reduce the differences, but we are comfortable in thinking that the outturn cost will remain about the same.

The Convener: Differences of 30 per cent and 33.7 per cent are substantial.

Two contracts—for bearing and joint replacement and for span painting—have still to be awarded. Those contracts are worth £75 million. Will they be subject to similar increases? If so, they would be worth around £100 million.

Alastair Andrew: Our difficulty is that the road bridge is wind susceptible. Mid-span, for instance, it can move out 23.5ft in the direction of the wind. We have to work carefully, bearing in mind wind loading.

We have carried out wind tunnel research with the University of Glasgow to determine the optimum area of the bridge that we can have tarpaulins on at any one time. Network Rail, which is responsible for the rail bridge and can obtain up-to-date figures, is the next organisation to speak to, but we have had to delay the implementation of the painting programme because of the corrosion that we have found inside the main cable. Delaying works means that costs will increase.

The Convener: Capital works seem to be particularly vulnerable to such increases. On future costs, you have said that there are three schemes with

"potential for further major expenditure."

Are you working from a guesstimate with those three schemes? How much will the major further costs be?

Alastair Andrew: We have let the tender for the dehumidification of the main cable, but no one can sit here and say that what will happen will or will not be successful. If the dehumidification process is unsuccessful and we have to replace the main cables, there will be significant substantial costs. However, a report is not yet available—it will not be finalised until the end of the year. We have had to use guesstimates that are based on available information from internationally renowned consultants, but that is the nature of the beast.

The Convener: Yes, but I think that you understand the concern about replacing toll revenue with the Government's grant scheme. Your submission states:

"it is vital that a flexible financing structure is established that takes into account the unique, variable, long-term nature of the Bridge's maintenance programme."

What exactly does that mean?

14:45

Alastair Andrew: The 15-year plan reflects the fact that the vehicle parapets on the Forth road bridge are substandard. They do not meet the current British standard for vehicle containment. Should we replace those parapets? That question needs to be answered. What about the bridge expansion joints? When the bridge expansion joints on the Erskine bridge were replaced, traffic on that bridge was reduced to contraflow for three months. Industry north of the Firth of Forth would not accept contraflow on the Forth road bridge for three months, so we are looking to find an alternative.

We can identify schemes, but we cannot accurately cost them, because they are one-offs—they are unique. For example, we could not simply go on to the bridge deck and replace the substandard vehicle parapets with standard vehicle parapets, because the deck is not stiff enough. We are talking about trying to retrofit a 1950s bridge to current design standards, which is not easy.

At the moment, the finances are managed by FETA. We have a healthy reserve and borrowing consent for £15 million. I simply want to ensure that, in removing the toll, Parliament is fully aware of the liability that is taken on. FETA will be left with the legal responsibility for maintaining the bridge, but it will have to go cap in hand for funding.

The Convener: Those points are being made clear to all parties involved.

Tom McCabe: Mr Andrew, are you really saying to us that there is little chance of properly estimating the future costs of removing tolls? I know that you do not mean to, but you are not presenting a reassuring picture of the bridge or the prospects of driving over it any time soon. It sounds as if there is little chance of a professional estimate of the future costs—tolls or no tolls.

Alastair Andrew: Of course we are attempting to provide professional estimates. A major feasibility study is running at the moment, with international consultants considering the removal and replacement of the main cables, but it is exceptionally difficult for me to give you an estimate of costs when that report is not yet available. We are required to work up a 15-year programme so that we can consider our funding requirements over the year. As we have surfaced before, we can give you an accurate estimate of the cost of surfacing, but if we find a problem with the main cable anchorages, there is no readily available case for us to refer to for accurate estimates.

History shows that we have attempted to do the work professionally. We have advertised in Europe and brought in experienced contractors that were famous for their work in moving offshore oil structures in the North Sea. Unfortunately, however, they have still ended up underestimating the difficulty of carrying out works in live traffic on an exposed bridge such as the Forth road bridge. That situation is not unique when we consider other major bridges in the world.

Tom McCabe: Am I right in thinking that, in general, people would welcome the removal of tolls from the bridge but that the true cost to the taxpayer may be higher than they envisage?

Alex Neil (Central Scotland) (SNP): Alternatively, is it true to say that there are two separate issues? One is the cost of removing the tolls, which is the lost income, and the other is the big question mark over the authority's ability to predict capital costs for the reasons that have been outlined. The authority will face that problem irrespective of whether there are tolls.

Alastair Andrew: Yes, that is an accurate assessment of the position.

Tom McCabe: The point that I was trying to make was that, when we are in the midst of uncertainty about substantial sums of money, it might not be unreasonable to question the wisdom of killing off an income stream.

The Convener: I want also to ask about the Tay bridge situation. I note that work on additional bearing replacement and pier collision protection has been identified in the current year. On the Forth, similar projects cost way over the estimates. What is the situation on the Tay? Are the estimates accurate, or will the projects be over budget?

David Dorward: I would have to support what Mr Andrew said. The largest contract that we let was for bearing replacement. Although the engineers knew exactly the work that they wanted to carry out, until they went to the market and the companies came back with their tenders—very few companies can carry out such work—the engineers did not fully appreciate all that was required. The cost increase was mainly due to the supporting work that had to be put in place to carry out the main work while the bridge was kept open.

We have experienced similar problems to the Forth road bridge, albeit at a much reduced level, in that an estimate for a large capital contract has been exceeded when the tender came in.

Sometimes, things can go in the other direction. The work on the navigation span is an interesting example. We do not yet have a tender for it—that is, the engineer's estimate of how much will be required to make the piers safe for boats going up and down the Tay. The engineer recently said that there might be a simple, practical process solution that could reduce the amount of work required. We will have included the cost of an engineering solution in the 20-year capital plan—approximately £11.4 million, spread over the next five years—but we might be able to put in place a practical solution with Port of Dundee Ltd that would ensure that safety is maintained at a high level but require a smaller engineering solution.

Elaine Murray: I return to the effect of the bill to abolish the tolls. There has been discussion about capital programmes and several pieces of work, including dehumidification, which would have to be done anyway. What difference does abolishing the road bridge tolls make? Does your argument about the flexibility of the grant lie in the proposition that, instead of the tolls getting abolished, they could have been raised in order to meet additional costs, or more people could somehow have been encouraged to cross the bridges to generate more revenue?

What is the effect of the abolition of the tolls on the capital programmes? What is the particular concern that you want to be addressed because you will not have the income stream any more? By how much would the income stream from the tolls address the capital spending problems?

Alastair Andrew: Given that approximately 12 million people pay the toll every year, it requires only a very small increase in the toll to buy a fairly large mortgage to see us through some of the major capital works. I want to stress to the committee the flexible nature of the matter. I hope that it has not been suggested that we are being unprofessional in our estimates—we are doing the best that we can. We cannot have the sort of grant aid that is handed out to some other boards whereby, if we come within 5 per cent of spend, we hand the money back or we are unable to carry it over to the next financial year.

All our works are weather susceptible. To follow up a point that David Dorward made, I note that the contractors look on remedial works as high risk. At the moment, Tarmac is contracting the surfacing of the bridge. It has had one bad weekend out of the last three; it is not prepared to take the risk, given the number of people involved in the works. There are very few contractors who are experienced in replacing bearings. Our estimates are based on the best estimates that are available, which come from the contract documents that were returned for the Tay road bridge. We are constantly updating our database.

I reiterate that it is difficult to find contractors and that the contractors view the carrying out of remedials on a live bridge deck as a high-risk operation. The main point is that the work is difficult, and we need flexibility.

Elaine Murray: As Tom McCabe said, it is true to say that we do not have firm estimates for the cost of the legislation.

Alastair Andrew: The financial memorandum, which is based on a three-year spending review, does not show the full cost.

David Dorward: I believe that there is no linkage between taking away the tolls and the capital expenditure. If the tolls were there, that capital expenditure would still be required and we would probably have to be funded through a combination of a grant from the Scottish Executive and toll income. The bridge boards require a commitment that the capital grant, whatever it might be, will be available. I believe that the financial memorandum—if we use the updated figures that are contained in our written submission—is now correct. As it stands, there are capital and resource errors in the bill, but we have updated the figures through our written submission. It is simply a timing issue. The data are quite limited, but the figures from the Tay road bridge that we have submitted are accurate for the three-year or four-year period.

What is required is a commitment that there will be longer-term funding on the capital grant because capital expenditure, by its nature, usually takes place over more than three years. We plan it well in advance. It takes longer to plan and it takes longer to arrange and deliver the contracts for capital expenditure than anything on the resource grant side. Therefore, a three-year settlement does not give us flexibility.

I believe that there are organisations in the public transport sector, such as Highlands and Islands Airports Ltd, that have a longer-term commitment from the Scottish Government, not for actual grant levels but for funding for any capital expenditure or deficit that the organisation incurs. The bridge boards need that kind of flexibility.

Alex Neil: I return to the cost of the bill. Correct me if I am wrong, but my interpretation as an economist is that it equals the revenue that is lost as a result of withdrawing the tolls minus the cost of collecting them. In simple terms, that is the bill's net cost. All the other issues to do with capital, the profile of the capital spend and risk—all of which I understand perfectly—exist irrespective of whether we have tolls or not.

I am talking about the cost to you. In the broader picture, when the Scottish Government considers the economic impact of withdrawing the tolls, the wider economic benefits for the Scottish taxpayer may well outweigh any cost that results from withdrawing the tolls. Do you agree that that is a fair definition of the cost of the bill?

David Dorward: I do. The loss of income is a definite loss to the public purse. There will be a saving through a reduction in running costs for toll collectors, banking services and security services. That nets off the loss of toll income to some extent. Thereafter, whether we have tolls or not, capital expenditure will have to be borne by the public purse.

Alex Neil: On revenue to the public purse, if the removal of the tolls generates the level of economic growth that we anticipate, the Government and taxpayer will get the money back in other ways.

You raise extremely serious and important issues on capital expenditure. They are neutral to the bill's main provisions, but they are important issues for the committee to address. As I understand it, you are saying three things: first, that you need a guarantee that you will have access to the capital that is required to maintain and repair the bridges; secondly, that you need to take a longer-term perspective than three years hence; and, thirdly, that you need a degree of flexibility, given the uncertain nature of the capital spend particularly but not exclusively for FETA. As you say, you are on the job before you know what its true cost might be.

You are giving a clear message about needing responses on those three major requirements. How advanced are your discussions with the Government and have you been given any guarantees on any of those points so far?

15:00

John Connarty: We have had discussions with the Government through the bill reference group for FETA. That is where the estimates and information in the financial memorandum have come from. FETA has a meeting arranged with Government officials next Thursday to consider in detail some of our concerns about flexibility and determine whether they can be addressed by a detailed grant offer and grant conditions.

Alex Neil: Will that be the first time that you have put the concerns to the Government?

John Connarty: No, the Government has been aware of the concerns through our discussions with it, but that will be the first time that we have sat down to concentrate on that detail.

Alex Neil: I have a little factual question—

The Convener: There are a few other people waiting to ask questions.

Alex Neil: Aye, but I have waited about an hour to get in. Fair's fair.

Mr Dorward—with regard to the future funding proposals for the Tay bridge, your paper says that for the period 2007 to 2011 there is a difference of about £524,000 between the figures in the financial memorandum and the figures in the revised proposed grant. In your preamble, you refer to the proposed staffing structure, but that difference cannot be entirely explained by staffing, can it?

David Dorward: In terms of the resource grant, the difference is entirely due to staffing changes. There is approximately £250,000 more a year in the revised staffing structure. The previous figure was produced prior to our personnel department in Dundee City Council reviewing the required staffing structure of the Tay road bridge after abolition of the tolls. In our written submission, we say that the resource grant in 2008-09 would need to be increased from £1.208 million to £1.474 million. That difference of £266,000 is due entirely to the staffing structure.

Alex Neil: What has happened in terms of staffing to justify that substantial forecasted increase?

David Dorward: Initially, we foresaw a situation in which the toll collectors—about 20 people—would not have tasks on the bridge after the removal of tolls. However, the bridge manager, John Crerar, pointed out that the current toll collectors have duties other than collecting tolls; for example, they perform security duties and ensure that the bridge is safe and clear 24 hours a day, seven days a week. I will be honest: we had underestimated the staffing structure that would be required to maintain the Tay road bridge after removal of the tolls.

Joe FitzPatrick: Both figures that Alex Neil mentioned are for a post-tolls situation. I understand that they are both lower than the figures for the current arrangement. Is that correct?

David Dorward: They are lower than the figures for the current arrangement because they relate to a situation in which there are fewer posts. At present, there are 47 posts and in the proposed structure there will be 36. We were too enthusiastic in our initial perception about the reduction in posts initially. When we considered the arrangements in greater detail—for example, when we considered staff rotas and so on—it became apparent that the staffing structure had been underestimated.

The Convener: We are approaching the end of this part of our meeting, but Derek Brownlee and Liam McArthur would like to ask questions.

Derek Brownlee: You have talked about other income and the funding that would come from the Executive. If the bill becomes law, would you be able, under other legislation, to charge users of the bridges?

Alastair Andrew: The Forth Estuary Transport Authority was set up as a road-user charging authority. Under the Transport (Scotland) Act 2005, FETA would still be able to apply to introduce a road-user charge, but that involves a 12-stage application process that requires ministerial approval at each stage as well as a public inquiry. Although a mechanism by which charges could be introduced will still exist, Parliament would have a say in the matter.

David Dorward: There is no equivalent of FETA for the Tay road bridge, so it would be more difficult—if not impossible—to introduce any other form of road charging for the bridge under the original legislation once the tolls were removed.

The Convener: *The Courier* in Dundee will be pleased.

Derek Brownlee (South of Scotland) (Con): I appreciate the confirmation. It is for ministers to answer why FETA's power to introduce a charge has not been removed.

Liam McArthur: My question relates to a couple of issues that did not come up in the witnesses' responses to Alex Neil and Tom McCabe. I acknowledge the points about the net effect in revenue and that capital costs will be equally predictable, or unpredictable, whether or not tolls are in place. Two other issues were not raised. The first is the impact of toll abolition on congestion and the costs that will arise from it, although the witnesses might not be able to comment on that. Secondly, there obviously exists the potential that removal of the tolls will result in changes to the capital cost profile because of increased movements leading to greater wear and tear on both bridges. Can the witnesses even estimate what that change is likely to be?

Alastair Andrew: Yes. The current predictions are that traffic numbers will increase on the Forth road bridge, but we do not anticipate a significant increase in the number of heavy goods vehicles, which cause the structural problems. The forecasts indicate that the off-peak period will start to fill up and that the peak will simply become a bit longer, but cars do not cause the maintenance problems. The simple facts are that the Forth bridge is a 1950s bridge that is carrying twice its design load and that the number and weight of heavy goods vehicles continues to increase.

We would have concerns only if we saw a sudden increase in the number of heavy goods vehicles. However, the indication from the hauliers is that they currently use the bridge off-peak anyway because their highest operating costs are fuel and drivers' time and they do not want their vehicles stuck in the commuter rush in the morning. Therefore, we do not expect the increase in traffic to have an effect on the spend profile.

David Dorward: The Tay bridge manager does not predict a significant increase in use of the bridge when the tolls come off. The majority of the bridge traffic is users who are resident in north-east Fife and who go to Dundee for work. The manager estimates that even a 2 per cent to 3 per cent increase in traffic per annum would have no effect on our capital programme.

Abolition of the tolls will have a significantly beneficial effect on congestion in Dundee city centre. As traffic leaves Dundee to cross the bridge in the evening, the tolls cause a backlog into the city centre; the traffic queues back and exhaust fumes settle. Removal of the tolls will mean that the traffic will flow more easily, which will have a beneficial effect on congestion and air quality.

Liam McArthur: I accept that that was probably more a question for FETA, but I appreciate those answers.

The Convener: We have had quite a long question-and-answer session. I will give the last word to our witnesses.

Alastair Andrew: I will undo an impression that I might have created: the Forth road bridge is absolutely safe. I crossed it this morning and I will cross it again soon. Our only plea is that the Scottish Government will, in removing the income that is earned from tolls, give us an equally flexible grant to let us continue with maintenance.

The Convener: All of us who use the bridge regularly will be pleased to hear what you said.

David Dorward: I echo Mr Andrew's points. The Tay road bridge is a different structure from the Forth road bridge and, although we are considering them together in one bill, the capital needs, the capital expenditure and, to some extent, the revenue are slightly different. The Tay bridge goes into the heart of a city: therefore, removal of the tolls will make a significant difference to traffic movements in Dundee.

The Convener: We appreciate the three witnesses' participation. I bring this section of the meeting to a close. We will have a four-minute suspension to allow our next witnesses to settle in.

15:10

Meeting suspended.

15:13

On resuming—

The Convener: I welcome our second panel of witnesses, who are officials from the Scottish Government. They are David Patel, the deputy director of the Scottish Government transport directorate, David Dow, financial adviser, and Christopher Rogers, who is a branch head in the Scottish Government transport directorate. Will the officials make an opening statement?

David Patel (Scottish Government Transport Directorate): We will make just a brief statement, given that the committee has already heard a lot from the bridge boards. Under the bill, toll income will be replaced by direct grant funding. The grant for the coming spending review period will be in two elements—a revenue grant to cover the operating costs and a capital grant to meet the programme capital expenditure that we get from the boards.

We have made no changes to borrowing powers because they give flexibility over time for exceptional circumstances; both boards will therefore retain them.

The committee has gone over the costs in the financial memorandum. For the current financial year, the revenue cost is £4.4 million and capital is £22 million, of which £14.7 million relates to the outstanding debt on the Tay bridge. During the coming spending review period—again based on the boards' figures—the revenue costs are £20 million and the capital costs are £40.6 million. Those figures represent the boards' current best estimates. The boards worked on the figures independent of the bill, so the information existed before the bill.

Capital spending includes all known current and committed schemes. The major ones on the Tay are the bridge bearings replacement and the pier protection scheme. For the Forth, the two biggest major capital expenditures are resurfacing and cable dehumidification.

The committee heard earlier that there are always uncertainties around capital expenditure for the bridges, but we believe that we have fairly robust estimates. In the next few months, we will consider the questions of flexibility that the committee heard about from both boards.

15:15

The Convener: Does either of your colleagues want to say anything?

David Dow (Scottish Government Transport Directorate): No—we are happy just to answer questions as they come.

Alex Neil: It is always good to welcome somebody from the Scottish Government.

You said that you will consider the flexibility that was mentioned earlier, but there were other issues related to the borrowing powers and funding of the capital expenditure, such as the need to look beyond a three-year horizon. In fact, as you have probably seen, FETA outlined six conditions in its written evidence: flexibility, process, how the borrowing powers will operate in practice, the definition of reasonable reserve, the longer term commitment, and the security of future income. I sense from your opening remarks that there is genuine flexibility in the Government's approach and that you acknowledge the points that were made particularly, but not exclusively, by FETA. Is that a fair assumption?

David Patel: That is a fair summary of the position. We work on three-year spending review commitments—there is no getting away from that—but we need to ensure that everybody understands that there is a long-term commitment to funding the boards. The specifics will be dealt with in three-year chunks, but the boards have a long-term funding commitment from the Government that allows them to enter contracts that extend beyond three years.

We are currently discussing with the boards what will be adequate reserves. We have more or less come to an understanding with the Tay board, but have still to reach a firm agreement with FETA. The reserves for the Forth bridge have been high in recent years; there is a question about whether that needs to continue. We are discussing that with FETA, and I think that there is some flexibility on its side.

There is a general commitment to a flexible funding regime, and we will use best practice. The committee heard from the boards that other organisations have some flexibility, and it is our intention to ensure that the boards have the best package for them.

Alex Neil: Would it be fair to say that the discussion is in a sense a bit academic? If either board did a Northern Rock and then went bust, under the legislation the Scottish Government would have to pick up the tab anyway.

David Patel: That is a fair point.

Alex Neil: Is that the correct position? Would the Government have to pick up the tab if either board went bust?

David Patel: It would be a pretty good bet that the Government's door would be knocked on in that situation.

Alex Neil: I have two other substantive questions. The first is about your scrutiny and audit of the boards' estimated figures. We heard an explanation of how the staff costs in the Tay Road Bridge Joint Board were originally underestimated. Do you go through an internal process of scrutiny and audit of the figures that you are given and then negotiate a final agreed estimate, rather than just taking the figures as read?

David Dow: Yes—although I see that as a process that we will go through more as we come to agree each year's grant and as we become more familiar with the business of the two bodies. Going forward, that is the process that I envisage.

Alex Neil: That is going forward. You are in negotiations at the moment, so I presume that you undertake robust analysis of the figures that are presented by both boards.

David Dow: The learning process continues and we are questioning the figures. As the committee has learned from the previous session, matters are still coming to light.

Alex Neil: I am not sure whether I am totally reassured by that.

David Patel: As the committee heard, staff costs are iterative; the boards are going through a process with unions and staff at the moment. The financial projections include broad allowances within which we will, we believe, be able to meet whatever costs arise from those discussions. Indeed, the figures in the projections are higher than may be realised.

Alex Neil: Secondly, I assume that you allow for variations over time in the estimates. Obviously, the profile of the capital spend can easily slip between one financial year and another, even within the three-year timeframe. I assume that you have done—or will do—your own sensitivity analysis to examine where there might be exposure. For example, two of the pending contracts have a total value of £75 million. As the convener pointed out, previous contracts show overspends of around 30 per cent. If that were to be the experience in this case, the total value would be close to £100 million. In any one year, such overspends could have a reasonably big impact on the Government's budget.

Christopher Rogers (Scottish Government Transport Directorate): If I may, I will return to the original question to add a little to what my colleagues said. We can look at the present capital programme to see whether the figures are reasonable, but we cannot second-guess when something might need to be done. In other words, if FETA were to say, "In 2008-09, we will need to address issues in the expansion joints," we cannot say, "No, you don't." That said, in the future, we would ask: "What is the flexibility on that?"

On slippage, we need to bear two things in mind: slippage on capital projects; and the contractual difficulties that will always be involved in work on those structures. The witnesses from FETA and the Tay bridge board pointed out those difficulties and the considerable weather risks that are involved. The boards have difficulty in getting fixed estimates and fixed programmes of work when work has to be done in weather windows. The revised figures from the TRBJB show that capital expenditure has had to be moved into later years because things have happened that have extended existing works. We cannot fully estimate all such occurrences. That said, we agree on the need for flexibility between years: capital spend may be put forward as happening in 2008-09, but it may well slide into 2009-10.

The Convener: How much is the proposed abolition of the tolls leading you into new territory? You said that you were on a learning curve. How much of the process is being done internally? Are you relying on specialist outside advice to assist you?

Christopher Rogers: From the engineering viewpoint, we lean heavily on the engineering advice of both boards—they have, quite literally, decades of experience of their respective structures. Even if we were to go to consultancy, it would be difficult to get the equivalent level of expertise. We are talking about specific structures in specific conditions.

Derek Brownlee: My questions are on the debts of the Tay Road Bridge Joint Board. First, I would like clarification. FETA confirmed that it would retain the power to implement road user charging on the Forth bridge. Given that the bill proposes to abolish tolls on the Forth and Tay bridges, and to repeal both the Erskine Bridge Tolls Act 1968 and the Erskine Bridge Tolls Act 2001, was consideration given to removing that power?

David Patel: The bill is tightly focused on abolition of the bridge tolls. No consideration was given to removing FETA's particular provisions on road pricing. A couple of weeks ago, the minister told the Transport, Infrastructure and Climate Change Committee that he is willing to consider the matter in detail, so it is something that we will be considering.

Derek Brownlee: I come to the Tay road bridge debt. Of the £14.7 million that will be outstanding at the end of this year, it seems that £2 million is, in effect, owed by the Government to the Government. I assume that that figure is included just to clarify to whom that amount is owed.

David Patel: Yes.

Derek Brownlee: The obvious question is, given that the debt was to have been repaid over the next 10 years, why was the decision taken to pay it all back next year? Why not spread or maintain the debt payments? That could have been done while abolishing the tolls, could it not?

David Patel: That could have been done, but it is a matter of achieving value for money in the funding regime going forward. The debt interest for the Tay road bridge is about £800,000 a year. The decision was made on the ground that we should avoid that.

Derek Brownlee: We hear that we are moving into the tightest funding settlement since devolution. Are comparative figures available? There is a cost to the Scottish Government in that the £12 million or £13 million that is owed to the other bodies, in particular to the councils, is to be paid back to them immediately. What sort of modelling was done on the consequences of that?

David Dow: We had the opportunity to deal with that one debt now, and it is the one that we have concentrated on. On how the repayment plays with the spending review, the proposal is to pay for redemption of the debt within the current financial year. It will be over and done with before we move into the new spending review period.

Derek Brownlee: Was there any negotiation with the councils, which will now be receiving cash that they had not expected to receive? Was an assumption made that they would be quite happy to be in that situation?

David Patel: There was no discussion with the councils—it is purely a position that ministers have taken.

Derek Brownlee: There are no provisions in the regime for any sort of penalty for early repayment.

David Patel: As we understand it, there is none.

James Kelly: As was covered earlier in our evidence taking, and as is outlined in the financial memorandum, the cost of the new policy is £15.5 million per annum, plus the one-off debt repayment of £14.7 million for the Tay road bridge. However, in 2010-11 the total costs on the Scottish Government are expected to fall to £10.6 million, which is a lower figure than for preceding years. Is that lower cost going to be replicated after 2010-11?

Christopher Rogers: The costs vary between the two structures. There is no doubt that the capital expenditure on both structures last year, this financial year and over the next two financial years is higher than average. The figure for 2010-11 is probably representative of an average. As the witnesses from FETA said, there are costs that cannot currently be estimated, including for guard rails. That £10 million figure might represent a trend, but there are likely to be substantial blips in that trend.

David Patel: It is really the capital expenditure that creates the variation over the years. The capital programme for the Forth over 2010-11 to 2013-14 is about £2 million to £4 million, which is quite a bit down from the figures in this spending review period. That is the best figure for the period based on current estimates. A similar position holds for the Tay. On the basis of the current figures, and if the capital figures stay as they are, we expect the level of funding to go down in the next spending review.

15:30

James Kelly: So you are saying that, from 2010-11, you expect the costs in a normal year to be £10.6 million although, as we heard from the previous panel, unexpected events quite often occur in maintaining the bridges.

David Patel: Yes. If the capital profile remains as it is, the capital expenditure will be nearer the figure for 2010-11 than the figures for any other years. If it would be useful, we can provide you with the information that you want.

James Kelly: That would be helpful.

The Convener: You are inheriting a structure that has some structural problems, and future costs include the costs of three schemes that have

"the potential for further major expenditure."

How are you coping with the fact that there is only a guesstimate of future costs?

David Patel: What you say is true. You heard from Alastair Andrew about that.

We do not know whether the cables will be replaced. A study is being done and FETA will have to make a decision, so at present the costs are possible rather than known. Christopher Rogers might want to comment on the other two programmes.

Christopher Rogers: To some extent, the position is even more complex than a guesstimate. The difficulty is that neither we nor FETA know whether the work needs to be done. If we knew that the work was required, we could put a risk analysis against it.

There are two obvious examples. One is the guard railing, which is subject to testing. Even though it is not to a current design, it might still be to a current strength. The other example is anchorages. In both cases, FETA does not know whether it will need to spend money. We are almost in an unknown unknown, so we cannot even make a guesstimate. Particularly in relation to anchorages, it is not clear whether the work is required. If it is required, it is unclear what the nature of the work will be and, as a consequence, it is unclear what the cost will be.

The Convener: I understand that you are looking through the fog of war, but do you have any idea how and when things will be clarified? When will the uncertainties begin to become clear?

Christopher Rogers: The anchorages are probably the next major unknown, if I may use such indeterminate terminology. Consultants are studying whether the anchorages are competent or whether they need strengthening. I think that the consultants will report at the turn of the year, but I will come back to you with the date.

The Convener: Please do that.

Liam McArthur: We are in an uncomfortable Rumsfeldian twilight zone of known unknowns and unknown unknowns. In seeking the best guesstimates of capital costs, to what extent have you asked FETA and the Tay Road Bridge Joint Board to err on the side of caution and include a bit of headroom? Alex Neil made it clear—and the convener raised the matter with the previous panel—that previous capital projects came in at about 30 per cent more than the projected cost. Have you considered that in asking for costs? For example, have you considered it in relation to the £10 million and £65 million contracts that are still to be awarded?

Christopher Rogers: We have not added anything to the cost allowances that the boards have provided and have not gone back over any of their estimations. Instead, we have accepted their professional judgment.

As for your reference to Donald Rumsfeld, I should make it clear that we and the boards are content with the figures in the financial memorandum that refer to this financial year and to the next spending review up to 2010-11. However, difficulties might arise in the years beyond 2011. I should point out that that comment does not apply to the Tay board, which is quite confident about its long-term capital programme. The Forth board is also confident in that respect, but its capital programme contains, as you say, a number of unknowns.

Liam McArthur: With regard to the impact of lifting the tolls on the traffic using the two bridges, do you share Mr Andrew's view that the wear-and-tear profile might not change markedly because, although there might be an increase in the number of cars on the bridge, there will be no marked increase in the number of HGVs?

Paragraph 57 of the financial memorandum says:

"Increased traffic flows across the bridges are fed by additional vehicle movements across the wider local road network. Such journeys could lead to additional 'wear and tear' on the network and give rise to the need for additional roads maintenance over time."

Will that affect simply the surrounding road network or will it also have an impact on the bridges, particularly on the Forth bridge? As you have said, it is less of an issue on the Tay bridge.

Christopher Rogers: With regard to the longevity of the Forth bridge, Alastair Andrew is understandably concerned about corrosion and whether, at some stage, HGVs will have to be kept away from the structure. We have discussed with him whether that will have any implications for maintenance; the committee has heard his response to that question, and I have no reason to disagree with him.

In its reference to "wear and tear", the financial memorandum is simply stating that it is the nature of the beast that the life of the surfacing of the surrounding road network is dependent on the amount of traffic using it. If the amount of traffic increases, the surfacing might need additional attention.

Liam McArthur: Have you analysed the likely additional costs of such wear and tear?

Christopher Rogers: No. However, a number of the roads that are involved are trunk roads, the responsibility for which fortunately falls to us. We will maintain traffic counts, as we usually do, and analyse the real-life effects of this wear and tear.

Liam McArthur: I assume, therefore, that you expect there to be an impact on road maintenance in other parts of the country.

Christopher Rogers: There might be some impact, but it is very difficult to quantify.

Liam McArthur: Paragraph 60 of the financial memorandum suggests that

"people appear to tolerate significant levels of congestion without changing their travel behaviour".

Have you done a quantitative analysis or cost impact study of the potential impact of congestion, particularly on businesses at either end of the bridges?

Christopher Rogers: The toll impact study has provided us with some detail of that.

Liam McArthur: Can you share those costs with us?

Christopher Rogers: Do you want us to provide you with a résumé of the study?

The Convener: That would be helpful.

That concludes our session. Do the officials wish to make any final comments or statements?

David Patel: No, we are fine. We will provide the extra information that we have promised.

The Convener: That is much appreciated. I thank the officials for their insight into the issues that the financial memorandum covers. The committee appreciates their evidence.

We now move into private. [*Interruption.*] I beg your pardon, we do not move into private. I will give the officials a minute or two to leave.

Decision on Taking Business in Private

15:41

The Convener: We are very much in public; I apologise for the lapse. Under item 2, we must decide whether to consider a draft report on the Abolition of Bridge Tolls (Scotland) Bill in private at our next meeting. It is fairly common for committees to discuss draft reports in private to facilitate the achievement of consensus and prevent media focus on preliminary conclusions that may not feature in the final report.

I propose that we take our draft report on the bill in private. Is that agreed?

Members *indicated agreement*.

Methods of Funding Capital Investment Projects Inquiry

15:42

The Convener: Item 3 is consideration of our approach to our proposed inquiry into the methods of funding capital projects. The clerks have produced a paper that sets out a proposed outline timetable, a proposed remit and a proposed approach to written and oral evidence. The Scottish Parliament information centre has produced a briefing paper, which sets out some of the issues that might be covered by the committee's inquiry. I invite comments from committee members.

Alex Neil: I do not want to go through the approach paper section by section, but I will make a couple of suggestions. It is a good paper, which reflects pretty well our discussion at the away day, but I suggest a couple of amendments to the remit to make it clearer what we are trying to do. The remit reads:

> "The Committee has decided to examine the funding of public capital investment projects. The inquiry will consider and report on the advantages and disadvantages of different models."

I suggest that we change that to read "of different actual and proposed models", because the proposed remit could be interpreted as meaning that we will consider only what happened in the past. The purpose of the inquiry is to consider the past and the future.

Tom McCabe: You have a suspicious mind.

Alex Neil: One never knows the outside interpretation.

I suggest one other little amendment to the remit, which goes on to read:

> "This can include the implications of the different models for costs".

We should add "and for revenue streams", because we have not mentioned anything about the revenue side, only the cost side and

> "the management and public benefit of the projects".

We have to consider both sides of the equation.

15:45

Derek Brownlee: I was not at the away day, so I came to the paper fresh. The inquiry is one of the most important that we could undertake and potentially of great benefit. However, two aspects struck me. First, the main emphasis should be on how capital projects can be funded under the Scottish Government's and Scottish Parliament's current remit. That would include a review of conventional funding methods, public-private partnerships and the futures trust if it emerges as robust and permissible under the Scotland Act 1998. It would seem to me, also, that if the futures trust does not emerge in the timescale of this inquiry, for whatever reason, there is still a benefit to be had from doing the first two bits. Secondly, the remit refers to "different models". That could involve international comparisons or adjustments to the Scotland Act 1998 that could create powers to do different things.

It is important to separate out the two elements, but the benefit that we could derive from the focus of the inquiry could be lost if it became a dry academic investigation into how regions and nations around the world finance capital projects. It is important to keep the focus on what is feasible under the current set-up and on the benefits and disadvantages of each set-up.

Alex Neil: It is not my paper, but I think that that is fair enough.

As I said at the away day, the inquiry will be in two chunks. The first chunk concerns what has been happening to date and where we are at. In that regard, although it is not mentioned specifically, we should not forget the public works loans board model. The second chunk involves consideration of the Government's proposals, when we get them.

Tom McCabe: I agree.

The Convener: The clerks have heard the comments that have been made. Any other comments can be made directly to the clerks.

Do we agree to the amendments to the paper that Alex Neil has suggested?

Members *indicated agreement.*

The Convener: Do we agree to the proposed timetable and the initial remit?

Members *indicated agreement.*

The Convener: Do we agree to the suggestion in the paper to issue a news release and general call for written evidence?

Members *indicated agreement.*

The Convener: Do we agree to write to the Cabinet Secretary for Finance and Sustainable Growth, seeking details of the timetable and scope for development of the proposed Scottish futures trust?

Alex Neil: We should seek clarification on whether the cabinet secretary's proposals will require legislation. We need to be absolutely clear about that.

Tom McCabe: That is a precursor. There is no point in us spending a lot of time examining that model if it cannot be put in place.

The Convener: Do we agree to write to the cabinet secretary, seeking details of the timetable and scope for development of the proposed Scottish futures trust and asking for clarification with regard to legislation?

Members *indicated agreement.*

Alex Neil: I am sorry to be a pain, but in relation to the suggestion that we issue a news release and general call for written evidence, I suggest that—given that submitting evidence will entail a significant amount of work for any organisation—we should write specifically to those authorities that have used public-private partnerships and other relevant models. For example, Falkirk Council got approval from the previous Executive—when Tom McCabe was providing excellent leadership to the department—to create something that we would regard as being close to the futures trust, but at local level. Argyll and Bute Council's Liberal Democrat administration has done something different but relevant. Two health boards—Lanarkshire and Lothian—have done more PPPs than anyone else. It would be sensible to draw the attention of such organisations to our call for evidence and to ask them whether, given their experience, they would like to submit evidence.

The Convener: Are you suggesting that we issue a general call for written evidence, but that we also target specific organisations that could give us practical information about their experience of various models?

Alex Neil: Yes.

Tom McCabe: It would be particularly interesting to hear from Argyll and Bute Council, as it is operating a not-for-profit model.

Alex Neil: So is Falkirk Council.

The Convener: Do we agree to Alex Neil's suggestion?

Members *indicated agreement.*

The Convener: Because the inquiry is so specific, it is suggested that we get an adviser who has specific expertise.

Alex Neil: I agree that we should appoint a specialist adviser. When the Enterprise and Culture Committee undertook its business growth inquiry, so many people in Scotland and the United Kingdom had axes to grind that we looked outside the UK for an adviser and got the former head of economics from the Organisation for Economic Co-operation and Development. Almost every academic whom I know has written about capital investment projects from one point of view or another, and they will all bring to the subject almost as much baggage as we do. As a result, it might be an idea to deliberately seek someone from outside the UK, who might have the added advantage of knowledge of other systems in Europe, North America or wherever.

The Convener: We should seek widely, choose the best, and leave it to the clerks to bear in mind what Alex Neil has said in finding us the best, most unbiased advice possible. Taking that into account, do we want to appoint an adviser for this inquiry?

Members *indicated agreement*.

The Convener: Next, do we agree to ask SPICe and any adviser to prepare a more detailed briefing paper on the different funding models?

Members *indicated agreement*.

The Convener: Finally, we are asked to agree an approach to developing an oral evidence programme, and to delegate to the convener the authority to approve any claims under the witness expenses scheme arising from the inquiry—having such power over expenses might go to my head. Are we agreed?

Members *indicated agreement*.

The Convener: Members have agreed to appoint an adviser, so a specification can be drawn up of the duties to be performed and the skills, knowledge and experience that are required. There are no other substantive items that need to be discussed before the October recess, so there would seem to be no need for the committee to meet next week. To get the adviser process moving, I propose that the committee delegate to me and the deputy convener the agreeing of such a specification. Do members agree?

Members *indicated agreement*.

The Convener: The deputy convener and I will be doing overtime, but we do not mind.

Assuming that we get approval from the Parliamentary Bureau, SPICe will draw up a list of suitable candidates; I hope that that can be done for the committee's meeting on 23 October. The faster we get through the process, the better.

Smith Institute (Seminar)

15:52

The Convener: Item 4 concerns an invitation that I received, as committee convener, to attend a seminar on fair tax that is being run by the Smith Institute in association with the Institute for Fiscal Studies. It would be good for the Finance Committee to be represented, so do members agree that I should attend?

Members *indicated agreement*.

Elaine Murray: I am happy to agree that you should attend, convener, but is there a mechanism for you to report back to the committee?

The Convener: I was about to say that I will, of course, report back to the committee.

Derek Brownlee: My reading of the invitation is that this will be the first of several seminars. Do we have any details of what will follow from it?

The Convener: I had to make trips to London for 19 years and did not relish the experience. I have been invited specifically to the first seminar, but we should keep an eye on the programme and see what it is about. We should go only if the seminar is relevant, and although I would be happy to go if the committee asks me to, it need not necessarily be the convener who goes. However, we should not commit ourselves to a series of such meetings.

Alex Neil: And the issue might arise about whether George Osborne will make number 11 available.

The Convener: Behave yourself.

I thank all committee members. We have had a long meeting, but it has been valuable.

Meeting closed at 15:53.

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