

# **LOCAL GOVERNMENT AND TRANSPORT COMMITTEE**

Tuesday 2 November 2004

Session 2

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## LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

23<sup>rd</sup> Meeting 2004, Session 2

### CONVENER

\*Bristow Muldoon (Livingston) (Lab)

### DEPUTY CONVENER

\*Bruce Crawford (Mid Scotland and Fife) (SNP)

### COMMITTEE MEMBERS

\*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

\*Dr Sylvia Jackson (Stirling) (Lab)

\*Michael McMahon (Hamilton North and Bellshill) (Lab)

\*Paul Martin (Glasgow Springburn) (Lab)

\*David Mundell (South of Scotland) (Con)

\*Tommy Sheridan (Glasgow) (SSP)

Iain Smith (North East Fife) (LD)

### COMMITTEE SUBSTITUTES

Bill Butler (Glasgow Anniesland) (Lab)

Colin Fox (Lothians) (SSP)

Mr Bruce McFee (West of Scotland) (SNP)

Mr Brian Monteith (Mid Scotland and Fife) (Con)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Frances Duffy (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Kenneth Hogg (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Tom Macdonald (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Nicol Stephen (Minister for Transport)

### CLERK TO THE COMMITTEE

Eugene Windsor

### SENIOR ASSISTANT CLERK

Alastair Macfie

### ASSISTANT CLERK

Euan Donald

### LOCATION

Committee Room 4



## Scottish Parliament

### Local Government and Transport Committee

*Tuesday 2 November 2004*

[THE CONVENER *opened the meeting at 14:10*]

#### Item in Private

**The Convener (Bristow Muldoon):** I welcome members of the committee, press and public to today's meeting of the Local Government and Transport Committee. I will formally welcome the Minister for Transport and his team in a couple of minutes, but there are two items of business to deal with first. Iain Smith MSP has sent his apologies for not attending today's meeting.

Item 1 on the agenda is consideration of the proposal that item 6, which is discussion of our approach to the Transport (Scotland) Bill at stage 1, be taken in private. A paper has been circulated that contains suggestions for the committee on the merits of its taking evidence from specific witnesses. I advise that it would be best to conduct that business in private. Are members agreed?

**Members** *indicated agreement.*

**Tommy Sheridan (Glasgow) (SSP):** May I have my dissent recorded?

**The Convener:** Okay. Tommy Sheridan's dissent from that is noted.

## Subordinate Legislation

### Public Service Vehicles (Registration of Local Services) (Scotland) Amendment Regulations 2004 (SSI 2004/415)

14:11

**The Convener:** Item 2 on the agenda is consideration of subordinate legislation. No members have raised any points on the instrument and no motion for annulment has been lodged. Is the committee agreed that we have nothing to report on the item?

**Members** *indicated agreement.*

## Transport (Scotland) Act 2001 Inquiry

14:12

**The Convener:** We move to agenda item 3. I welcome to the committee Nicol Stephen, the Minister for Transport; John Ewing, the head of the transport group in the Scottish Executive; and Tom Macdonald, the head of the bus and taxi policy branch of the Scottish Executive. I realise that the minister has a hefty schedule this afternoon, and we look forward to discussing each of the areas that we will cover with him. I invite the minister to make some introductory remarks about the committee's inquiry into the workings of the Transport (Scotland) Act 2001.

**The Minister for Transport (Nicol Stephen):** It is a great pleasure for me to be here this afternoon, and I look forward to the three sessions that lie ahead. In case they think that he is getting off lightly, I advise committee members that John Ewing, the head of the transport group, intends to stick with me throughout the afternoon. We will be joined by others as the afternoon progresses, but the two of us should remain present, all things being equal.

I will begin with the committee's inquiry into the Transport (Scotland) Act 2001, focusing on quality partnerships, quality contracts and concessionary travel. I will address the rail industry and the budget later on. I have brief opening remarks for each of those subjects, although my comments on the budget will not be quite so brief.

I am pleased to have the opportunity to discuss the implementation of the Transport (Scotland) Act 2001, especially the important issues of quality bus partnerships, quality bus contracts and concessionary travel. I often feel that we do not focus enough on the bus and that it deserves greater attention. From time to time, we take the bus network for granted, although it is the most significant form of public transport in Scotland. A great number of people depend on buses each day and each week for their work, business, community and social activities.

14:15

Despite the trend towards a significant increase in car use, 10 per cent of adult journeys are made by bus and 12 per cent of adults travel to work by bus. Buses are essential to Scotland's economy and to social inclusion. The many letters that I receive about bus services in Scotland reflect the importance to people of local services. For many decades, we witnessed a trend towards not only increased car use but declining passenger

numbers on buses. I think that all members of the committee welcome the fact that we have achieved growth in bus services in recent years—indeed, that is welcome throughout Scotland.

Currently, there is an—albeit slow—upward trend in bus use. In 2002-03, the number of bus passengers was almost 8 per cent higher than it was four years earlier, when the lowest figure was recorded. Credit for the situation must be given to a range of interests; it is not simply the result of Government policy. It is clear that local transport authorities and bus operators have played an important role and that local people have chosen to use the bus because it is a more attractive option. I hope that we are starting to witness a change of culture in Scotland and that people are more willing to take the option that is more environment-friendly, safer and better for the economy and communities, by making use of public transport.

In a largely deregulated market, there is an incentive for bus operators to run services that people will use. The traffic commissioner's role is to ensure that services are provided safely and to the timetables that companies provide. Local transport authorities are responsible for ensuring that the gaps are filled so that socially necessary services are provided. The Executive and, for licensing matters, Westminster set the legislative framework. The Executive also provides substantial resources for bus services, which include some £55 million per year in bus service operator grants direct to bus companies and some £130 million on bus-related projects over the five rounds of the public transport fund. We also provide significant resources in relation to concessionary fares, to which I will return.

The powers to introduce quality partnerships and quality contracts add to the options that are available to transport authorities. Bus services are predominantly local and it is right that local transport authorities should be asked to develop local solutions to local problems with services. The committee heard evidence that there is a great deal of good partnership working between transport authorities and bus operators in many parts of the country. However, little or no use is being made of the statutory powers to set up quality partnerships and quality contracts that we provided. On the one hand, I am pleased by the level of partnership working that is taking place; on the other hand, I would very much like more use to be made of the new powers. When the committee completes its inquiry, I will be interested to receive its assessment and, of course, I will seriously consider any recommendations that the committee makes.

Members know that the current concessionary travel schemes are run by local transport

authorities or groupings of authorities. A large group in the west of Scotland follows the Strathclyde Passenger Transport boundaries. The schemes are delivered under the provisions of the Transport Act 1985. We have not used or needed to use the powers in the 2001 act and I pay tribute to the Convention of Scottish Local Authorities, local transport authorities throughout Scotland and large and small bus operators for their ability to deliver concessionary schemes for elderly and disabled people on that basis. Through those bodies' efforts, the Executive's national minimum standard of free, local, off-peak bus travel for older and disabled people is being delivered across Scotland. Members know that we intend to use the Transport (Scotland) Bill to create new powers to operate a truly national scheme, and the committee might want to discuss that matter today.

We have helped to play our part in the effective delivery of the national minimum standard, not least by making record sums of money available. That has been done through the local government finance settlements, through grant-aided expenditure for the scheme and by guaranteeing to COSLA and the local authorities that the Executive would provide extra resources from the centre where there was evidence of a shortfall in funding for the regional and local schemes.

The current scheme is very popular. The number of passengers who make use of the scheme is increasing all the time and I know how valued it is by card holders. That is why the partnership agreement now commits us to a national, as distinct from a local, free bus scheme for older and disabled people, to cover journeys across Scotland. The partnership agreement also commits us to a national scheme of concessionary travel for young people. For the elderly and the disabled the scheme will be free; for young people, it will be a discounted scheme, initially for those who are still at school or are in full-time education or training.

I know that there is great interest in the details of the schemes. As part of the spending review, we recently announced that we will make £96 million of new money available for the schemes in 2006-07 and £100 million available in 2007-08. That announcement paves the way for us to make solid progress on delivering our commitments. We will produce the details of the schemes and announce our plans shortly.

I hope that those introductory comments, which have touched on quality partnerships, quality contracts and the current concessionary fare scheme, provide a helpful outline. I will be happy to take questions. If members want to ask Tom Macdonald, who is the transport group's expert on

bus issues, John Ewing or me any questions, we will be happy to take them.

**The Convener:** Thank you very much. Those are useful introductory remarks. David Mundell will ask the first question.

**David Mundell (South of Scotland) (Con):** I am pleased to hear that the minister will look carefully at our report.

Research that was commissioned and published by the Scottish Executive claims:

"In no region or city ... delivering better or exemplary practice in transport policy implementation is the local roads-based public transport system deregulated".

Do you share that view?

**Nicol Stephen:** That in no part of Scotland—

**David Mundell:** No. It is claimed that nowhere where roads-based public transport is working effectively is it deregulated. The suggestion is that there has to be regulation to make the public transport system, in particular the bus system, work effectively. Do you share that view?

**The Convener:** To be of assistance, minister, the report to which David Mundell refers is one that the Executive commissioned, entitled "Transferability of Best Practice in Transport Policy Delivery", which was published in 2003.

**Nicol Stephen:** Thanks. That is helpful.

Reregulation is often spoken about. In the sense that the phrase is usually intended, reregulation is not something that I support. Clearly, there are currently levels of regulation; there is a traffic commissioner and there are rules for operating bus services in Scotland. However, the situation is generally described as being a non-regulated market—an open market. Provided that a company has safe vehicles, properly trained staff and the right business or corporate structure and that it completes the right consents and the appropriate administrative procedures with the traffic commissioner, it is entitled to run bus services in Scotland in the deregulated market.

There are opportunities within the Transport (Scotland) Act 2001 to increase the level of regulation, as the committee's inquiry has obviously investigated. Those opportunities exist through statutory quality partnerships and statutory quality contracts. The quality contract is similar to a franchising arrangement and it represents a significantly greater level of regulation than exists in the current system. Some people would not describe even that as full reregulation and would regard it as such only if the Scottish Executive were to specify the routes, network and fares or if bus companies were to be renationalised. I do not favour those options and there is no suggestion that that will happen in

Scotland, but there could be a franchising arrangement in the form of a quality contract.

We have had serious discussions about such arrangements with SPT, but it decided not to proceed with the idea. West Lothian Council is still seriously considering the introduction of quality contracts, which I believe are synonymous with a franchising arrangement. That would be a way to introduce greater regulation, which the Executive would support in the right circumstances.

**David Mundell:** But you do not envisage any circumstances in which the Executive would consider the reregulation to which you refer?

**Nicol Stephen:** What might be described as full reregulation is not covered by the Transport (Scotland) Act 2001. We do not currently have powers to introduce reregulation in Scotland and the Executive would not seek those powers through new legislation; it is not on the agenda. We can introduce significant improvements to bus services in Scotland without going back to the previous system, which dates back to the 1980s, of a fully regulated service that was often provided by in-house, local authority-owned businesses.

**David Mundell:** Let us move on to the general concept of the quality partnership and quality contract. One of the reasons for our inquiry was that no such partnerships or contracts have emerged. Have you been approached by any local authority with a view to developing such a partnership?

**Nicol Stephen:** Yes, we have. I mentioned SPT and West Lothian Council. I am sure that Tom Macdonald will be pleased to give you more details. There has been a level of interest from local authorities and SPT, but as yet, none has decided to proceed with the arrangements. A quality contract is a major undertaking for a local authority because it would have the power to specify the route network, the frequency of services and the fares, and any such proposal would require Scottish ministers' approval because it would be a major intervention in the market.

Any local authority or organisation such as SPT would have to consider major issues before proceeding down that route. Once the desired network, services and fares had been specified, the local authority or organisation would be duty bound to put those services out to tender. The lowest tender or the best-value-for-money tender would be selected. That would mean that other companies would not be able to operate services in that defined area, which could have significant consequences for some of the smaller bus operators.

I do not know whether this is true because we have not been able to test the system for want of

real-world examples, but it has often been said to me that, although the bus industry has generally spoken out against quality contracts, such contracts might be seen to favour the bigger bus companies because they would have the power and resources to bid for the service contracts. Once they had won a contract, the smaller operators would, in effect, be excluded, even from routes that they currently run.

The act is a powerful piece of legislation. It allows local authorities to be highly prescriptive about the bus services in their area, and it allows other operators to be excluded from providing such services once they have been tendered. Any authority would need to think seriously about the consequences of doing that. However, where market failure means that there are real problems with the effectiveness of the bus services in an area, Scottish Executive ministers have made clear their belief that quality contracts are an option that is worth considering and promoting.

14:30

**David Mundell:** It might be useful if Mr Macdonald could set out for us the contacts that the Executive has received. Why did those not firm up to become quality partnerships or quality contracts?

**Tom Macdonald (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** As the minister said, quality contracts come to Scottish ministers for approval, so we know whether people are making significant progress on them. In the past six months or so, we have had two discussions with West Lothian Council on quality contracts. If that council wants to take forward a quality contract, it will have to do more work by undertaking an options analysis. However, I know that West Lothian Council is thinking about a statutory quality partnership, which could be more agreeable to local bus operators than a quality contract. The ball is in West Lothian Council's court on that issue.

Strathclyde Passenger Transport has talked to us about possible quality contracts and quality partnerships. However, I see from SPT's written evidence to the committee that it is not pursuing quality contracts at the moment. I think that SPT has decided that the legislation is not working, so it will not take forward any quality contracts, but that is a matter for SPT. However, SPT has not tested the legislation to the extent of proposing a quality contract to the Executive.

I am aware of only one other discussion on quality contracts, which took place with Midlothian Council about two years ago. Again, for its own reasons, Midlothian Council decided not to take things any further.



On quality partnerships, I know that the committee has seen the booklet that was produced by the Association of Transport Co-ordinating Officers (Scotland), which shows that a good deal of activity is taking place on the non-statutory side. We would not necessarily hear about such activity because quality partnerships do not need ministerial approval.

**David Mundell:** Does the Executive not monitor quality partnerships?

**Tom Macdonald:** We take a close interest in them. In part, the booklet was produced because we suggested that it would be a good idea to bring together information on what is happening. We know what is in the booklet and we have discussions with the various interests from time to time.

**The Convener:** I want to pursue that issue a little bit further before I bring in other members who have questions on related issues.

When the original Transport (Scotland) Bill was introduced, Scottish ministers must have believed that evidence suggested that there was at least a possibility of market failure, otherwise they would not have introduced provision for quality contracts, which are a powerful tool. Given the evidence from the many communities that have expressed strong concerns about public transport provision in their area, does the minister accept that some areas are experiencing market failure? If so, would it not be a useful exercise to work with at least one local authority that has investigated the issue to try out the Executive's quality contract model? That would allow us to see whether quality contracts make a significant difference to bus patronage in an area, which we could compare with the situation in other areas in which services continue to operate in a completely deregulated framework.

**Nicol Stephen:** I certainly agree that there are problems with bus services in certain parts of Scotland. Some areas have seen cutbacks in evening and weekend services and, over the past few years, rural areas have experienced particular difficulties. Therefore, I have no doubt that there are parts of Scotland in which quality contracts could be seriously considered. If there was a pilot proposal, the Executive would support it.

Ministers are prepared to approve a quality contract scheme—we promoted the legislation and we want it to be used appropriately. We are keen to make progress, but that depends on a local authority or SPT producing a definite proposal. It would be wrong of us to intervene from the centre to force a solution on a local authority area or any part of Scotland because, rightly, local bus services are controlled and operated locally and regionally.

Another interesting dimension is the proposed establishment in the Transport (Scotland) Bill of

regional transport partnerships. We want more co-operation and partnership between local authorities at the regional level in working together to make strategic decisions about transport in their areas. It is possible that the regional transport partnerships will consider quality contracts as part of their new regional transport strategies and will encourage the formation of those contracts. I reassure people, particularly people in rural areas and areas that are more sparsely populated, that the regional transport partnerships are not simply about major infrastructure projects in congested areas. A regional partnership might give high priority to an improved bus network. Highlands and Islands strategic transport partnership gives high priority to an improved air network in the Highlands and Islands, but equally, it has the opportunity to consider an improved bus network. Given the figures that I mentioned earlier about the number of people who make use of different forms of public transport, many people obviously stand to benefit from an improved bus network in areas in which the existing network has problems.

**The Convener:** The minister will probably be aware that the committee recently took evidence from London Buses and Transport for London. It seems to me that the model of organisation of bus services in London is similar to the franchise and quality control provisions in the Transport (Scotland) Act 2001.

**Nicol Stephen:** That is right.

**The Convener:** Might local authorities that are exploring the introduction of quality contracts take advantage of the expertise of London Buses in delivering quality contracts and operating the franchise? That might aid local authorities to design a system that not only improves the range of bus services but addresses the concern that you raised that small operators could be pushed out of the market.

**Nicol Stephen:** I absolutely agree. We want to consider examples of best practice from other parts of the United Kingdom. Clearly, Scotland can learn from many aspects of London's transport delivery. We have examined the Welsh concessionary fares scheme—it has been influential in our thinking about and development of the proposals for the national concessionary fares scheme, which we hope to announce shortly. We are anxious to learn from other parts of the UK and from good examples elsewhere in Europe and the world. We must be prepared to be innovative and to introduce change.

One important issue that we should not duck is that of cost. If we are thinking of going down the quality contract route—which is the equivalent of the franchising route—we must also consider the cost of running services in London. I have no doubt that one reason why a number of local

authorities have shied away from introducing such a scheme is that when they have started to consider the contractual side, they have realised that the cost associated with wanting to specify routes, determine timetables and set fares will be high, and probably higher than the current cost of running services.

Instinctively, many councillors want to step in whenever there is a cut in bus service provision in their area. Tendering powers exist, but local authorities have used even those powers sparingly. That is because, each time that the powers are used, an additional cost results for the local council tax payer. In considering the London system and the impact on small operators, we need to consider also the cost consequences. If the process is handled carefully, I have no doubt that there are opportunities to move forward on quality contracts in a cost-effective way that allows profits from one route to support routes that are not strictly commercial. Bundling the services in a quality contract could lead to cost-effective solutions. I would like to see successful pilot projects, as they would have the best chance of setting a precedent to influence other parts of Scotland. As we move forward, we need to look carefully at other examples.

**Michael McMahon (Hamilton North and Bellshill) (Lab):** You spoke about good partnership working in respect of quality contracts and quality partnerships. Obviously, good working practices are essential. We heard evidence from operators such as Stagecoach about good partnership working. The operators said that they do not want to see over-bureaucracy in the development of formal partnerships and contracts; they just want to get on with the job. The local authorities told us that they had good partnership working with the operators. However, what was missing from all the talk that we heard about good partnerships was any mention of the third essential partner—

**Nicol Stephen:** The passengers.

**Michael McMahon:** Yes. Some people said that it was all well and good to have a concessionary bus pass, but what happens if they do not have a bus on which to use it? Surely that is where quality contracts and quality partnerships come in, as they can deliver in areas in which the market will not sustain certain routes. If there is a cost involved in that, is the Executive prepared to assist, or are you prepared to allow the costs—in terms of social inclusion—to continue to escalate?

**Nicol Stephen:** We are significantly increasing our investment in the bus sector, primarily through the concessionary fares scheme. The new national concessionary fares scheme will be a significant improvement on the national minimum standard for concessionary travel in local scheme areas.

As I mentioned earlier, the associated costs are around £100 million a year, although that figure also includes funding for concessionary fares for young people. We are investing a lot more in the bus sector and we believe that that will benefit bus users who are disabled, elderly or young and strengthen the bus network across Scotland.

The question is: can we do more, and how much more can we invest? The signal that I want to give today is that the Executive is prepared to look at pilot projects. We have to be realistic in our ambitions. If we were to go down the franchising route—the quality contract route—a huge amount more could be spent on the bus network in Scotland. In the long term, however, that would not be sustainable. We have to look at increasing our commitment to bus travel and investment in public transport in a way that is deliverable and achievable.

As the committee knows, we will talk about our expanding transport budget later this afternoon. It would be misleading to suggest that all the extra investment can be focused on quality contracts. Although we could easily specify a higher level of bus provision and tender for new routes, more frequent services and lower fares, it would be expensive to do so. Reasonable and appropriate pilot projects will enable us to learn about the sort of project that we could sensibly introduce across parts of Scotland over the next decade or so.

14:45

**Michael McMahon:** The inherent danger is that if it is up to bus operators to maintain good partnerships with local authorities, socially excluded communities on what were described as needy routes will always be left to wither on the vine. What can we do? If the cost of implementing quality contracts and the bureaucracy involved in operating not only quality contracts but partnerships discourages the operators from operating on less profitable routes, surely there is a role for the Scottish Executive to fill the gap. Can you signal a commitment to examine filling that gap?

The concern has been expressed to us in evidence that the big operators will continue to cherry pick. They believe that they are best at running the profitable and commercially viable routes and that the slack has to be picked up elsewhere. We even had the example of Lothian Buses, which contributes money to four local authorities, describing itself as being forced to provide services on needy routes when it came close to an election. Surely we cannot have a situation in which an operator operating on behalf of local authorities that set up contracts with the private sector allows local communities to be left isolated and without the services that people need

to get to their jobs. As it stands, the system allows people to be left in that situation. Is the Scottish Executive going to commit to addressing that issue in the budget?

**Nicol Stephen:** I have two points. First, we are determined to see better bus services in Scotland. If there is market failure or evidence of bus operators behaving in the way that you describe, we are prepared to take action. On quality partnerships and quality contracts, the powers under the 2001 act are important. We do not have examples of the implementation of contracts, but they have had an influence already in encouraging operators to make informal partnership arrangements with local authorities. If we encounter further examples of the situations that you describe, we will be willing to support local authorities that wish to respond with quality contracts. There is no doubt about that.

The bus industry and private sector operators face the challenge of responding to the growing demand throughout Scotland for better public transport and more and improved services. It is fortunate that some routes into the most deprived parts of urban Scotland are well served by the bus given the low number of car owners in some of those areas. We have to remember how crucial the bus can be, not only in our cities but in some rural areas. It is often said how important the car is in rural areas, but a large number of people in rural areas do not have access to a private motor car and depend on the bus. We have to be prepared to take action.

Secondly, we have our bus route development fund, which will be new investment. We want to kick-start new services and see improvements in the frequency of existing services. We want to encourage a quicker market response to changing local circumstances. Bus networks can often be slow to change, despite different travel-to-work patterns, new industrial estates and new housing developments. We want to encourage faster change. I will ask Tom Macdonald to detail the funding for the bus route development fund, but we have asked local authorities to come forward with proposals and soon we will be in a position to announce the first tranche of new bus route improvements. That is the second aspect where there will be new investment. Tom will give more of the detail.

**Tom Macdonald:** The bus route development scheme is a new scheme that was introduced by circular earlier this year. As the minister says, the scheme is about kick-starting new routes or routes that are not necessarily doing very well. We will spend some money on the routes over a three-year period, following which it is intended that those routes will become self-financing or that local authorities will accept them as tender

services if they wish. We have £22.5 million or thereabouts to spend over the next three years and the successful schemes will run for three years.

We invited all transport authorities to submit bids and received bids from all but two, and we are very close to announcing which schemes will go ahead. It is a new initiative, with new money that is in addition to the funding that the Executive already plays a part in providing through the bus service operator grant and money spent through the local government settlement grant and supported services.

**Tommy Sheridan:** I hope, minister, that you have the opportunity to read at least some of the evidence that we have received in relation to our inquiry. In both Stranraer and Glasgow, we received powerful evidence that bus services are not meeting anything like the expectations or demand that exist. The example that Michael McMahon gave of the failure of the market-led strategy to meet need was repeated several times in Strathclyde Passenger Transport's evidence in relation to a number of routes that have been either withdrawn or changed once they became profitable, with weekend or night services being removed. Services are being cherry picked, leaving many people without a service. You seem to be telling us that you do not support a reregulation of the bus industry, nor do you support the local authority municipal bus ownership model of Lothian Buses. Does that accurately reflect your opinion?

**Nicol Stephen:** Lothian Buses is a very good operator. However, over the past 10 to 15 years, most local authorities have decided to move away from that model. I would not force any local authority to return to that model and seek to take over bus services in their areas.

I very much support Lothian Buses. Looking out the window towards Our Dynamic Earth, I am reminded that I was recently involved in a launch of new vehicles by Lothian Buses, with which I have a very good relationship. I hope that Lothian Buses continues to invest in new vehicles and to maintain its high-quality network in Edinburgh.

As was mentioned earlier, criticisms still arise over the frequency of Lothian Buses' services or over the availability of its services in the evenings and at the weekend. It is a question of judgment how much public money should go into supporting such services. The possible routes lie in tendering, quality partnerships, quality contracts or our new initiative, the bus route development fund. If we want significant increases in the frequency of services, expansions in route networks or significant reductions in fares to help to stimulate demand, we must be conscious that that will have significant consequences for public investment.

We are investing around £100 million a year more in concessionary fares and more than £20 million in the bus route development fund over three years. If we are going to go down the quality contract route, we have to be aware of the consequences and costs. The best way to achieve quality contracts is to learn lessons from the franchising experience in London and to have a small number of pilot schemes in Scotland. I would like to encourage that over the next few years. It would be wrong to raise expectations if people do not have the ability to deliver because of a lack of Government resources. We have to respond to demands sensibly, through knowing what the costs will be.

**Tommy Sheridan:** You talked about being willing to learn from the example of London, and you have mentioned good examples elsewhere in the United Kingdom, Europe and the rest of the world. We have heard evidence to the effect that Lothian Buses is one of the good examples, with the lowest fares, the largest number of routes, the most buses, the best employee conditions and an ability regularly to generate in excess of £1 million per year to be reinvested in the service. However, you are not prepared to recommend that model as one for the rest of Scotland. Why would you not recommend that good, Scottish example in tackling the problems that exist in other parts of Scotland?

**Nicol Stephen:** I am not denying that Lothian Buses is a good example of an effective, profitable bus company that is still publicly owned. However, I would have an equally strong opinion about some council or publicly owned bus companies that 20 years ago were not delivering a good-quality service, whose working conditions were not outstanding and whose profitability was non-existent. Those companies were a significant drain on council tax payers, or rate payers as they were at the time. The industry was in decline, passenger numbers were contracting and the quality of service was often lacking. I do not think that passengers benefited from that sort of approach. It is not as simple as turning back the clock, and I would be surprised if many local authorities wanted to do that and form new bus operating companies. Edinburgh is different because the scale of the network and the number of passengers create a critical mass and allow the company to deliver a quality service. I am not convinced that in other parts of Scotland local authorities would have the desire or the ability to create local companies like Lothian Buses.

**Tommy Sheridan:** But you would not be against the idea if it was recommended.

**Nicol Stephen:** The SPT approach is quite regulated. It has traditionally had stronger regional public transport powers than operators in other

parts of Scotland and I have made it clear that I want that model to continue through the new regional transport partnership.

**Tommy Sheridan:** SPT gave evidence that it wanted the bus industry to be reregulated.

**Nicol Stephen:** SPT has powers to reregulate significantly the bus market through quality contracts and the franchising approach. I would be interested to know what new statutory powers SPT thinks are necessary; no doubt, that will be part of the committee's recommendations. However, in introducing greater regulation, local authorities and organisations such as SPT have to address how to fund improvements. It would be wrong to suggest that in every part of the country there is the volume of passengers necessary to deliver improvements in a cost-neutral way. In many parts of the country, delivering improvements will require a significant injection of extra resources. In SPT's case, that would be a call on the member local authorities.

**Tommy Sheridan:** In your evidence, you said that you do not have the power to reregulate bus services. Will you clarify that, because I believe that you have that power?

**Nicol Stephen:** Tom Macdonald will address the question of our legislative power to introduce new regulation, whether under the 2001 act or more widely. He might also touch on the establishment of new local authority bus companies, because he has just passed me a note about that. It would be useful if he explained the situation.

15:00

**Tom Macdonald:** The Executive does not have the power under the 2001 act to reregulate the bus industry in two senses. First, a proposal must stem from a local transport authority. Secondly, quality contracts are about market failure and the introduction of quality contracts in the whole of Scotland would require us to show market failure throughout the country. We need to improve bus services significantly to make the game happen under current legislation. As for the member's second point, on which I passed the minister a note, I suspect that there is no legislation that would allow a local authority to establish its own bus operating company, but I need to check that.

**Nicol Stephen:** After further investigation, we will write to the committee about that.

**Tommy Sheridan:** I would appreciate that clarification.

**Bruce Crawford (Mid Scotland and Fife) (SNP):** We have heard nice warm words about the process, but there are hard numbers and bottom lines that I would like to reach. We all accept that a

cost may be attached to franchising or quality contracts—that is the reality. However, as part of the bus network agenda, all committee members are keen for there to be considerable modal shift and for greater social inclusion, as Michael McMahon said.

We heard evidence from London Buses that its running costs are about £1.3 billion. London covers a fair chunk of that—about £800 million—but it also receives about £500 million in Government grant. I know that London and Scotland are not directly comparable, but we can compare the scale of resource there and here. Only about a tenth of what London receives—£54 million, according to the budget for 2002-03—has been available in Scotland. Even in 2007-08, the figure will be only £276 million, which is just over half what London receives. The bottom line is the lever of resources to make things happen.

I emphasise that I realise that a strict comparison cannot be made, but London receives considerable extra resources through a Government grant to make its bus service work, to provide modal shift and to meet the social inclusion agenda that the mayor of London thinks is appropriate. Do you recognise that and might additional resources be required to attain some of the achievements that the Executive wants?

Big chunks of Scotland are experiencing market failure. I do not know about the areas in which other members live, but Sylvia Jackson and I have been lobbied by people about a rural service between the Gartmore area of Stirlingshire and Edinburgh that has collapsed. I could talk about more failures: bus companies are withdrawing small local services, and to me that feels like market failure.

**Nicol Stephen:** You describe what we have said as “warm words”, but the increase to which you referred—from £54 million to £276 million—is significant.

**The Convener:** I clarify that the figure is £176 million.

**Bruce Crawford:** I apologise.

**The Convener:** That is the total of the sums for bus services and concessionary fares.

**Bruce Crawford:** Of that, £113 million is for concessionary fares.

**Nicol Stephen:** However we add the figures together, the transport budget will experience significant increases and the bus sector will receive a significant proportion of those increases.

We are investing a great deal more in buses and concessionary fares and we expect significant improvements in bus services as a result. If any individual, MSP or political party wants to go

beyond that reallocation of resources, they are fully entitled to disagree with those proposals and to come forward with their own budget and their own priorities. However, that would have a direct impact on other priorities, both in transport and more widely in other areas of Scottish Executive expenditure such as health, education and housing. Alternatively, one would be faced with having to raise additional taxation to fund those improvements. As with all aspects of politics, this is an issue of judgment and balance. We are making significant improvements to public transport in Scotland. We are investing in new rail schemes and new tram schemes and in significant bus improvements. The bus route development fund is a new initiative and the expansion of the concessionary fares scheme means that we will have a national scheme for the first time.

I want to be ambitious for the future and to ensure that we deliver significant improvements to public transport in Scotland, but we have to be realistic about what can be achieved. That is why the sensible approach is to pilot quality contracts. As Tom Macdonald said, one of the legal criteria that quality contracts must meet is that of demonstrating market failure. In some parts of Scotland we could demonstrate market failure and introduce appropriate quality contracts; however, we need to do that with our eyes wide open, and we need to know all of the consequences, including the potential impact on smaller operators. I am not arguing against members' suggestions; I am just trying to deliver what is sensible and achievable, while being aware of the costs and the full consequences of any policy decisions that we may make.

**John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department):**

The other point, again going back to what Tom Macdonald has said, is that we are very dependent on the local transport authority assessing whether the degree of market failure and the lack of services require it to intervene. At that point, as the minister has said, the Scottish Executive can work in partnership with the local transport authority. However, the local transport authority is critical, as it is the body on the ground that has regard to local needs and is able to make that assessment.

**Paul Martin (Glasgow Springburn) (Lab):**

Should we not expect the bus industry sometimes to pick up the tab for market failure? We seem to be saying to the bus industry, “We are quite happy for you to cherry pick the routes and get involved in the profitable ones.” However, in the same way as we deal with other industries, should we not at the same time expect the bus industry to pick up those routes that may not make the same profit? We seem to be saying to the bus industry, “Look at the most profitable routes,” but we do not

expect them to take the bad with the good when things get difficult. Is that fair? We are talking not about charities but about private limited companies that make significant profits. Should they not be recycling those profits, putting them back into the unprofitable routes and delivering a service at the same time?

**Nicol Stephen:** I have a lot of sympathy with that view. In Scotland's cities, there are often good routes into the city centre, but poor orbital, connecting routes. I have often encouraged bus companies to deliver connecting routes as an improvement to the bus network in their area. There are competition rules about cross-subsidy and about the circumstances in which bus companies can do what Paul Martin suggests. I do not know whether Tom Macdonald can provide us with any more detail on that, but it is an issue that should be on the agenda when we are discussing our investment in the bus route development fund. When we are trying to encourage improvements to the route network in Scotland, we should be describing the sort of improvements that we want. It would be inappropriate for me to get involved in too much of the detailed planning, but part of my responsibility—within the terms of the competition legislation and the European Union rules that apply to this area—is to make the points that Paul Martin is making and to encourage a positive response from bus operators.

**Tom Macdonald:** I do not think that there is any problem with a bus operator running a network in which there is some cross-subsidy among routes. The problem would arise if its actions were regarded as anti-competitive behaviour—that is, if it sought to keep somebody else out of the market. Companies already run a network that makes different contributions depending on the routes and the times of day.

**Paul Martin:** But we are actually keeping the customer out of the network. We are saying that we are quite happy for the companies to run profitable routes, but where they do not want to run routes the customer is left out of the network. Can the minister give a commitment that he will interrogate the current legislation and perhaps make representations about the competition issue? The competition rules seem to suit certain operators, but they do not suit the passenger. The passenger can be left out as a result of the operator saying, "I'm afraid this is an anti-competitive situation, so we don't want to get involved in this route," although the route in question might serve a hospital, for example.

**Nicol Stephen:** I undertake to do that. I strongly agree that bus operators should provide a service rather than a network. Over the past couple of decades, all other industries have had to learn the lesson that customers—such as passengers—

want improvement to services. An operator that operates a fixed network because it has always been there and which tries to improve profitability by chopping off bits of that network is taking a short-sighted approach. Bus operators must be prepared to reconfigure the network to reflect people's different demands for work and leisure. As Tom Macdonald said, they must be prepared to put in place a full network that offers a service to passengers without always looking at the bottom line for a specific individual route.

**Dr Sylvia Jackson (Stirling) (Lab):** I quite like what Tom Macdonald said about the network, as at least that allows one to get an idea of the coverage in an area. It is clear, from the evidence that we have received, that there is inadequate coverage in certain areas. You said that you want to see that better. How will you ensure that the situation is better monitored in future? You mentioned the regional transport partnerships. Might they have a role in that? How can we make the position better than it is at the moment?

**Nicol Stephen:** I very much agree that good-quality information and early feedback about what is happening with bus services are very important. The main responsibility for those rests with local authorities and it will be for them to decide whether, in establishing the new regional transport partnerships, they want to pass across some of their powers and responsibilities to the regional level. That could be effective. For example, SPT works well in the west of Scotland. Some pooling of those powers and responsibilities might be a good solution for the future, although perhaps the City of Edinburgh Council would be loth to do that. I realise that several local authorities are involved in services that run into or near to Edinburgh, and there would perhaps be reluctance to do that there.

Nevertheless, I would welcome local authorities working together through regional partnerships on the issue. It would certainly make for a quicker and more direct route of communication with the Executive if we got good-quality, early information about developments in the bus industry from the five proposed new regional transport partnerships. That would be better than our having to depend on getting the information—sometimes of variable quality and communicated at various speeds—from the 32 local authorities.

15:15

**Dr Jackson:** I will deal with disabilities. We have heard quite a lot of evidence from witnesses that the information coming from bus companies on low-floor buses and so on is not helpful. Do you have ideas about how we can get better information out to people? The lack of information seems to be preventing some people from using buses.

**Nicol Stephen:** I am anxious to see improvements in the quality of bus vehicles throughout Scotland. There are requirements on bus operators relating to the introduction of new vehicles. By certain target dates vehicles must be disabled accessible. I do not know whether Tom Macdonald has the detail of some of those targets in front of him. One of the main initiatives in which local authorities, the existing voluntary regional partnerships and bus operators have been involved is about trying to fund the introduction of new low-floor vehicles for both the ordinary local bus services and the new demand-responsive transport services such as dial-a-bus and dial-a-ride, which we are keen to introduce. We are making progress. The nature and quality of buses on our roads have improved significantly over the past 10 to 15 years.

**Tom Macdonald:** I understand the point about disability. Some bus companies are further ahead than others. The bus company that serves most of the market in Dundee has close to 100 per cent accessibility. The rules on accessibility, which are reserved to Westminster, are that all single-deck buses weighing 7.5 tonnes or less must be fully accessible by 1 January 2015; all single-deck buses weighing more than 7.5 tonnes must be fully accessible by 1 January 2016; all double-deck buses must be fully accessible by 1 January 2017; and all single and double-deck coaches must be fully accessible by 1 January 2020. The effect of the first tier is that if someone wishes to buy a new bus these days, they will buy a low-floor bus. Before long, if someone wishes to buy a new coach, they will have to buy one that is accessible. The process is slow, but we are getting there over time.

**Dr Jackson:** There is no doubt that that is happening. We heard good stories about fleets being completely modernised, but the point is how in the intervening time we get more information to people with disabilities about which buses are available on which routes. I accept that part of the issue is Westminster's responsibility, but how might the Executive try to work with the ministers at Westminster to get that information out to people so that they are more aware of what is happening?

**Nicol Stephen:** Providing information is certainly the responsibility of the Scottish Executive, local authorities and the bus operators—in fact it is primarily the responsibility of the bus operators. Providing good-quality information will improve the demand for the services. There is nothing more frustrating than a particular route having low-floor buses operate on it most of the time; most of the time is not good enough in ensuring reliability and security for disabled people who make the sometimes difficult journey from their front door to the bus stop and

need to be certain that the bus will be a low-floor bus. We need to impress upon operators the importance of ensuring that a full service is provided that is disabled accessible and that information on it is made widely available.

We are trying to improve our traveline and transport direct public transport information services. We are getting good support from the bus operators in relation to those services, but there is no doubt that ensuring that information is accessible by telephone and on the internet and that it is better quality is a challenge for us over the next few years. It is incredible that public transport information is so much in its infancy. This is an area in which the passenger has again been let down. Traditionally, it has been very difficult for people to understand bus networks and to get easy information about the frequency of services. It has been virtually impossible to get information in a simple, straightforward way about whether those services are disabled accessible. We need to change that. We need to change the attitude towards the passenger and to ensure that all passengers are able to get good-quality information.

**John Ewing:** As members know, ministers have set up the Mobility and Access Committee for Scotland to give advice. I believe that MACS has given evidence to the committee. MACS is interested in developing guidance for bus operators and working with traveline Scotland and transport direct to improve the quality of information.

**Dr Jackson:** That is fine.

**Nicol Stephen:** Training of bus company staff is also very important in this regard.

**Dr Jackson:** Absolutely.

The other question that I would like to ask is about bus-related projects. Local authorities and operators are concerned about long-term funding streams for bus service development. Can you comment on that issue? A general point has been made about short-term funding. Do you have any further ideas on that?

**Nicol Stephen:** We are providing funding for new park-and-ride initiatives, bus priority measures and bus lane-type initiatives. Many of those are capital projects. Once a greenway system is delivered, it is important to ensure that the route remains green. That requires investment over time. The signing of the route must remain fresh and the route must remain high profile. There is no doubt that if we want to foster a public transport culture and to encourage more passengers to use the bus, creating a high-quality presence along a route, with good-quality bus shelters and passenger information, is very important. The same is true of park-and-ride

facilities. If people park their car, they expect a certain quality and standard of facility at the park-and-ride location. All of that requires on-going investment.

The Scottish Executive has contributed a substantial amount to a significant number of projects. I would like more of them to happen more quickly. They often run into planning difficulties and difficulties across local authority borders. I hope that the regional transport partnerships will be able to take a higher profile on these issues, to drive them forward and to inject new momentum into bus priority measures. That will be important in the future.

Sometimes we can provide only limited funding and on-going subsidy. Tom Macdonald mentioned the bus route development fund of £22.5 million. We intend that projects should achieve viability over three years. If the Scottish Executive were to provide on-going subsidy for services, without going through the normal tendering or quality contract procedures, we could be in difficulty with EU legislation on state aid. We want to kick-start services and to inject funding into them over a limited period. Longer-term funding raises the quality contract and tendering issues that we discussed earlier.

**Tom Macdonald:** I know that people have told the committee that quality contracts would be for seven years, a period that extends well beyond the annual budget cycle and the spending review period. However, there are precedents for funding over that length of time. A seven-year funding cycle would not be the key issue when we came to decide on a quality contract.

**John Ewing:** We are about to discuss rail, where we have let and franchised contracts that will run for seven years, with a possible extension to 10. If that makes sense to deal with market failure or if public intervention is needed, it can be handled within the annual budget cycle.

**Dr Jackson:** You raise the issues of viability and subsidy and say that long-term funding would not be needed. The witness that we had from Transport for London emphasised the point that the quality assurance, evaluation and continuous monitoring that will be needed will be important aspects of future development. Do you think that that is correct?

**Nicol Stephen:** If we are planning to invest more public money in the bus industry—which we are—we need to encourage and see the same sort of improvements in the bus industry as with the rail franchise, under which we expect improvements in quality and standards, not simply in reliability and keeping to the timetable, but also on softer issues, such as cleanliness and the availability of toilets and catering facilities on trains.

You are right that we do not have a heavy-handed inspection regime for the bus industry. It is not an area for which the Scottish Executive currently employs staff, because we have a devolved approach and try to encourage local authorities and the SPT in the west of Scotland to take the lead on such issues. I do not envisage our taking on or centralising those responsibilities, but we will create an environment and a structure that enable us to deliver such quality improvements and ensure that bus operators take the issues ever more seriously.

That is the sort of system that I want to encourage. Some of it will be about training and some will be about Government-supported investment in new vehicles, park-and-ride facilities and bus priority measures, but the significant amount of the responsibility must rest with the local authorities and the bus operators. It makes good business sense to deliver higher quality to respond to ever higher passenger expectations. That is how we will get a modal shift and encourage people to get out of their cars and make greater use of public transport, such as our buses.

**Dr Jackson:** You have answered the final question that I was going to ask, which was about standards.

**The Convener:** I encourage members to be as concise as possible, because we still have to take evidence from the minister on two other subjects and I want to protect our time to some degree.

**Paul Martin:** What are your views, minister, on how effective the Bus User Complaints Tribunal has been since its birth following the 2001 act?

**Nicol Stephen:** It is another new initiative, so it is another example of an improvement in the bus industry. I know a number of people who have taken their complaints to the tribunal, and some of them have felt satisfied by the outcome but some of them have been frustrated that the tribunal does not have more significant powers. The tribunal has made a strong case to me that its powers should extend to coach services—that is, longer-distance services—as well as local bus services, so I am certain that there are ways in which its working could be improved.

**Paul Martin:** Public awareness of the tribunal could also be improved.

**Nicol Stephen:** Indeed. That is another issue on which the tribunal wants to mount a greater awareness campaign, but it is a new tribunal and it had to walk before it could run—it had to develop its ability to handle a larger volume of cases—and I am sure that there will be expansion and improvement over time. The tribunal is a worthwhile initiative and all the proposals that I would like to make for it would be to improve it



rather than cut back its powers or limit its development.

**Bruce Crawford:** I am glad that you told us that you are considering the Welsh model for concessionary fares, because we were told that it was a good model. We will see what comes from that consideration, but we heard from many of the bus operators to whom we talked that they did not get full reimbursement of costs.

What is your view on those comments, which came from almost all the bus operators, and what is your rationale for not providing full reimbursement, particularly in light of the future additional money for concessionary fares? I acknowledge that that money is going in, although if we do not include concessionary fares, there will be a real-terms decrease in the amount going to bus services. That makes the additional money going into concessionary fares even more important.

Given that increased capacity will be produced as a result of the concessionary fares scheme, how might you lever out of the bus companies additional benefits to the overall bus network, increased capacity and improved networks? If that money is going in and is increasing capacity and so on, there is value in it for the companies.

A small point was referred to with regard to ferries. There is not much point in having a concessionary fare on a bus if the scheme does not follow through when a passenger gets on a ferry at the other end of the journey. Would you like to reflect on that issue?

15:30

**Nicol Stephen:** I will address the last issue first. I am currently considering that matter and I intend to reflect that consideration in the announcement that we will make in due course on concessionary fares. It is clear that if someone lives on an island, the national scheme is not much of a national scheme if the only services that they can access are the current services on the island. We must consider a fair approach to that.

On your earlier question about the Welsh model and the nature of the scheme, I could give you answers based on the existing scheme, but it does not provide the level of provision that ministers now want to deliver. We want to go beyond that scheme and we will soon announce a new one. We are in good shape to deliver on that within the timescale that is set out within the partnership agreement.

The current scheme has worked effectively, despite some concerns about how we would be able to deliver it and fund it. You mentioned the concerns of the operators and local authorities

also had concerns. We have made the system work across the 16 different local and regional schemes that exist in Scotland. Agreements have been struck locally; the Scottish Executive was not party to the tough negotiations. If some bus operators think that they are not making the returns that they should have achieved on the scheme, it is hardly for me to suggest that the local authorities should have been more generous in their negotiations. The deals have been struck and, on balance, I think that fair deals have been struck across Scotland.

Obviously, as SPT covers a larger area, it has a bigger scheme. The scheme is one of the benefits of living in the west of Scotland and it is one of the issues that people who do not live in the west of Scotland write to me to complain about. That scheme has tended to be more expensive, so there have been additional costs in the system there. Some other parts of Scotland have had additional costs. When they have been able to give evidence of those costs, we have funded them to the tune of around £10 million or so—in fact, Tom Macdonald advises me that it is about £20 million. We have been willing to fund substantial additional costs to keep our part of the scheme.

All of that will now move forward to the new scheme, which I think will be significantly better. The new scheme will be supported by the bus operators. We have been in negotiations with the Confederation of Passenger Transport UK and the major bus operators and there will certainly be benefits for other aspects of the network. We want to lever as much value as we can out of the new scheme. The operators and the Executive will both say that the scheme will lead to improvements in bus services throughout Scotland. I hope that those will be improvements to the quality not only of vehicles, routes and networks but of the technology that is used on buses. If we are to invest £100 million per year in a new concessionary fares scheme, it would be unfortunate if we could not encourage a smart-card initiative on buses and start to roll out new equipment that uses smart-card technology. We should consider approaches that might lead to innovative ways of ticketing and better integrated ticketing between bus operators and between modes of public transport. Such initiatives would be of real benefit to passengers in Scotland.

**Bruce Crawford:** I am glad that you hope to lever extra benefits for the network, for example through additional capacity, but will such benefits be quantifiable? I am sure that the committee will want to revisit the matter and consider how progress will be monitored and what targets will be set. It would be useful if you could come back to the committee to quantify not just the impact of concessionary fares but the additional benefits

that accrue to the network through additional capacity.

**Nicol Stephen:** I undertake to do that. We are in complete agreement with you. We want to be able to quantify the benefits and report on them to the committee and to passengers throughout Scotland. We also want to ensure that we get good value for money, which is one of the reasons why we insisted this year that local authorities should be willing to run mystery-passenger schemes, whereby people board buses to test the system and ensure that they are charged only for the route that they travel.

We want to ensure that there is no leakage of public sector investment and we are determined to achieve good value for money from all bus operators in Scotland. We also want a close partnership with bus operators to ensure that we monitor the scheme's success. The Welsh scheme has been very successful and when our scheme is established I hope that Scotland will be regarded as a part of Europe that runs a successful free bus travel scheme for elderly and disabled people. I hope that we will give presentations and explain the scheme's benefits to other parts of the UK. Targets and monitoring will be an important part of what I hope to announce in due course.

**Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP):** It is fair to say that there is broad support across the political spectrum for a concessionary fares scheme of some description. However, given that we would all like the direction of transport policy to be clear, I want to demist the windscreen of Government policy by asking about the Executive's aim. Does the Executive want to deliver free bus travel for senior citizens and disabled people on all routes all the time; on some routes some of the time; on all routes some of the time; or on some routes all the time—or none of the above?

**Nicol Stephen:** A multiple choice question is a new experience for me in giving evidence to the Local Government and Transport Committee.

**The Convener:** You are not allowed to phone a friend.

**Nicol Stephen:** Our partnership agreement commitment is to deliver free off-peak bus travel throughout Scotland for elderly and disabled people. Any announcements beyond that, which would be based on our discussions with the bus industry, must wait until we can make the final proposals public.

**Fergus Ewing:** That is bad news for senior citizens and people with disabilities who want to travel at peak times.

I am not sure whether we have had a real opportunity to consider the thinking behind the

concessionary scheme. One witness agreed with me that, if we are moving towards a concessionary scheme, for which there is indubitably cross-party support, it would be sensible to have a scheme that applies not to a unimodal method of transport, that is buses, but to omnimodal—if that is a word—methods: buses, trains and ferries.

Even if that meant that instead of travel being provided free of charge for certain categories, it would be provided at half price, there would be a number of benefits. In particular, there would not be an in-built disincentive for those who are entitled to free travel to leave the train behind. Buses for free and trains at full fare seems to me to be a recipe to keep people on the roads and to take people off the trains for the foreseeable future, which I know is not the minister's intention. Has the Executive considered that? Does it think that that option should be put to the Parliament at some stage before we decide on a policy?

**Nicol Stephen:** Obviously, a number of discounted fares for the elderly and disabled are available on ferries and trains. What we are talking about is Executive-funded schemes. I have no doubt that there will be pressure for an expansion of the scheme that we are introducing for buses and strong arguments will be made in favour of extending the scheme to trains, ferries and trams—when we have trams on the streets of Edinburgh—but that is for the future. My priority is to deliver on the two partnership agreement commitments on the free national off-peak bus scheme and the concessionary scheme for young people. Those are big commitments; they will be costly and they have been difficult enough to negotiate with the industry. The scheme for young people will extend to trains and ferries. As we move forward, I will be pleased to have the argument about which scheme should apply to which category of individual, such as the elderly, the disabled or the young, but for the moment the policy is clear. The schemes are set out in the partnership agreement and my priority is to get on and deliver them effectively.

**The Convener:** I am sure that we will be able to get into that debate in more detail during the passage of the Transport (Scotland) Bill.

**Tommy Sheridan:** I have two quick questions for you, minister. Given your comments on your study of the Welsh concessionary scheme and your desire to go better than what we have had up to now, do you agree that we would be unambitious if we did not match the Welsh scheme in relation to time restrictions? As you know, the Welsh scheme is not time restricted. Do you agree that we would show a lack of ambition if we were not prepared to match that concessionary scheme?

**Nicol Stephen:** All that I can say to Tommy Sheridan is that I am always determined to be

ambitious for transport in Scotland, but he will have to wait for the announcement on the concessionary fares proposals before he sees the full details of the scheme. I am confident that the scheme will be good and that it will deliver on the partnership agreement commitments that we made in relation to concessionary travel.

**Tommy Sheridan:** I am perhaps encouraged by that. I hope that the minister will be more ambitious than he has appeared to be up to now. I am tempted to ask when he will make the announcement, because he mentioned it several times.

My final question is whether the minister is worried that there will be a skewing of finance. A significant amount is going into the concessionary scheme, but there is a real-terms cut in bus services. Will we in Scotland end up in a situation in which concessions are available but there are no buses for people to use them on?

**Nicol Stephen:** I do not envisage those circumstances ever arising in Scotland. The bus has a growing role to play in Scottish public transport. Bus services have sometimes been the Cinderella of public transport services in Scotland and I am determined that that should change. Passenger numbers are growing, investment is being made in new, disabled-accessible, low-floor vehicles and there are new park-and-ride initiatives, new bus lanes and new bus priority measures. All that must be positive news for the future of bus services in Scotland.

I am prepared to consider statutory measures to tackle the problems that there have been in rural areas and with evening and weekend services, but I am also determined to deliver improvements through partnership with the bus industry and with local authorities. I believe that the new concessionary travel scheme will be an excellent example of that.

15:45

**Fergus Ewing:** Can you advise us who is primarily accountable to the voting public on the plans to have trams in Edinburgh—I believe that three lines have been proposed—given that the Executive has committed to contributing £370 million of the cost? Those proposals are causing concern to some people who support the principle of trams but who are worried that burgeoning costs could result in a mini-Holyrood situation. Will the Scottish Executive, Transport Initiatives Edinburgh Ltd or the City of Edinburgh Council be primarily responsible? If the council is to be primarily responsible, will the executive, the officials or the councillors be accountable? There is a sense that no one has a grip on the project at the moment. That is the impression of some

people who have expressed concerns to me over the past few days.

**Nicol Stephen:** It is unfortunate if that is the case. I am anxious to reassure Fergus Ewing that, as a sponsor of the project, we have lodged bills on two of the tramlines, so it will be for the Parliament to scrutinise the proposals for those lines. The Parliament will have to reach a view on value for money, the deliverability of the proposals and the transport benefits that they would bring.

The Executive has indicated that, in principle, it is willing to invest a significant amount of public resources in the tramlines. We will continue to examine the business case and the value-for-money aspect as the project develops, but we think that significant transport benefits will arise from the introduction of the right tram schemes in Edinburgh. As I think the convener mentioned, there will be ample opportunity to return to the issue as the tramline proposals progress. They will receive close parliamentary scrutiny, because the Parliament has the ultimate decision on whether the public transport projects in question go ahead; that will not be down to Scottish ministers.

**The Convener:** That brings us to the end of the first of the three parts of the meeting involving the minister. Although we have overrun considerably, I think that we have had a useful and informative question-and-answer session, for which I thank the minister. Minister, do you want to move straight into the next part of the meeting or would you prefer a short break?

**Nicol Stephen:** A short break would be helpful, because I have been paged a couple of times, but I have no idea what the pager messages say.

**The Convener:** We will adjourn for three or four minutes.

**Nicol Stephen:** That would be helpful—thank you.

15:48

*Meeting suspended.*

15:56

*On resuming—*

## Rail Industry

**The Convener:** We come to the second part of this afternoon's session with the minister. I appeal to members to be as concise as possible because we still have two issues on which to question the minister, the first of which is the rail industry in Scotland. The minister will be aware that, in the past year, the committee has taken a significant amount of evidence on the rail industry from various bodies that operate in the sector, including the Strategic Rail Authority, Network Rail and the rail regulator. Since we took that evidence, much of it has been overtaken by the outcome of Alistair Darling's review of the structure of the industry. I encourage the minister and members to concentrate as much as possible on the situation that we now face and the forthcoming developments, as I think that that would be the most profitable way for the committee to proceed. I welcome Kenneth Hogg of the Scottish Executive, who has joined the minister to support him on the issue. I ask the minister to make any introductory remarks on the rail industry.

**Nicol Stephen:** I will try to be brief. You are right that significant changes have taken place since the Transport and the Environment Committee's inquiry into the rail industry and since this committee's evidence sessions on the issue in the past year. It is important to focus on the key changes. Some of the details are still to be worked out, but the overall principle of the changes is clear. The new approach to rail in Scotland will make a dramatic difference to the Scottish Executive's ability to support and to help to deliver high-quality rail services in Scotland. The changes have been broadly welcomed by members of all parties, but it is important to get the details right. We are working with the Department for Transport, the SRA and, in Scotland, SPT and others to ensure that we deliver improvements. Network Rail's role is key to the changes, but we have an opportunity to make significant improvements to the rail industry in Scotland.

That has been achieved as a result of the major review of the rail industry's organisation and structure and Alistair Darling's announcements in the House of Commons. Once the proposals have been fully implemented, much greater responsibility for rail in Scotland will be devolved to the Scottish Executive, which we welcome. We already have a clear and important role in determining rail services in Scotland in that we specify and fund the current ScotRail franchise. In future, we will take on the additional functions of

letting, monitoring and managing the ScotRail franchise, of which the Executive will become the sole public sector signatory. We will also take on a range of other operational and strategic functions that are currently carried out by the SRA, which will be wound up.

16:00

The Executive will also become responsible for specifying the network outputs in Scotland and for financing Scottish infrastructure costs. Specifically, the Executive will become responsible for paying the direct grant element of Network Rail's funding in Scotland. The access charges that ScotRail pays to Network Rail, funded by the Executive, will relate specifically to activity in Scotland. Those charges will continue to be funded by the Scottish Executive.

The level of funding provided to Network Rail for delivering outputs in Scotland will correspond precisely with the level of outputs to be provided. Costs and output information for Scotland will be monitored and identified separately in reports by Network Rail to improve transparency in relation to costs for Scotland and other parts of the United Kingdom. Specification of track infrastructure and train services will, as a result of all that, be brought together in Scotland. That change goes to the heart of many of the recommendations that the committee has made in relation to rail.

The new approach will provide the flexibility that we need to enable us to develop our relationships with the private sector rail industry and with Network Rail in particular. The infrastructure will continue to be owned and managed by Network Rail, but we will specify the outputs and be involved in the funding arrangements.

The railways need to continue to operate and be independently regulated on a Britain-wide basis. We have always accepted that. The Office of Rail Regulation will have the same range of responsibilities in Scotland that it has in England and Wales. Scottish ministers will be required to provide guidance on desired outputs to the Office of Rail Regulation, as the Secretary of State for Transport does.

The agreement reached on the transfer of new powers to Scotland remains subject to agreement on the transfer of appropriate resources. However, we recognise that that transfer should take place. It will be for Scottish ministers to decide how best to carry out the new responsibilities. We are working with the Department for Transport, our industry partners, the SRA, Network Rail and the Office of Rail Regulation to transfer the functions to Scotland within the timescale of the proposed railways bill, which will be dealt with at Westminster. The Scottish Executive is giving that

work a high priority. It is vital that we get it right. If the bill proceeds in Westminster as quickly as some people are suggesting that it will, we will have a limited time in which to agree those issues. We are willing to put in the hard work that is required in order to do that. People such as Kenneth Hogg deserve great praise for the work that has been done to make the progress that has been achieved to date in relation to the significant changes that will be made.

There will be important new opportunities as a result of the changes. We will be able to create a simpler, clearer and more streamlined system. As we continue to focus on driving forward our key rail projects, our ability to deliver rail improvements in Scotland will increase. We will also be able to take strategic decisions about future service investment. That will enable us to put the interests of passengers at the heart of the rail industry and it will provide the flexibility to develop our relationships with the private sector rail industry and Network Rail in particular. It is high time that we in Scotland did that. For too long, across the UK and in Scotland in particular, the rail industry has been too complex and expensive and the area has been fraught with delays and difficulties.

There is a demand for better rail services in Scotland. We have seen the potential for passenger growth on our rail network and I hope that the changes will give us the strength that is needed to deliver the improvements and to drive forward the expansion in rail services that the Executive is determined to deliver.

**The Convener:** When we took evidence from Network Rail, its chief executive John Armitth advised us that there had been a dramatic improvement in the rate of track renewal compared with the early days of Railtrack, when the level of track renewal fell to 1 per cent or less per annum—in recent times, that has risen to between 3 and 4 per cent per annum. Are you confident that that enhanced rate of renewal, which is necessary to retain the network's reliability and safety, will be maintained after the funding settlement is reached for investment in Network Rail?

Network Rail also advised the committee that in the current financial year it expects to spend about £360 million in Scotland, but its income in Scotland is only about £222 million. Are you confident that such funding implications will be taken fully into account in the financial settlement that is reached with the UK Government?

**Nicol Stephen:** The short answer is yes. We are determined to see the rate of renewal that is required to protect the ScotRail franchise and the other important services that are delivered in Scotland, such as freight services, the east coast main line franchise and the Virgin cross-country

service. We want all those services to be maintained and improved. One of the benefits of the new structure is that we will be able to integrate more closely the investment that Network Rail is making with the quality and level of service that we want to see in Scotland as a result of the franchises.

Getting the detail right is vital, as is the funding, which is why we are having detailed discussions with the DFT and Network Rail to ensure that we get a fair financial settlement and that we can make the scale of investment that is appropriate for the future. That investment is not only for core services, but for improvements to the services that we want to introduce, such as the Stirling-Alloa-Kincardine line and the benefits to the Fife circle services that that will bring about, the Airdrie to Bathgate line, the Larkhall to Milngavie line and the Borders rail link, which are a series of ambitious proposals. In addition, we announced yesterday the consultation on the Glasgow airport rail link and next week consultation will begin on the Edinburgh airport rail link. Together, those projects require a big level of investment and mean a dramatic increase in investment in rail services in Scotland. We must ensure that we fund them fairly and appropriately. Kenneth Hogg may wish to add some of the detail.

**Kenneth Hogg (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** One of the outcomes for us should be increased transparency about the amount of money that is spent in Scotland by Network Rail and what the outputs are in return for that expenditure. The convener cited figures on income and expenditure in Scotland. One problem is that it is difficult to say what the income is from Scotland. One can quantify the access charges that ScotRail pays—and that we in turn fund—which flow through to Network Rail. However, over and above access charges, Network Rail receives a significant income from direct grant, which comes from the UK Government and is not disaggregated across Great Britain. One of the benefits of the new arrangements should be that for the first time we know exactly what the income is from Scotland and what level of activity that will fund in return.

**The Convener:** I return to some of the projects that you mentioned, minister. You will be aware that I am a strong supporter of a number of the projects and that I have a strong constituency interest in the progress of the Bathgate to Airdrie line in particular. Do you believe that the coming changes will enhance the Executive's ability to deliver such projects? Do you expect that the new strategic transport agency, in its role in driving projects forward, will recruit people with expertise in railway investment projects in order to enhance the Executive's ability to deliver?

**Nicol Stephen:** I will bring in John Ewing on the skills that we want to attract to the new agency, but the short answer to your questions is yes. Project management of the major projects is vital; we have to deliver those projects on time and within budget.

You asked about progress on the projects. The new proposals will not be a complete solution, but they will offer an important set of extra powers. We will have more powers over rail in Scotland and that will strengthen our position. We will be able to provide a more effective rail network and deliver the new projects. That is why I believe that the new proposals are such a significant step forward and such a major breakthrough. We have a list of major projects and a number of sponsors or promoters will be involved in delivering them.

I know that there is cross-party support for considering whether the current parliamentary process—with the time that it takes and the pressure that it puts on the Parliament—is the right structure. There is a difference between our ability to deliver major roads projects and our ability to deliver major public transport projects. That issue will not go away. I hope that we will work on it together, because it should not be a purely Executive or ministerial issue. The Parliament will have its own view. I have discussed the issue with you, convener, and with the Presiding Officer and I hope that we can resolve it in the medium term. A parliamentary solution is required.

Meanwhile, we will have to work within the constraints—and sometimes the frustrations—of the current system for some time to come and we will have to make that system work as effectively as possible. I therefore very much welcome the increased resources that the Parliament has focused on speeding up the progress of current parliamentary bills. That will ensure that the Parliament can take more bills through the committee procedure at any given time. We are doing our best within the constraints of the current system, but we will have to consider the issue in the medium to long term. I was just going to say “in the long term”, but I hope that it is not too long a term and that there is good cross-party support for making improvements.

**The Convener:** I very much agree with that. From soundings that I have taken from other MSPs, I think that there would be a willingness to work with you to find an appropriate solution that streamlines our ability to progress major transport—especially railway—infrastructure projects. I would certainly welcome further discussions on that issue and I am sure that other committee members would as well.

**Paul Martin:** I want to ask about another massive investment in the rail industry and about

FirstGroup's success in the rail franchise. I know that I am going off the subject that you were focusing on, minister, but do you appreciate the importance of organisations such as FirstGroup working with existing companies that have served the rail industry in the past? As you will appreciate, there has been a tendency for the major plcs to carry out much of their enterprise in-house, or to develop means of doing so. Do you appreciate the importance of local economies benefiting from the rail franchise?

**Nicol Stephen:** I certainly do. A major franchise such as that could clearly bring significant multiplier benefits to other sectors and companies in the Scottish economy. We want to encourage that. Scotland is a relatively small country. We want to strengthen our skills base, and we want to strengthen the transport companies that we have here. We want them to grow and develop. One of the exciting developments of the past 20 years has been the success of Stagecoach and FirstGroup. I hope that they can encourage and support the development of other Scottish-based companies.

I mentioned the proposed transport agency earlier, and I hope that it will play a role in attracting people with the appropriate skills who are working in other parts of the United Kingdom or overseas to return to Scotland. Perhaps John Ewing could say a few words about the emerging shape of the agency and give you some more details on that.

16:15

**John Ewing:** As the minister has already signalled, it is anticipated that the new national transport agency will exercise its responsibility for rail matters. For that to happen, we will have to expand our capacity. We have already increased knowledge of the rail industry through certain appointments, which will enable us to fulfil our current tasks with respect to the big projects. We need to expand that further. As the minister said, we are working with the SRA, Network Rail and the other players to get a clear understanding of the roles and responsibilities that we will be discharging in the future. We will be developing a recruitment plan so that, when the agency comes into existence, it has the necessary staff to do the job.

**Fergus Ewing:** In your opening remarks, minister, you referred to the requirements that follow from the transfer to the Scottish Executive of the power to monitor and manage—in other words, the need to transfer appropriate resources to Scotland. By what criteria will Scotland's share of resources be calculated and will the Scottish Executive have an equal say on how those criteria are devised? Can you explain in detail where we

stand with respect to how Scotland's share is to be assessed and what role Parliament will play in this very important area of policy?

**Nicol Stephen:** As far as the criteria are concerned, the basis of the settlement has still to be agreed, but it will be a negotiated settlement. It should be a fair and appropriate settlement. We will be full partners in the negotiations, and we will seek to negotiate the best possible deal for Scotland. We will keep the committee and the Parliament informed of the outcome of the discussions and negotiations. We recognise their importance, and we share your view on that. Kenneth Hogg can perhaps describe a little more the likely process and the likely timescale.

Ultimately, we must reach a fair and agreed settlement, and agreement must come from both parties. We envisage reaching a fair and sensible financial settlement, which will reflect the new responsibilities that we will be exercising in Scotland. If we think that the settlement is inappropriate, we will say so, both to the UK Government and to the Scottish Parliament, and we will explain our reasons for arriving at that view. I am confident, however, that we can reach agreement.

**John Ewing:** It is important to make it clear that the rail review and the discussions with the UK Government are taking place on the basis that this is an agreed transfer of devolved responsibilities to the Scottish Executive. There is no question of any imposition.

**Kenneth Hogg:** The rail review outcomes were announced in late July. By far the most significant financial transfer attaches to the responsibilities of Network Rail, as opposed to the franchise responsibilities.

On the responsibilities of Network Rail, we are working closely with it to understand the cost of its level of activity in Scotland and clarify its current expenditure and required income. That will inform our position in agreeing with the UK Government the appropriate sum, which will not be divorced from reality, but based on what it currently costs to run the railway. We are working on that with the Office of Rail Regulation, which is responsible for monitoring Network Rail's costs and we expect the process to conclude in the new year.

**Fergus Ewing:** I am not clear about the answer to my question about what criteria are to be applied. Mr Hogg said that they would be based on existing cost patterns. Is that right?

**Kenneth Hogg:** We are ensuring that we understand current and historic costs for Network Rail at Great Britain level and in Scotland.

**Fergus Ewing:** I will suggest factors that seem relevant to me. I invite the minister not only to

confirm that each factor will be taken into account, but to explain how that will be done. The first factor is an audit of need. Plainly, there has been a lack of investment in the Scottish rail track and the skeletal services that were left after the manic track breaker, Dr Beeching, did his work. A huge audit of need is required, particularly because in Scotland, according to Alan Rehfish in his excellent Scottish Parliament Information Centre paper, there is a total of 3,034km of route and a total track length of nearly 5,489km, as well as 339 stations, many of which are in rural parts with a single track and so do not fall within Network Rail's priority categories of primary, London and south-east England, and main secondary routes. If Network Rail's classification is used, Scotland will inevitably be short-changed and be the loser, because a much higher proportion of our track does not fall within the priority categories.

Secondly, what specific account will be taken of the pattern of investment, particularly capital investment? I am thinking in particular of the chunnel and the Jubilee line. Will the pattern of investment be taken into the equation, or will it just be ignored? If it is put to one side, we will be short-changed. I am deliberately putting these points provocatively because I hope that the Parliament will be involved. I agree with Mr Hogg on the lack of transparency. Can the minister assure us that there will be transparency and that Parliament will be told what criteria the Executive is arguing for in the critical negotiations? If the pattern of investment is not taken into account, Scotland will become—or will remain—the Cinderella of the rail network in the UK.

**Nicol Stephen:** I can assure Fergus Ewing that we will consider issues such as the length of the track and the number of stations in Scotland, all the Network Rail assets here and the amount of current investment here. We will also consider issues such as the Jubilee line and other UK investments that are supported through funding from the SRA, Network Rail and the Department for Transport. Kenneth Hogg and others are doing detailed work with Network Rail and the Department for Transport to separate out those costs and we will seek a fair and appropriate settlement.

I am not sure that we will give you every detail of our negotiating position ahead of the negotiations—that might at times undermine our position—but there will be negotiations and we realise that they will not be without difficulties. There is now an agreed approach to rail in Scotland and a determination to devolve more powers to Scotland, which is welcome. We are determined to ensure that that happens and that we introduce the changes as quickly as possible once the Government presents its proposals at

Westminster and they receive parliamentary consent.

The SRA is due to be wound up by the end of next year. We must make speedy progress on this issue and the Scottish Executive will give it high priority. We do not envisage that it will be difficult to reach a negotiated settlement with the UK Government, but we are determined that that settlement should reflect the sort of issues that Fergus Ewing has identified and that it should be a fair settlement. We will be strong in our determination to reach such a settlement.

**John Ewing:** It is worth noting that the UK Government, the Executive and Network Rail have a common interest in ensuring the safe operation of railways in Scotland, because responsibility for that will remain with Network Rail. I recognise the concerns that Mr Ewing has expressed about the selection by Network Rail, but the costs of maintaining rail lines reflect not just their length but their use, which will need to be factored in.

**Fergus Ewing:** I am reassured by the answer that the minister has given, the approach that he is taking and his willingness to accept that the factors that I mentioned should all be taken fully into account. That is welcome, as safety must be paramount. The minister is correct to say that negotiations cannot be conducted in public, but will he come back before the committee to tell us what criteria will govern those negotiations? All of us accept Mr Hogg's point that the economics of the rail industry in Britain are as clear as mud. There is no public understanding of how the finances operate. For that reason, this is a golden opportunity for the Executive to put its case publicly and to be open and up front about the approach that it will take in arguing for Scotland's share. If it does not do so in public, that will be unhelpful, at best.

**Nicol Stephen:** I will give careful consideration to Fergus Ewing's request and will try to give additional information to the committee as discussions progress. Within the constraints that I have mentioned, so that we in no sense undermine the negotiations and disadvantage the Scottish Executive and the interests of the Scottish Parliament, I will try to be as open as possible. Fergus Ewing can rest assured that we are determined at the end of the process to deliver a more effective and transparent system for the rail network in Scotland.

**The Convener:** I want to ask about other factors that may be taken into account in the negotiations, and the Executive's strategic priorities. I recognise fully that some of its rail projects may be regarded as local enhancements to the network, but will consideration be given in the negotiations to strategic enhancements? I think in particular of the importance of Edinburgh Waverley to the UK rail

network and of the links to the two biggest airports in Scotland, which are the two biggest airports in the UK that do not have heavy rail links.

**Nicol Stephen:** As the committee knows, I have argued repeatedly that there are projects in Scotland that are of major UK significance and that it is fair and appropriate that the SRA or the UK Government should make contributions to those. The UK Government retains very important powers over aspects of transport in the UK. One of the most important of those powers relates to the rail industry and rail enhancements. The issue that the convener raises will be crucial in negotiations. We are determined to reach a fair agreement that reflects the need for enhancements in Scotland. If enhancements are made to the rail network in the UK—as has happened over the past few years—Scotland should receive a fair allocation so that we are able to continue making enhancements in the future. We must ensure that Scotland receives a share of resources to allow us to take on responsibility for projects such as the Waverley project and the Edinburgh and Glasgow airport rail links.

16:30

**Bruce Crawford:** I am grateful for much of the assurance that the minister has given, but I seek more. As Fergus Ewing rightly pointed out, "The SRA's Strategy: Specification of Network Outputs" provides for different categories: primary, main secondary and other secondary. I think that Kenneth Hogg may also have alluded to that. It is interesting that the document went out for consultation in July 2003. I am a bit cynical about why the exercise was undertaken at that stage, just prior to the beginning of negotiations.

It strikes me as strange that most lines in Strathclyde, which is Scotland's most urbanised area and the one with the largest network, are not categorised as primary. If London can be categorised as primary, why has Strathclyde not been categorised as primary? Obviously, I do not want the minister to give away his hand, but I seek some assurance that an attempt is being made to unpick some of the earlier rationale that was laid down by the SRA. It seems to me that that is beginning to disadvantage developments in Scotland.

At the end of the day, if we needed to play hardball on the issue, we could always demand a Barnett share of what is spent on rail services in the UK. At 8.6 per cent of £2.5 billion, that would give us an extra £222 million. It would be interesting to find out whether some of the earlier arguments can be unpicked and re-examined. For instance, why can we not just receive a Barnett share? Obviously, I am not necessarily in favour of Barnett.



**Nicol Stephen:** Kenneth Hogg will respond to the earlier part of your question about the proposals in the SRA document.

**Kenneth Hogg:** The timing is quite important. As you said, the SRA published proposals in 2003. However, that document was followed by the rail regulator's interim review of Network Rail's costs. In his conclusions, the rail regulator said that he did not agree with the SRA's approach in providing such criteria to Network Rail. Therefore, the SRA document was superseded by what the regulator said. Nevertheless, there remain valid points about whether Scotland will receive an appropriate share of the resource and about who should make such determinations. In a future world, once the proposed changes have been implemented, decisions on where Scotland's rail network investment priorities lie would fall to Scottish ministers, rather than to Network Rail at a national level or to the SRA, which will cease to exist.

**John Ewing:** It is also important to reflect on the role of the Office of Rail Regulation. Under the new system, Scottish ministers will specify the outputs that they want from the network. The rail regulator will then price those and advise ministers on what their cost is likely to be. There might be an iterative process about the affordability of ministers' proposals. Different strands will come together in determining what it will cost to deliver the rail services that Scotland wants.

**Dr Jackson:** At the beginning, the minister mentioned that time for the bill at Westminster was limited. Do we have a timescale for that limited time?

**Nicol Stephen:** The intention is that we will make progress on all the issues over the coming months. Clearly, we cannot second-guess decisions on the timing of the railways bill. Those rest with the UK Government. It is for the UK Government to make an announcement on the bill in the Queen's speech, just as it is for the First Minister to announce our legislative programme. It would be quite wrong for me to prejudge when the bill might start to make its progress through Westminster. However, we are gearing up for an early start and we stand ready to reach an early agreement. That is why we have already had discussions with Network Rail and the Department for Transport.

**The Convener:** I think that that brings us to the end of our questions.

**David Mundell:** I have a couple of questions, convener. Minister, you may not be able to answer this, but you will be aware that stations such as that at Lockerbie are in an unusual position. Although they are in Scotland, all the trains that stop at them are cross-border services. Will the

change in powers have any practical impact on the general terms of operation of such stations?

**Nicol Stephen:** Dunbar is another example of a station in that situation. Kenneth Hogg may be able to answer that question.

**Kenneth Hogg:** The outcome of the rail review will not change the situation whereby the cross-border franchises—currently Great North Eastern Railway and Virgin—are let by the SRA. In the future, they will continue to be let by the DfT. We will not gain an additional role in, for example, specifying those services that will remain unchanged. In so far as those stations are served by ScotRail, the answer is yes, because we will have a more hands-on involvement with ScotRail. Because those stations are part of a rail network that exists in Scotland, we will have an increased role in specifying their standards and quality. Nothing in the rail review will undermine the present position, and it will not greatly change it going forward.

**David Mundell:** The point is that, at the moment, no ScotRail franchise services stop at those stations.

**Kenneth Hogg:** We currently have the ability to change the ScotRail franchise over time. That is one example of the kind of thing that ministers could do if they were prepared to reopen the franchise and fund the additional services.

**David Mundell:** My second question is about the role of the Strathclyde Passenger Transport network. Am I correct in thinking that the Executive is to assume SPT's rail powers? Can you set out what that will involve?

**Nicol Stephen:** That is correct. We have made it clear that, as part of the Transport (Scotland) Bill proposals, we intend to assume the rail franchise powers of SPT. The detail of that will be discussed and carefully scrutinised by the committee as the bill's proposals are considered by the Scottish Parliament. We are already seeing progress on the order to be made under section 30 of the Scotland Act 1998 that will allow that to take place. The section 30 order requires approval at Westminster—from both the House of Commons and the House of Lords—as well as the approval of the Scottish Parliament. The committee has considered the proposals as they relate to the responsibilities of the Scottish Parliament and has approved them. The appropriate committee of the House of Commons will look at the proposals shortly.

I do not assume, but hope that there will be a positive outcome from Westminster. Once those powers are devolved to us by the UK Government, through the section 30 order, we will have executive responsibility for those matters and the Parliament will have the power to transfer those

powers and responsibilities from SPT to the Scottish Executive, as we discussed at my previous appearance before the committee.

**David Mundell:** Let us be clear. In the future, the Executive or the proposed transport agency will set timetables, decide fares and do the sort of things that SPT currently does.

**Nicol Stephen:** We work closely with SPT on all rail franchise matters in Scotland. However, the intention is that, in future, the Scottish Executive will have those rail franchise powers and will take a consistent approach to the rail franchise in Scotland. We have also made it clear that we want a strong west of Scotland regional transport partnership. We still see a strong role for SPT or its successor body in Scotland in the operation and management of rail powers and in the development of rail, and we still see SPT's management team and staff having security of employment and considerable influence over rail issues. Obviously, we will give more detail about that in due course and as the bill progresses, but that relationship will continue to be an important partnership. We still envisage a strong and effective regional transport partnership with rail responsibilities in the west of Scotland.

**David Mundell:** What role do you envisage that body—or any of the other bodies that will be set up under the bill—having in negotiating the franchise in future?

**Nicol Stephen:** Other parts of Scotland can take on those greater responsibilities if they wish to do so. That will be the spirit and approach. If local authorities or regional transport partnerships wish to develop their powers to move more towards the SPT model, they will be perfectly entitled to do so. Whether or not they do so, they will be an important part of the consultation process as we move towards any new or extended rail franchise. They will also have an important role to play not only in lobbying for or encouraging franchise developments, but sometimes in sponsoring those developments and helping to trigger appraisals of any rail improvements under the Scottish transport appraisal guidance. That is evident at the moment in the number of local authorities that have proposals for new crossrail schemes, new station openings or new lines to be developed. Perhaps the Stirling-Alloa-Kinross scheme is the classic example. Clackmannanshire Council was the key organisation in driving forward that scheme. The regional transport partnerships will have a significant role in influencing the development and future shape of the franchise.

**John Ewing:** Things do not depend on waiting for the new franchise. There is a mechanism in the existing franchise for agreeing a price for a new service. Therefore, if one of the new regional

transport partnerships wanted an enhanced service, agreed with ministers that that service was appropriate and was prepared to pay for it, it could be negotiated within the existing franchise.

**David Mundell:** Would the Executive be the lead body in that negotiation?

**John Ewing:** Yes.

**Nicol Stephen:** That is right. Currently, we specify and fund the ScotRail franchise and the SRA has certain responsibilities and certain signatory powers, as does the SPT. We are considering making the changes that I have described in relation to that situation. Perhaps we would have looked for change in any event as part of the Transport (Scotland) Bill, but the rail review gives us an opportunity to take a much wider look at the future of rail in Scotland and to have a far better, more integrated approach. I think that the committee has previously strongly supported that consistent approach, which is one reason why the section 30 proposals and the first stage of change were unanimously supported by the committee and are now supported by the Parliament. I think that the proposals received the Parliament's consent without division.

**The Convener:** That ends questions on this agenda item. I thank all the witnesses for giving evidence and Kenneth Hogg for his attendance. We will go straight into the third evidence session, minister, if you feel comfortable doing so.

**Nicol Stephen:** Absolutely. We will pause momentarily for the other officials to join us.

## Budget Process 2005-06

16:45

**The Convener:** For our consideration of the Scottish Executive's transport budget, I welcome, in addition to the minister and John Ewing, Claire Dunbar-Jubb and Frances Duffy. I invite the minister to give an introduction.

**Nicol Stephen:** To start, I will check that the committee has the documents to which I will refer. If the committee referred to different documents from those that had been placed in front of a minister, it would not be the first time, unfortunately. I have "Building a Better Scotland: Spending Proposals 2005-2008: Enterprise, opportunity, fairness", which has the level 2 expenditure figures; the draft budget 2005-06; and the annual evaluation report, which looks back at the targets that applied to transport and at the budget before the announcement of the draft budget and the spending review 2004, which carry us forward to 2006-07 and 2007-08.

"Building a Better Scotland" and the draft budget are the two most recent and up-to-date documents. The most up-to-date objectives and targets for transport are referred to in "Building a Better Scotland".

**The Convener:** Most committee members will refer primarily to the draft budget 2005-06, but some members may well refer to the other documents.

**Nicol Stephen:** That is fine.

We have had a busy time in transport. We had the consultation document "Scotland's Transport—Proposals for a New Approach to Transport in Scotland", which was followed by the Executive white paper, "Scotland's transport future", back in June. That confirmed that we would seek an early opportunity to introduce legislation to create regional transport partnerships, to establish the national concessionary fares scheme that we talked about and to tighten the regulation of utility company roadworks. We introduced the Transport (Scotland) Bill on 27 October. The bill contains several measures to help to support and grow the Scottish economy and to strengthen our communities.

Spending on transport has increased considerably since the Scottish Parliament was established. The transport budget has had a further boost to reflect some of the ambitious proposals in the white paper. The 1998-99 budget plans allocated more than £300 million in funding to transport, only 23 per cent of which was for public transport expenditure. The budget for 2004-

05 provides £935 million of funding for transport. That will rise to nearly £1.4 billion a year by 2007-08. Spending has shifted significantly towards public transport—70 per cent of spending is now on that.

The spending review process has allowed us to look forward at the next three years of spending and to focus on some of our priorities and key spending areas in transport. At the recent spending review, transport in Scotland received a major funding increase on the current 2004-05 levels of an additional £122 million in 2005-06, £389 million in 2006-07 and £444 million in 2007-08. Those increases take us up to the figure of almost £1.4 billion that I mentioned.

That is a major funding boost in cash and real terms that will enable us to increase substantially our investment in transport infrastructure; in improved public transport—our buses, rail services, ferries, trams and park-and-ride facilities; in better freight facilities; and in targeted improvements to the trunk roads network. It is important to emphasise that roads do not lose out as a result of the budget proposals. There will still be an expansion of the roads budget. We also want to encourage greater use of our sea routes and canals and to continue to develop the success of the air route development fund, with increased funding for new route developments to and from Scotland.

The planned capital expenditure for transport will increase from £52 million in 2002-03 to £297 million by 2007-08. That represents a significant commitment to increasing transport infrastructure across Scotland. Our priorities for delivery during the spending review period are to invest to maintain the momentum of our 10-year capital investment programme and our commitment to spend around £3 billion on transport infrastructure capital projects over that period. That includes investment in public transport schemes such as the new rail and tram projects that we have been discussing, as well as investment in major road improvements.

We want to extend the benefits of concessionary travel by introducing national schemes for elderly and disabled people and for younger people. We will deliver our partnership agreement commitment to deliver a new transport agency for Scotland and a network of new regional transport partnerships. We intend to allocate funding to those new statutory regional transport partnerships from the time that they are formally established.

We also want to improve the day-to-day management of our roads network; to invest in improvements to the trunk roads network; and to tighten up the management and maintenance of Scotland's roads by allocating additional money to local government. That falls outside the transport

budget, but I know that it has been welcomed by COSLA and the local authorities. We are investing through the GAE line in the local government budget.

Our other legislative proposals, such as those that relate to the tightening up of utility company roadworks and the establishment of a new Scottish roadworks commissioner, are also significant.

I look forward to discussing all the transport spending plans with the committee. Before answering members' questions, I want to draw their attention to some of the changes that have been introduced to the transport budget. Some of the changes relate to issues that were raised by the committee at some of my earlier appearances and which have caused us all some frustration.

It is good to have a straightforward budget that contains figures that are directly comparable with previous figures. However, I draw your attention to the fact that we have published some new annual targets, which are more consistent and easily comparable; I believe that they represent a significant improvement in relation to some of the previous targets that I have had to defend before the committee. I hope that those changes are welcomed.

The draft budget for 2005-06 includes a detailed annex on the transport targets that have been updated. For example, the Highlands and Islands Airports Ltd target has been changed to measure specifically the growth in passenger numbers through the network of lifeline airports and to move to a target of a set year-on-year increase, which is consistent with methods used in relation to other modes of transport. In addition, I have reclassified the transport spending plans in the level 2 tables to reflect the various modes of travel, such as air, ferry, rail and bus.

The challenge that we face is to maintain the momentum of our £3 billion programme of new infrastructure and service improvements and to deliver on those targets. We must deliver on the successes that have started to be built since the establishment of the Scottish Parliament.

We have started a major programme of investment in our transport infrastructure and we are building up the new projects that we are committed to. We are working in close partnership with the committee and Parliament in relation to those projects and, over the next three years, we will develop the new Scottish transport agency, the new regional transport partnerships and a new approach to transport in Scotland that will be broadly welcomed by local authorities, business and industry, transport operators and passengers. I am confident that those structures will attract the right people with the right skills and the right

experience back into transport in Scotland. I am determined that we should deliver our ambitious programme and the service improvements that people across Scotland expect from a high-quality transport system.

Frances Duffy will probably pick up the technical points as we consider some of the comparison figures, but there are some technical changes and adjustments that could be explained up front so that we avoid some of the questions, or we could just take the questions as we turn the pages.

**The Convener:** We will move on to questions.

My first question refers to one of our earlier lines of inquiry on the bus industry. In table 8.01 on page 108 of the draft budget document, we see that the line for bus services increases only modestly; in real terms, it shows a marginal decline. I acknowledge that, on the next line, there is a substantial enhancement in money for concessionary fares.

We explored whether the Executive would be inclined to give any financial support in partnership with local government to the development of bus quality contracts, but it would seem from the budget line that the Executive does not have the flexibility to make any financial contribution to such contracts. Is that interpretation correct, or is there flexibility in other areas of the budget that would allow you to do that?

**Nicol Stephen:** We have some flexibility in relation to the other public transport budget line. Expansion in the bus services in Scotland line reflects the increase in investment that we are making through the bus operators grant and the bus route development fund. There is growth in investment there.

We have some discretion in relation to the other public transport investment and if we were to support a quality contract proposal from a local authority or SPT, I am convinced that we could offer an appropriate level of support. Clearly, the primary responsibility would rest with the relevant local authority.

**The Convener:** I welcome the fact that you have the flexibility to respond to such developments.

I have a second point on which you could expand. The same table shows an increase of approximately £38 million in the line containing other grants to local authorities. What will that cover?

**Nicol Stephen:** I can expand on that, but I had better check with my official that I have got it right.

The line is slightly misleading, so perhaps we should clarify it for the future. It does not simply cover grants to local authorities; it includes support

for the regional transport partnerships. From the start of the regional transport partnerships in 2006-07, we intend to allocate to them £34 million of support per year. That is quite a significant and fresh injection of new funding to the regional partnerships, and an important reassurance for local government that we are committed to those partnerships. Local authorities have been nervous about the powers of requisition, but the Scottish Executive will give a significant financial commitment to the new partnerships and they will be able to deliver substantial improvements in transport in their area. It is intended that those improvements should be in public transport projects and roads projects if the partnerships believe that that is an appropriate use of those new funds.

**The Convener:** Is it intended that those new funds be used for the costs of setting up the partnerships, or are they intended to be delivered as enhanced projects?

17:00

**Nicol Stephen:** We already help to fund some of the operational costs of the existing voluntary partnerships and we do not intend to withdraw that support. However, we want the vast majority of the new investment to be used in projects and for delivery on the ground. We do not think that the new partnerships will require significant additional resources for new staff and new structures. Nevertheless, we will consider each case. There are differences between the partnerships in different parts of Scotland, and we will try to reach an agreement that is fair in relation to all the partnerships.

The west of Scotland is obviously a separate case, as substantial resources already go into the funding of staff and management of the west of Scotland transport partnership and SPT. The local authorities carry that cost at the moment, through the funding arrangements that they have in place. However, in other parts of Scotland the costs are in the order of hundreds of thousands of pounds rather than millions of pounds. I would not expect that situation to change significantly unless the regional partnerships were to take on significant new powers and to require additional staff and resources.

**The Convener:** In those circumstances, the Executive would perhaps seek to utilise the existing resources and staff of local authorities.

**Nicol Stephen:** Exactly. We would have to reconsider the structure of things.

**Dr Jackson:** I have asked the minister before about the major transport infrastructure projects. Will we have the necessary skills base to carry forward those projects? Might there have to be

some staggering of the programmes to deal with the skills shortage?

**Nicol Stephen:** I ask John Ewing to give you the rationale behind the agency and the sort of approach that we want it to take.

**John Ewing:** As we said, the rationale behind the setting up of the agency is that it will enable us to have more of a focus on the delivery of major projects. We will be gearing ourselves up to do that. Inevitably, a balance will have to be struck between projects on which the Executive takes the lead and projects that are not being delivered by the Executive but which are funded by the Executive and other bodies.

As the committee will be aware, earlier this week the minister launched the consultation on the proposed Glasgow airport rail link. That is an SPT project. SPT will continue to lead on it and the Executive will continue to fund it. Fergus Ewing referred to the Edinburgh trams project. That is a City of Edinburgh Council project, which we are funding. We are working with the council on the project and it is being delivered through TIE. Different mechanisms will be available for different projects.

The timing of the projects will depend on a number of factors, including the decisions that this committee and the other parliamentary committees make on the bills that come before them. There will be interaction between the different projects, with some proceeding faster than others, and we will monitor that carefully.

**Dr Jackson:** You identify matters such as timetables, committee work and parliamentary schedules that will determine when the projects come on stream. However, I asked specifically whether sufficient skills could be accessed in order for the projects to proceed. Or have you identified a skills gap, which would mean that we would have to stagger the projects in some way?

**John Ewing:** Sufficient skills should be available in the market in the UK as a whole, so that will not be a major drain on the projects. However, factors such as the Parliament's capacity to handle the processing of the bills will impact on the timetable.

**Michael McMahon:** Target 4 in the draft budget states that the Scottish Executive should

"achieve key milestones in the delivery of the major infrastructure projects set out in the long-term investment plan, subject to projects receiving the necessary public or Parliamentary approval".

Can you give us some indication of what those milestones are? Do they exist in a document that is easily accessible to the public, so that they can be made available to everyone?

**Nicol Stephen:** The committee has asked for that sort of information previously, in relation to public transport projects. We delivered information relating to the projects to SPICe in the autumn of last year, and we have updated that information for November 2004. I am not sure whether the updated information has been submitted yet, or whether the intention was that that would be done following today's evidence session. Our intention is to keep the committee well informed about the projects' costs, timetable and key milestones.

I appreciate that target 4 is slightly different from some of the others, but I thought it was important to have a target that led us into the major projects and allowed them to be a clear high priority. The targets for 2 per cent passenger growth are clearly important in the overall rail network, but I know the importance that the committee attaches to the major capital projects. One of the key reasons for establishing the agency is to enable us to deliver the projects on time and on budget, so I thought that it was important that the projects be part of the targets that are set.

**Frances Duffy (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** We have technical notes that support each target and those are available on the website, which gives a bit more information on the major milestones for the key projects.

**John Ewing:** The document that Frances Duffy is talking about contains such information as the target for the beginning of the procurement and design phase for the Edinburgh airport rail link, which is October 2005, and the target for the beginning of construction, which is October 2006. For each project there is a milestone that we can use to monitor progress.

**Nicol Stephen:** It is important that everyone understands that the document will change in relation to the projects, issues and timetable over a 10-year period. I am committed to trying to keep the document updated regularly, to allow the committee to know early on about any changes that we encounter and to be as open and transparent as possible. It would be wrong to fix the document in the objectives and targets section of the transport budget and to cast in tablets of stone the approach to a significant major capital programme. We will ensure that we manage the programme as effectively as possible, but one of the key challenges of the new agency will be to ensure that we have the right project management skills and expertise in place so that we can ensure that the investment to which we are committed is delivered to an achievable timetable.

**Michael McMahon:** I do not question for a second the fact that the information is available in the way that you have described. I suggest that if the budget is going to be published every year and

the targets are going to move every year, other documentation should be provided at the same time so that people who are interested—who want the information to be more accessible—do not have to go on a paper chase through SPICe or to search endlessly around the web. Given that we are producing budget statements, it might be helpful if we could produce the figures that go with the documents.

**Nicol Stephen:** That is a fair comment, which relates to the way that capital projects are handled throughout the Executive. Transport is no different from any of the other departments, some of which have significant capital budgets.

**Michael McMahon:** Perhaps you should set an example, minister.

**Nicol Stephen:** I will feed that back to the Minister for Finance and Public Service Reform. I assure you that if there is no change in the style or structure of the budget documents, we can certainly provide that information to the committee for future meetings such as this.

**Michael McMahon:** That would be helpful. Thank you.

**John Ewing:** Each technical note is about two and a quarter pages long. Given that we have 10 targets, including the technical notes would increase the transport chapter by 20 or 30 pages. The Finance Committee might have views on that suggestion, but we can probably find a way round that.

**The Convener:** I welcome the fact that some of the targets are a bit more precise than they were previously. There are targets to increase rail use by an average of 2 per cent each year and bus use by 1 per cent each year. Are those targets ambitious enough? We reported last year that there were significant drops in rail passenger usage post-Hatfield as well as in the period following the industrial dispute that took place in the early part of the current decade. It is likely that certain factors—for example, economic growth, the Executive's plan for more concessionary schemes, or people choosing to use public transport to avoid congestion—would naturally increase demand for both modes of public transport. Given those points, what is the rationale behind the setting of the targets?

**Nicol Stephen:** We want the targets to be both ambitious and achievable. There is no point in setting targets that are inappropriate or which have no basis in the reality of what can be delivered on the ground.

You are correct in what you say about rail. The highest volume of passengers on the rail network was back in 2000-01, when we had 63.2 million passengers. In 2003-04, we had 62.3 million

passengers—that is a fall of about a million passengers. However, there are two points to make about rail. There is a smaller overall volume of passengers, which makes growth more achievable. We are turning the situation round post-Hatfield and, if we get the new franchise right, if we introduce the new rolling stock, if we have longer platforms, if we get a better quality of service and if we improve cleanliness and reliability, there is more potential for growth in rail passenger numbers. I have no doubt that there is strong potential to attract more people to the rail network.

I hope that the annual targets are part of a more iterative process. If, next year, we have achieved 7 per cent or 9 per cent growth and we are still on a rising curve, of course we will adjust the current target because 2 per cent would seem inappropriate. However, a target of 2 per cent seems achievable at the moment and if we were to have year-on-year growth of 2 per cent, that would be a significant achievement for the rail network.

In contrast, the bus industry has experienced decades of decline although it carries a much greater number of passengers each year. In 1998-99, we had about 413 million passengers. In 1999-2000—the key breakthrough year, in which we achieved an increase for the first time—that figure rose to 434 million. In 2000-01, there was an increase in passenger numbers to 435 million; the figure increased to 441 million in 2001-02; and in 2002-03 there was an increase to 445 million. The situation in the bus industry is much more stable than that in the rail industry and the growth figures are less dramatic. That is a good justification for the target figure of 1 per cent. If we can achieve the suggested year-on-year annual growth of between 4 million and 4.5 million passengers, that would continue a positive trend in the bus industry.

**The Convener:** I will bring in other members in a second. The other target that I recall from a few years back was the long-term target on road congestion that was given by your predecessor, Sarah Boyack. At that time, there was an aspiration to stabilise road congestion at 2001 levels over a 20-year period. Is that still one of the Scottish Executive's targets? Are the envisaged levels for increased use of public transport sufficient to make progress towards achieving that road congestion target?

17:15

**Nicol Stephen:** The short answer is yes; that is still a target. As I understand it, that is one of the Executive's overarching sustainability targets rather than a target that appears in the transport section of the draft budget. We are committed to achieving that target, if at all possible, through new

investment—by using the carrot rather than the stick. We believe that the new investments that we are making in rail and tram services and in improvements to bus services can make a significant impact over the next 10 to 15 years.

In the medium to long term, the City of Edinburgh Council is progressing its proposals for congestion charging, and we are in discussion with the UK Government on its proposals, which relate to a shift away from the current vehicle licensing system—the road tax system—and the introduction of some sort of technology-based system that would allow charging for roads based on the level of congestion in particular locations and on particular routes. Those proposals are for the future, but they could bring significant benefits for rural Scotland, where the charge would be low; there would be a higher charge in congested areas, although it is unlikely to be as high as the charges in the south-east of England, given congestion levels in London. We would have to consider the relationship between the charging method that is proposed for Scotland and the current London charging system. It is speculated that the earliest that such a system might be introduced would be 2015. We will continue to keep members informed about developments. I have no doubt that Alistair Darling will also make announcements on progress in relation to all that.

**The Convener:** Here's hoping that you are able to report back to us in 2015 and that we are here to hear it.

**Bruce Crawford:** 2015—we will see.

In the meantime, target 8 in the draft budget states that 70 per cent of Scottish Executive transport spending should be allocated to public transport over the period of the long-term investment plan. What does that mean? Is it 70 per cent of the investment? Is it 70 per cent of the spending and resource accounting? Or is it 70 per cent of the cash? It would be interesting to understand that, particularly given the figures for motorways and trunk roads depreciation and motorways and trunk roads cost capital. Where are we with that? What does target 8 mean?

**Nicol Stephen:** It is 70 per cent of the DEL expenditure as opposed to the AME. Members will see that from the total figures that are given in the summary charts. As you say, the AME involves a notional depreciation charge, which is money in and money out of the Scottish budget. It is not real money that is there for us to spend on projects and on programmes. It relates, for example, to the notional capital value of the trunk roads network. That is the figure that we concentrate on.

**The Convener:** Perhaps you could expand those acronyms for the benefit of members of the public who are listening.

**Nicol Stephen:** DEL is departmental expenditure limit and AME is annually managed expenditure.

**Bruce Crawford:** But it is not real money.

**John Ewing:** It is not money that is available for us to spend on other things.

**Nicol Stephen:** Page 8 of the draft budget sets out a chart for the DEL expenditure; a second chart shows the AME. Some Executive departments have no AME, but transport has some of the most significant. About £400 million to £500 million of the expenditure that is allocated in relation to transport is allocated to the AME. That is not money that we have available for expenditure on roads programmes. We have considered the DEL expenditure, and we have calculated the split between the trunk roads and motorways budget and the other expenditure. It is on that basis that we make the 70:30 split, and that we have that target.

There is no correct split between roads expenditure and public transport expenditure, but we believed that the emphasis needed to shift towards public transport investment, because the evidence is that simply building more and more roads does not tackle congestion levels as effectively as an integrated package of investment that involves public transport and roads improvements would. We thought that a significant shift towards public transport investment was the right approach and during the past few years we have made substantial commitments to that approach. The recent target is 70 per cent, but we will keep that under review when budgets are being considered and we will discuss with the committee how we strike the right balance.

**Bruce Crawford:** Let us consider the real money, rather than the notional money that is floating around. Spending on other public transport elements will be £384 million in 2007-08, according to the draft budget, in which the figure is broken down in table 8.08. The table indicates that the integrated transport fund will account for more than £321 million, a figure that is exceeded only by expenditure on motorways and trunk roads for that year. Is that budget based on real projects or are the figures guesstimates? If the budget is based on real projects and the Executive knows what the money is expected to be used for, could the committee be informed about the projects? We are talking about big sums of money and we need to scratch beneath the surface to understand what the money is intended for. There should be transparency and openness.

**Nicol Stephen:** I will bring in John Ewing to comment on that. You will have noted a dramatic increase in integrated transport fund expenditure since 2002-03.

**Bruce Crawford:** Does the 70:30 split apply in that context, too?

**Nicol Stephen:** Expenditure on the integrated transport fund is classed as public transport expenditure. Let me first admit that the figure of £321.291 million in 2007-08 reflects a degree of spurious accuracy to which I immediately confess—expenditure will not be tied to such a level of accuracy. John Ewing will talk about the trend and about the kinds of projects that are included.

**John Ewing:** The figure includes the forward estimate of the major costs of the major projects. There will be varying degrees of accuracy in the budgets for those projects as the costs are refined, but the estimates will account for the bulk of the expenditure. There is an upward trend because we expect by the end of the period that the budget covers to have significant spend on projects that are currently being planned or developed or that are going through the legislative process.

**Bruce Crawford:** When can the committee expect to receive detail about how the figure was built up? At this stage, such detail might be indicative, but it would be interesting to find out how the money will be spent.

**John Ewing:** We can provide a more indicative breakdown. The figure includes commercially sensitive information, but we can flag that up for the committee. We are in negotiation for ferry services to the northern isles and we need to put by money somewhere to fund those services. Members will understand that we do not want to tell the world how much money is being put aside for the franchise negotiations, but there should be no problem in breaking the figure down for the committee.

**Bruce Crawford:** It would be good to receive the information that you can give us.

**Fergus Ewing:** The minister mentioned a number of important flagship projects that have one thing in common: like the new Scottish Parliament building, they have a nine-digit price tag. I suppose that politics is about distinguishing between what is important and what is essential. What is the justification for having both a new rail link and a new tram link to Edinburgh airport?

**Nicol Stephen:** The arguments for those projects will be fully scrutinised by the Parliament and it would be wrong of me to prejudge the matter. However, the case that has been made to the Executive for substantial funding of those projects relates to the transport and value-for-money benefits that the projects will accrue. The tram proposals would bring significant benefits for the road network in the Edinburgh area, which include significant journey-time benefits.



The rail project will have similar benefits, but the important difference between it and the tram project is the national significance of the scheme. In effect, it will divert the east coast main line to Edinburgh airport and will allow for new linkages and direct services to the airport from Aberdeen, Inverness and Glasgow and the west of Scotland. The benefits to the UK and Scottish rail networks have been quantified and are significant.

Both the projects will deliver good value for money and the business case for them is solid. I believe that that will continue to be the case, but as with all big projects, we must continue to examine the costs, monitor the timetable and manage the projects actively. That is why we will report back to the committee regularly, why we will have the new agency and why we will create the new skills to ensure that we have the required quality of project management to deliver the projects. If Fergus Ewing requires more information about the business case for the rail link, the information can be provided to him and other committee members, although it will be lodged with the Parliament and will be a key part of the scrutiny of the private bill on the matter.

**Fergus Ewing:** The committee has taken a long-standing interest in the funding of non-trunk road maintenance and has received evidence from a body of whose acronym I am quite fond, the Society of Chief Officers of Transportation in Scotland—also known as SCOTS—that the backlog of repairs to road surfaces and maintenance of associated non-trunk road infrastructure will cost about £1.5 billion. I do not wish to break the embargo on the Audit Scotland press release on the matter—it will be published tomorrow—but I cannot help but notice an obvious lacuna in the Executive's thinking: there is no target that applies directly to tackling that crisis in our rural road network. I do not use the word "crisis" with undue hyperbole—in my area, there are tracks that are unfit even for goats, and what little work is done to those goat tracks is done only in winter; the structural maintenance that is required to maintain the roads as fit for use by vehicles with an internal combustion engine has been neglected.

As you know, if a £1,000 repair is not done this year, next year it will cost £2,000 and the year after that the cost will double again. The need for structural work increases exponentially as ice, wind, snow and heavy lorries do their business. Has the Executive failed in not providing a target for reducing the backlog of maintenance that is needed on our non-trunk roads? Will more resources be used to tackle the backlog?

**Nicol Stephen:** We must consider the issue in the context of the significant funding that local authorities are investing in the maintenance and

repair of local roads. Through the GAE formula, the Executive allocates more than £150 million a year to the matter, although some authorities spend more than their allocated GAE funds and others spend less. Highland Council is one council that chooses to spend less than its allocation. Responsibility for local roads rests with local councils, which is the way that things should be—local decisions are made by local councils based on local priorities.

We acknowledge the case that SCOTS has made. However, the Audit Scotland press release suggests that we agree with the figure, which had escalated from £1.5 billion to £1.7 billion in the draft that I saw. It is wrong to say that we have agreed that figure, because we have not worked with SCOTS on the detail. We have discussed the figure, we recognise that there is a backlog and we have listened to the case that COSLA has made, but we have not worked with SCOTS on the issue, because primary responsibility for the local network lies with local councils themselves. However, we have responded to COSLA with an additional £60 million per year for local roads in the budget settlement.

As I have said, that goes through the local government line, rather than through the transport budget, but it is an increase of more than 35 per cent compared with the previous GAE and will take the allocation to more than £200 million per year. With that sort of annual investment, we can make inroads into the backlog of more than £1 billion—if that is the correct figure. However, we will need consistent spending over a significant period, which requires action not only by the Scottish Executive, but by our local councils. They, as well as the Executive, must give the issue a high priority.

17:30

**Fergus Ewing:** I began with the first question, on whether it is justifiable in the world of tough choices to choose new train and tram flagship policies, because there must be a strong argument that while there might be a strong case for one or t'other for Edinburgh and the economy of Scotland, both perhaps cannot be justified in view of the crisis facing rural Scotland. Do you accept that that is at least a valid argument?

Will the Executive reconsider whether the capital cost of one or two of those flagship policies could be better applied to the fleet, because while every navy requires one flagship, it must have other boats as well? Will you reconsider in particular the timescale, because some people have opined that if the congestion charge referendum falls, and no extra cash comes into the City of Edinburgh Council, it will be unable to subsidise the massive shortfall between the Executive's contribution of

£370 million for trams and the estimated total capital cost of lines 1 and 2? Will the Executive reconsider its commitment to the tram and the rail link in the light of the result of the referendum, whenever it takes place, although I understand that it might take place in the spring?

**Nicol Stephen:** There was a lot of speculation in those questions. I am not sure what Fergus Ewing, as a politician, thinks about answering hypothetical questions, but I would prefer to get on with delivering the projects. There is a strong argument for them. If Fergus Ewing, as the transport spokesperson for his party, wants to make a case for dropping one or more of the projects, I would be interested to see his proposals. However, as far as I am aware, as with many parts of the transport budget, there is a good level of agreement on the projects with which we want to proceed. As far as I am aware, all the public transport projects are strongly supported on an all-party basis. If that is going to change, I would be interested to see Fergus Ewing's proposals. My commitment to the projects will not waiver. I am determined to deliver them.

I am also determined to see improvements to the local roads network, which is why we responded to COSLA's request for additional funding. Indeed, the bid from COSLA was for £60 million of additional funding. It knew about the SCOTS report and about the backlog in relation to local roads. I do not think that COSLA has spoken about there being a crisis, but there is a significant issue to be addressed. COSLA requested £60 million, and the Executive delivered an increase of £60 million. That is a major part of the transport proposals that Andy Kerr announced, as Minister for Finance and Public Services, and it will make a significant difference to the quality and condition of our local roads, provided that we keep up the momentum, because the problem will not be solved overnight.

**The Convener:** Does Fergus Ewing want to come back briefly on that?

**Fergus Ewing:** Thank you, convener. On a point of information, can I assume that the minister thinks that it is correct for there to be no target for the maintenance of trunk roads? Secondly, if the backlog figure of £1.5 billion, as estimated by SCOTS, is wrong, what is the Scottish Executive's figure for the cumulative cost of the backlog?

**Nicol Stephen:** The point that I am trying to make, as strongly and clearly as I can, is that responsibility for local, non-trunk roads in Scotland rests with local authorities. Over the years, we have worked hard with local government to devolve responsibilities, to ensure that local authorities have wide discretion over their budgets and to avoid tying them to particular levels of expenditure on different aspects of their budgets.

We do not set targets for how much an authority should spend on education, on local roads or on other aspects of its services; we are concerned with the quality of education and of local roads.

We recognise that there are problems with local roads and that they need more investment. We are committing £60 million more, through the budget allocation to local government, for local road improvements. That is an increase of more than one third; I am pretty confident that that is the biggest increase that we have had since the establishment of the Scottish Parliament—I would need to check on that figure, but it is a significant response to COSLA's request. I believe that since we made that allocation, local councils, including Highland Council, are well placed to make the decisions that are needed to improve the condition and quality of the local road network.

**Fergus Ewing:** So you have no alternative figure for the backlog.

**Nicol Stephen:** The work on the backlog is being done by SCOTS; it is appropriate for it to do that work. If work was being done by another group of directors in local government on other aspects of the local government service, we would not want to intervene and cut across that work because it would be appropriate for it to be done at the local level by the chief officers. They have the information and expertise to deliver their assessment. We want to ensure that we fund local government fairly to make progress on local roads, and the £60 million of additional investment is a significant injection of new funds.

At the end of the day, it is worth saying that SCOTS and local authorities regard the figure that they have identified as their best estimate, but we can all agree that the backlog is substantial and that tackling it will require concerted action for a number of years. We are allocating extra resources and we are in a significantly better position to tackle the problem than we were a month or six weeks ago, before the new Scottish budget was introduced.

**David Mundell:** A while ago, we talked about milestones. One project that I concede has reached many milestones, which are invariably subject to press releases by various people, is the Borders rail link. As you know, you have been questioned about the project several times by this committee, but there remains a lack of clarity about the Executive's funding commitment to it. I would appreciate it if you could take the opportunity to clarify where the Executive stands on the project. You will appreciate that concerns arose when, in the announcement of the Executive budget, a number of projects were specifically referred to—such as the airport rail links, which I support—but there was no specific mention of the Borders rail link. Will you clarify exactly what the

Executive's funding commitment to the rail link is? If you are committed to it, why are you so reluctant to make a formal announcement?

**Nicol Stephen:** First, I am always fascinated when I am grilled on those issues by MSPs from parties that do not have the proposals in their manifestos and are not committed to funding them.

**David Mundell:** I do not think that you have read the Conservative manifesto for the previous Scottish Parliament election, because it was clear on that.

**Nicol Stephen:** If it is clear, I accept what David Mundell says, but that is not the case for all the parties that are represented on the committee. The commitment to the Borders rail link in the partnership agreement is clear and specific, and we are committed to supporting and progressing the project. We are currently examining the business case and considering the consequences of the delay in the parliamentary process, of which all committee members will be aware. It is almost certain that we would have made our view clear had it not been for that delay, which has been unfortunate, but I expect that we will be in a position to make an announcement on the business case soon.

**David Mundell:** Will that be after a specific milestone has been reached?

**Nicol Stephen:** I am not sure what specific milestone you have in mind.

**David Mundell:** We heard earlier about the several pages of milestones that you have. Will funding be announced when the Waverley Railway (Scotland) Bill Committee has concluded its preliminary stage consideration?

**Nicol Stephen:** It is clear that, when I appear in front of the Waverley Railway (Scotland) Bill Committee, as the Minister for Transport, I should be in a position to indicate whether the Executive supports the Waverley Railway (Scotland) Bill. That will be a fundamental part of that committee's consideration of the Borders rail link project.

**David Mundell:** You said "soon", which implies earlier than that, does it not?

**Nicol Stephen:** It does, and I hope to be in a position to make an announcement earlier than that. From what I recollect, I would have been giving evidence to the Waverley Railway (Scotland) Bill Committee round about today if we had kept to the previous schedule, but we are now told that the bill's progress will be delayed into the new year, so I would like to make the Executive's position clear before that.

**David Mundell:** What impact will the current delay have on costs and the ability to deliver the rail link?

**Nicol Stephen:** I do not envisage any significant consequences for cost, but unless the Waverley Railway (Scotland) Bill Committee is able to take action to catch up with its previous timetable, there could be a delay in the Parliament's approving the bill and knock-on effects for the schedule for the acquisition of the land and the letting of contracts. That is why it is important to make progress as quickly as possible.

It is also important to flag up to members the fact that if the consideration of one bill does not proceed according to schedule, that could have a knock-on effect on other bills. That refers back to my point about our desire to keep to our timetable. We will have to continue to inform the committee regularly and to let you know about any problems of that nature, because not everything in the delivery of the projects will be in the Executive's control. The Parliament has a central role in the key approval stage of all the major public transport projects, because of the requirement for a private bill for each of them.

**The Convener:** That brings us to the end of questions on the budget, so I thank the minister for attending and contributing. I also thank all the Executive officials who have supported him.

17:44

*Meeting continued in private until 17:54.*



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