

# **TRANSPORT AND THE ENVIRONMENT COMMITTEE**

Wednesday 21 March 2001  
*(Morning)*

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## CONTENTS

Wednesday 21 March 2001

Col.

SUBORDINATE LEGISLATION.....	1719
ITEMS IN PRIVATE.....	1728

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### TRANSPORT AND THE ENVIRONMENT COMMITTEE

#### 8<sup>th</sup> Meeting 2001, Session 1

##### CONVENER

Mr Andy Kerr (East Kilbride) (Lab)

##### DEPUTY CONVENER

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

##### COMMITTEE MEMBERS

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

\*Robin Harper (Lothians) (Green)

\*Maureen Macmillan (Highlands and Islands) (Lab)

\*Fiona McLeod (West of Scotland) (SNP)

Des McNulty (Clydebank and Milngavie) (Lab)

\*Bristow Muldoon (Livingston) (Lab)

\*Mr Murray Tosh (South of Scotland) (Con)

\*attended

##### THE FOLLOWING ALSO ATTENDED:

Sarah Boyack (Minister for Transport)

Adam Rennie (Scottish Executive Development Department)

Paul Smart (Scottish Executive Development Department)

##### CLERK TO THE COMMITTEE

Shelagh McKinlay

##### SENIOR ASSISTANT CLERK

Tracey Hawe

##### ASSISTANT CLERK

Alastair Macfie

##### LOCATION

Committee Room 1



## Scottish Parliament

### Transport and the Environment Committee

*Wednesday 21 March 2001*

*(Morning)*

[THE DEPUTY CONVENER *opened the meeting at*  
11:34]

### Subordinate Legislation

**The Deputy Convener (John Farquhar Munro):** Good morning, everybody. Now that we are quorate, we can make a start. I am sorry for the slight delay. I welcome the press and the public to the Transport and the Environment Committee's eighth meeting in 2001. I also welcome the Minister for Transport and her officials. Members will be wondering why I am chairing the meeting. Andy Kerr, the convener, is with other conveners in Europe, participating in a European Parliament familiarisation programme.

Today's meeting is an extra one that has been scheduled to allow the committee to consider an instrument under the affirmative procedure within the required parliamentary time scale. I have two apologies: one, obviously, from Andy Kerr, and the other from Des McNulty. The minister and her officials are here to discuss the Special Grant Report No 3: Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area. The instrument has already been circulated to members, along with the Executive note and a committee covering note.

We will follow the standard procedures for handling instruments under the affirmative procedure. I remind members that Executive officials may not contribute to any formal debate after the minister has moved the motion. Only MSPs may take part in the debate, which should not last longer than 90 minutes.

I invite the minister to make some introductory remarks.

**The Minister for Transport (Sarah Boyack):** This meeting is an opportunity to debate a special grant report that is important to the committee. This is the second time that the report has been laid before the committee. It is the fifth report that has been prepared for Strathclyde Passenger Transport Executive since 1997.

The report has been made by Scottish ministers under section 108A of the Local Government Finance Act 1992, as inserted by section 167 of

the Local Government etc (Scotland) Act 1994. It will enable the Executive to provide SPTE with vital financial support for rail services that it has secured for 2001-02 under the terms of the ScotRail franchise agreement.

The report will allow the Executive to pay grant to the 12 councils that make up the Strathclyde Passenger Transport Authority, as the SPTA does not itself constitute a local authority. It is for the councils to make payments to SPTE. Arrangements are put in place that enable the councils to mandate the Scottish Executive to make payments directly to SPTE.

In general terms, the grant pays for the estimated shortfall between the cost of the ScotRail franchise to SPTE and any revenue that is generated by fares together with other sources of income; the direct costs incurred by SPTE in administering its part of the ScotRail franchise; and the making right of a deficit borne by SPTE as a consequence of it bearing the revenue risk in 1999-2000. The other principal source of income for SPTE that we take into account when we calculate the grant level is that generated by the deeds of assumption. Those repay to SPTE the outstanding written-down value of its past capital grants to the British Railways Board and Railtrack.

Once all those factors are taken into account, we estimate that the grant due to SPTE during 2001-02 is about £73.84 million. Last year's report resulted in SPTE being awarded £79.12 million. The reduction year on year is principally a consequence of the declining costs of the ScotRail franchise, which was agreed when it was let in 1997.

Another factor that affects the grant's reduction is a projected increase in the revenue estimated for 2001-02 compared with the estimate for 2000-01. That represents an increase of nearly £2 million to over £52.811 million. SPTE is expected to demonstrate value for money when estimating its direct costs. We have allowed it about £1.556 million for 2001-02.

It might be helpful for the committee if I were to outline the structure and content of the report and to take members through it.

The report's key function is to set out the purposes for which the grant is to be paid. The first annexe sets out the calculations that the Scottish Executive makes to ensure that SPTE receives the correct amount of money to pay the costs of the franchised services. I should emphasise that SPTE's final bills are subject to audit. The second annexe details the conditions surrounding the payments, including the provision of information to the Scottish Executive and to auditors. The Scottish ministers may withhold grant if SPTE has not used the grant for purposes for which it was

intended. The final annexe describes SPTE's role and the method of grant calculation.

In deciding the amount that should be paid to SPTE, the Scottish Executive considered a number of factors, such as the parallel process that was undertaken by the Department of the Environment, Transport and the Regions for the English public transport executives. Some common themes reflect the GB-wide structure of the railway industry, such as estimates of revenue from fares, direct costs incurred by the PTEs and deeds of assumption payments. That in no way prevents us from using our discretion in Scotland when arriving at an agreed figure for the grant, but it enables us to do so from a more informed position. It is important to note that, in arriving at the proposals contained in the report, we held detailed discussions with SPTE, which broadly accepts the basis on which we calculated the grant.

By underwriting the cost of the ScotRail franchise, the special grant report has already allowed the company to invest in new trains, enhanced levels of service and better customer care, safety and security, in what I believe is a close and productive partnership with SPTE.

I commend the report to the committee. It will allow SPTE to continue to deliver on its existing commitments, to build on its achievements and to seek further improvements in the quality and reliability of its supported services.

**The Deputy Convener:** Thank you, minister.

Do members have any questions or comments?

**Mr Murray Tosh (South of Scotland) (Con):** I have a number of questions.

First, the minister quoted the forecast expenditure of £79.12 million for the current financial year. Has there been any consideration of the potential impacts on SPTE of the disruption to rail services that took place after the accident at Hatfield? I imagine that such impacts would be relatively slight, but some consideration must have been given to them. Secondly, may I clarify whether the costs associated with that disruption were covered by other income generated within SPTE or whether they form part of what is likely to be the final, or outturn, payment for 2000-01? I am aware that Railtrack is expected to pick up a lot of the shortfall, and it is important that the minister is able to assure us that the public purse is not paying out unnecessarily, given that there is an automatic—that might not be the right word—expectation that the final payment will relate to actual deficits that the SPTE has had over the year.

**Paul Smart (Scottish Executive Development Department):** The SPT made representations to

us on the impact of the disruption on its revenue, through the fares box, for the current financial year. We will take the disruption into account when we see the final, accounted revenue figures in the grant calculation for 2002-03. That is when any disparity between the estimated revenue for the relevant financial year and the actual figures will be reconciled through additional support for SPT, if we think that such support is appropriate. Ultimately, we underwrite the amount of revenue that SPT earns from its fares box, to ensure that it is not out of pocket as a result of disruption that is not its fault.

**Mr Tosh:** I have a supplementary question.

Where would such additional expenditure come from? Would it come from the Scottish assigned budget or would it be a consequential of some UK-wide adjustment of subsidy payments? If it were to come from the Scottish assigned budget, would it come from the minister's transport budget, or from some kind of contingency arrangement, end-year flexibility or any of those other little devices with which the Executive delights us from time to time?

**Paul Smart:** A relatively complicated system of compensation runs throughout the privatised rail industry, in relation to who is ultimately responsible for delays and therefore for passing on compensation.

In the present case, the relationship is clearly between ScotRail and Railtrack, reconciled in adjustments to the payments that are due to ScotRail from SPT for the service in 2000. To answer Mr Tosh's question about where support might come from, an attempt is made to make some provision for SPT to allow for any adjustments that are required two years later, to take account of differences between estimated costs and revenue in any given year and actual costs and revenue. I know that that is a fairly complicated way of describing the situation, but that is how the circumstances are taken into account.

11:45

**Mr Tosh:** I think that I understood that response, but your initial answer allowed for the hypothetical possibility that some public funding might have to be involved, if you were unable to reconcile all the claims among the various private sector providers and funders.

If public sector funding were to be involved, which pocket would it come from? Would it come from a DETR budget or from a Scottish Executive budget?

**Paul Smart:** I understand that such funding would come from the Scottish assigned budget, but any allocation to that budget from the UK

Government would take into account developments in compensation at GB level.

We will have to wait to see what the consequences might be of reconciling what happened in 2000-01 with what we estimated might happen at the beginning of that year. We will take account of it in two years—that is, before 2002-03.

**Bruce Crawford (Mid Scotland and Fife) (SNP):** Murray Tosh's line of questioning was interesting.

I want to look forward to the next financial year and the timing of the process. We are still waiting for information to come in from SPTE about the impact of the disruption post-Hatfield. The minister explained quite well the formula of how the money is allocated for the next financial year. However, it is obvious that, at this stage, you will not have been able to take account of any of the Hatfield issues in relation to the projected increases in SPTE's income. If the commentators are right and there is to be a short-term downturn in the number of people using the railways, we might expect SPTE to come back and say, "We have not reached the expenditure figures that we expected." Would those figures be dealt with in the same way as the figures for this financial year and which Murray Tosh tried to identify? How do we deal with that turbulence in relation to additional moneys for the SPTE?

**Paul Smart:** As I said, the reconciliation takes place two financial years after the event and is based on the audited accounts that we receive from SPT.

**Bruce Crawford:** It is still the same process.

**Paul Smart:** That ensures that we have an audited trail of what happened during the financial year in question. For example, if there is a downturn in actual revenue for 2000-01, against the estimated revenue, that will be reconciled for the report for 2002-03, rather than for the report for 2001-02. The reconciliation is based on the audited accounts of SPT's performance in the year in question.

**Bruce Crawford:** So, you stick to the rigid formula and deal with reconciliation later, rather than trying to find ways of making adjustments at an earlier stage.

**Sarah Boyack:** Yes.

**Bruce Crawford:** A sudden downturn in expected revenue might cause some difficulties to an organisation such as SPTE, which might use some of that money as capital for development purposes. However, I do not know how the matter could be dealt with differently.

**Sarah Boyack:** Plans are made over a period

and the key is that the accounts are properly audited, so that we can keep track of them. Over that period, other situations might arise in the network. We talked about the short-term downturn in passenger use of the railways, but we hope that passenger use will rise again. By not conducting the reconciliation overnight—it might cause even more problems for SPTE and the rail industry if they tried to bottom out instantly—we are able to make use of a slightly longer time span, which allows us to ensure that we get the formula right.

**Bruce Crawford:** That is interesting.

**Mr Tosh:** I do not know whether any significance is attached my final question. The estimated payment for this year is £73.84 million, but in the budget that was produced at the beginning of the year the Executive projected a payment of £77.5 million. I find that slightly surprising; one would have expected some form of compensation for losses. Should we attach any significance to a reduction of almost £4 million in the estimated budget from January to now? Is that normal?

**Sarah Boyack:** That figure was the best estimate when the budget report was pulled together. It changes within the year. The process allows it to change as long as we receive feedback from SPTE. It is important to build some flexibility into the system, partly because huge amounts of money are involved and passenger numbers could fluctuate. We think that that makes sense. It is quite important that you have drawn that to the committee's attention. By flagging up the figure in the budget report, we are able to make a tighter estimate later in the year, as the monthly figures come through.

**Mr Tosh:** I appreciate that. I just wondered whether you could say offhand what had changed. Is the expectation about SPTE's income more buoyant? Is it successfully reducing costs somewhere? It is a reasonably tidy sum of money.

**Paul Smart:** Our estimate of the grant for the coming financial year is based on estimated outturns for the current financial year. That is the most reliable way in which we can calculate. When we make estimates for the purposes of the budget, we have precedent that is less recent on which to base the calculation. We must build in some contingency to allow for any in-year changes. They are allowed for in payments to SPTE, principally in relation to the application of the performance regime that applies to ScotRail. For the budget report, the figure is adjusted year-on-year to take account of what happened in previous years in allocating grant to SPTE.

**Mr Tosh:** Is that saving of £4 million a saving to the departmental budget, which gives you some flexibility under other headings?

**Sarah Boyack:** The money has the potential to do that.

**Bruce Crawford:** I will raise a wider issue about how all that links together. Mr Rennie's comments last time he spoke to the committee are interesting. He said:

"The privatised rail system works"

something like

"a financial merry-go-round."—[*Official Report, Transport and the Environment Committee*, 29 March 2000; c 482.]

The more I dig away and try to understand the system, the more it seems like that. From what Mr Rennie said last year, I understand that some of the money could find its way into capital expenditure, because of the financial merry go-round. That is probably good, because it allows for some development.

I want to understand how the grant money that is given to the SPTE links in to the Strategic Rail Authority's 10-year spending programme, which was announced last week, because all the elements that related to Scotland were subject to consultation with the Scottish Executive. Did that 10-year plan contain any elements that related to the SPTE area? If so, how do we know how much of the money from that revenue expenditure finds its way into SPTE's development programmes through the SRA? How we account for that intrigues me.

**Sarah Boyack:** The key point is that that money pays mainly for the ScotRail franchise from 1997, which we inherited. It continues those payments. Adam Rennie will pick up the points about how that fits in with the SRA. There is no direct relationship on the basis of the existing franchise.

**Adam Rennie (Scottish Executive Development Department):** The payments are to support a set of payments by SPTE to ScotRail for the provision of a specified level of service under the terms of the franchise. The SRA's strategic agenda—not yet of course a strategic plan—maps out the broad directions in which it wants to go, which may well include rail projects. We hope that rail projects in Scotland will be included. Their financing will be a separate issue from our mechanism for supporting SPTE's payments to ScotRail. To put it another way, if SPTE could cover its payments to ScotRail with its revenue from passengers in the area, we would not need to be here—we would not have to give SPTE a special grant. Obviously, that is not the case.

**Bruce Crawford:** In that case, will you give some examples of projects that might happen in the SPTE area and where the capital expenditure payments might end up? That would help me to understand.

**Adam Rennie:** I do not want to anticipate the SRA's strategic plan, but it is no great secret that projects such as rail links to airports are important in any overall strategic agenda for rail. That is one example.

**Bruce Crawford:** Is there no way in which the money, in the form of capital expenditure, could find its way into that programme to help with links to airports?

**Adam Rennie:** The money will support payments for the ScotRail franchise. In turn, ScotRail pays a great deal of that through to Railtrack, by way of access charges. Those charges support Railtrack's expenditure on maintaining the network and its capital expenditure for enhancements. Paul Smart may correct me on that. I do not think that any major enhancements that arise from the present set of payments are in train in the SPTE area.

**Paul Smart:** The original franchise agreement of 1997 includes commitments to replace electric stock, for example. That is in the process of being implemented and is incorporated, effectively, in a calculation about how much it will cost ScotRail and, in turn, SPTE, through subsidising revenue payments to ScotRail to take account of the cost of acquiring the new trains.

If there is an operational deficit, a similar formula may apply to future calculations of the grant, should the projects that require operational deficit funding come on stream in the franchise or through the negotiations under a new franchise agreement. They would flag up where there would be an operational deficit and where there might be a legitimate call on such funding to SPTE to secure rail services that operate on those new routes or those new capital assets, whether they are stations, new track or new trains.

**Bruce Crawford:** Thank you. I think that I understand that a bit more clearly.

**Bristow Muldoon (Livingston) (Lab):** I apologise for arriving late. I hope that the witnesses have not already answered the questions that I will ask. I will follow up some of the questions that Bruce Crawford asked about how the post-Hatfield situation might affect the funding of SPTE.

Is it fair to say that the ScotRail franchise was far less affected by disruption post-Hatfield than many other rail franchises? Is it therefore reasonable to assume that any drop in passenger numbers would be likely to be reversed more quickly in the ScotRail franchise? Could the strong growth in the ScotRail area pre-Hatfield be expected to return to normal levels more quickly in the ScotRail area than in others?

**Paul Smart:** That is a fairly accurate description



of the impact of Hatfield on the Scottish network. Some routes were severely hit, particularly the east coast main line and the west coast main line, but within SPTE's network there was little disruption that could be attributed to post-Hatfield Railtrack requirements to examine gauge corner cracking, for example. Compensation was offered to season ticket holders on probably only two routes throughout the SPTE network. That contrasts with others in the ScotRail network, where more compensation was offered, particularly to passengers travelling from Fife or Dunbar to Edinburgh. However, within the SPTE network as a whole, there was little requirement for compensation because the disruption was negligible.

**The Deputy Convener:** As there are no more questions, I thank the minister and her officials for their comments. The committee will now consider the motion.

*Motion moved,*

That the Transport and the Environment Committee recommends that the Special Grant Report No.3: Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area be approved.—[Sarah Boyack.]

*Motion agreed to.*

**The Deputy Convener:** Members will understand that the committee must report on the instrument by 26 March 2001. Do members agree that the clerks should prepare a short report to the Parliament, setting out the committee's recommendations?

**Members indicated agreement.**

**The Deputy Convener:** I thank the minister and her officials for attending.

## Items in Private

**The Deputy Convener:** I have one little item to clarify. The next committee meeting will be on Wednesday next week. Does the committee agree to consider the following items in private: further viewing of the evidence taken on the water industry, consideration of possible witnesses and advisers for the committee's inquiry into the management and maintenance of trunk roads and, if necessary, consideration of possible witnesses on the budget process?

**Members:** Agreed.

**The Deputy Convener:** Finally, a paper on the timetabling of committee meetings will shortly be produced by the conveners group. That paper is to be considered by the committees. The recommendation is that consideration of that paper be taken in private. Are members content with that?

**Members indicated agreement.**

**The Deputy Convener:** I thank members for their attendance on this cold spring morning. It has been a short meeting, but nevertheless quite an important one for the large section of our community who use Strathclyde Passenger Transport's services.

*Meeting closed at 12:01.*



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