

TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

Tuesday 29 January 2008

Session 3

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TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

2nd Meeting 2008, Session 3

CONVENER

*Patrick Harvie (Glasgow) (Green)

DEPUTY CONVENER

*Cathy Peattie (Falkirk East) (Lab)

COMMITTEE MEMBERS

*Rob Gibson (Highlands and Islands) (SNP)
*Charlie Gordon (Glasgow Cathcart) (Lab)
Alex Johnstone (North East Scotland) (Con)
*Alison McInnes (North East Scotland) (LD)
*Shirley-Anne Somerville (Lothians) (SNP)
*David Stewart (Highlands and Islands) (Lab)

COMMITTEE SUBSTITUTES

Alasdair Allan (Western Isles) (SNP)
Gavin Brown (Lothians) (Con)
John Park (Mid Scotland and Fife) (Lab)
Tavish Scott (Shetland) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Charles Coulthard (Water Industry Commission for Scotland)
Katherine Russell (Water Industry Commission for Scotland)
Alan Sutherland (Water Industry Commission for Scotland)

CLERK TO THE COMMITTEE

Steve Farrell

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Clare O'Neill

LOCATION

Committee Room 1

Scottish Parliament

Transport, Infrastructure and Climate Change Committee

Tuesday 29 January 2008

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

Water Industry Commission for Scotland

The Convener (Patrick Harvie): I welcome everyone to this meeting of the Transport, Infrastructure and Climate Change Committee, and remind you all to keep your mobile phones and BlackBerrys switched off.

We have three agenda items, the first of which is an evidence-taking session with the Water Industry Commission for Scotland. I welcome to the meeting Alan Sutherland, the chief executive of the commission; Katherine Russell, director of corporate affairs; and Charles Coulthard, a commission member. Do you wish to make some opening remarks?

Alan Sutherland (Water Industry Commission for Scotland): It might be useful if I take a couple of minutes to introduce ourselves. First, I should point out that I have brought Charles Coulthard along with me because he is the chairman of the commission's audit committee.

As you know, the commission was established by the Water Services etc (Scotland) Act 2005 and came into being on 1 July 2005, which makes us about two and a half years old. The commission replaced the post of water industry commissioner, which had existed since 1999. There is quite a big difference between the commission and the commissioner: whereas the commissioner advised the Scottish ministers on the charges that customers in Scotland pay, the commission has the power to determine them.

More important, the 2005 act established a clear framework with clear responsibilities and accountabilities for the Scottish Government, the commission and Scottish Water, and we should bear that framework in mind in this discussion. After consultation, the Government sets the industry's objectives and specifies in some detail desired outcomes, such as the kilometres of river to be cleaned up, the discharges to be removed and the amount of manganese allowed in water. There are also targets for asset maintenance, environmental and public health improvements, removal of development constraints and levels of customer service.

Under the 2005 act, the Scottish Government sets out the principles of charging according to which the commission should operate, including on the level of borrowing that the Government is prepared to make available; the unwinding of any cross-subsidies, either between household and non-household customers or between different classes of non-household customers; and more general issues, such as the harmonisation of charges throughout Scotland.

The commission is obliged by the 2005 act to set Scottish Water's charges at the lowest reasonable overall cost to meet all the ministerial objectives within the principles of charging established by ministers. The commission therefore faces two constraints in setting charges. We must ensure, first, that everything that ministers want is properly financed, and secondly, that the way in which money is raised from customers is consistent with the principles of charging that have been specified, again, by ministers.

In that sense, we are charged principally with calculating the costs of delivering what the Scottish Government wants. In its turn, Scottish Water is responsible for deciding whether it can live with the prices set by the commission. If it so chooses, it can refer the matter to the Competition Commission in London for a second determination of the correct level of charges. The Competition Commission would be required to carry out the same calculations, taking into account ministerial objectives and charging principles.

Such a move is not a one-way bet. If Scottish Water chose to refer the matter to London, it could end up with a worse deal than the one it already had. Therefore, the limitation on Scottish Water is that either it accepts what is on offer or it takes the risk of arguing its case in London. Clearly, we would be confident that we had found a good enough and reasonable solution.

In late 2005, we set charges for the period until the end of March 2010. Household bills for each of the four years were to increase at the rate of inflation defined by the retail prices index—rather than any of the more modern indices that have appeared—minus 0.5 per cent. On average, non-household charges were to increase at 1.5 per cent less than the rate of retail prices inflation. Some businesses will see their prices increase by a bit more than that—most obviously some trade effluent customers, whose bills have been much lower than the costs of serving them. However, some businesses will see their bills increase by less than that. The figure for businesses that I have given is the average, and bills will depend on the level and type of services that each business takes. Clearly, there are greater differences between different types of business than between

different types of household. As such, household averages are more reliable, while averages across businesses are not anything like an average. Scottish Water accepted the challenge of delivering everything that ministers wanted in that pricing framework.

The 2005 act also gave the commission responsibility for introducing a framework for competition in the water industry for non-household customers. That work has progressed well, and the market will open on 1 April, in line with discussions during the consideration of the 2005 legislation in committee. We are confident that the framework will be good for all non-household customers—and for all household customers as well. We are already seeing Scottish Water and its retail arm Business Stream reducing their costs as a direct result of the new framework, beyond what would have been achieved simply by regulation. The new market is also likely to lead to more tailored services, and there is growing evidence that more environmentally friendly solutions might be offered to non-household customers, again as a consequence of the framework.

Finally, last autumn we published our annual reports on Scottish Water's performance. They updated the views set out in our own annual report, which we published in June last year. It is pleasing to say that Scottish Water is doing well, certainly in two areas: cost reduction and customer service improvement. It is well ahead of schedule in both, which is encouraging. However, we have some concerns—which were expressed in our annual report, were confirmed in the performance report in the autumn and are still with us—about the delivery of the investment programme in the regulatory control period. We recognise that the investment programme is large, but just over two years of the regulatory control period remain, and we will need to see a marked acceleration in the delivery of the programme if there is not to be a delay in delivering some of the benefits that ministers have specified for the industry.

That concludes my short introduction. I hope that it was not too long. I am happy to answer any questions.

The Convener: Thank you, Mr Sutherland. I will kick off by asking about one issue that you mentioned: the preparation for competition in the market. It would be hard not to ask about it as it has been a major element of your work of late. The market is due to open in April. How much competition will there be at that point?

Alan Sutherland: So far, the commission has licensed three entities, one of which is Scottish Water's separate retail entity Business Stream. The two other entrants are smaller, as the

committee has been told previously. We are also in discussion with at least two other parties that are likely to seek licences. Whether they will be in place before 1 April is not certain, but it is not impossible. Some choice will be available, which is clearly better than no choice. What is most startling is the significant change in how Business Stream deals with its customers, as a consequence of the new framework.

The Convener: I note the statement that some choice is better than no choice. There may be a range of political views about that but, given that your task is to prepare for competition in the market, are you satisfied that the asserted benefits of competition and choice will be adequately delivered by the actual level of competition that will take place?

Alan Sutherland: We have recently conducted a cost-benefit analysis of the introduction of competition. Before we start talking about any service improvement, if we consider just the cost side of the equation, we see that costs for Scottish Water and Business Stream are lower than they would otherwise have been had we not had the new framework. Households as well as non-households will benefit because, as a consequence of the framework, costs will be lower than they would otherwise have been.

Beyond that, we are also seeing evidence that each of the new licensed companies is beginning to offer more customer-focused solutions for non-household organisations, such as aggregated bills, waste management and water efficiency advice. Essentially, all those service enhancements will be obtained for free, because costs will be lower as a consequence of the framework.

The Convener: The costs will be lower as a result of the framework and not as a result of competition. Is that correct?

Alan Sutherland: We have not yet seen what will happen as a result of competition. However, the threat of competition, the introduction of the new framework and the separation of the retail and wholesale sides of Scottish Water have led to an overall reduction in costs that we would not otherwise have achieved.

The Convener: You said that the new entrants that have been licensed or with which you are in discussion are smaller. How much smaller are they? Will they compete across wide geographic areas or are they designed to supply known and pre-identified captive markets of specific buyers, for want of a better word?

Alan Sutherland: Both companies are new entrants to the market, so it is inevitable that they are much smaller than Scottish Water, which will start with all the non-household customers. The new entrants have general licences that require

them to be prepared to offer the default tariff—the maximum tariff, which must be made available to any business anywhere in Scotland—irrespective of whether or not they want to serve that customer.

The Convener: So the new entrants are not bespoke suppliers for specific customers.

Alan Sutherland: No. They cannot pick out all the newsagents in Edinburgh, for example, or customers that they consider would incur a lower cost to serve. The newsagent in Shetland or Stornoway has the same protection as the newsagent in Edinburgh.

David Stewart (Highlands and Islands) (Lab): I understand that, as you said, you have a giant—Business Stream—and two small operations that will take a lot to overcome the huge barriers to entry to competing in the market. Your remit covers Scotland, so you will probably not be able to answer my question, but I understand that Business Stream's meter reading operation already works at Heathrow airport. Do you see the general market extending to England and other parts of Europe, the economic advantage of which would be to build up large economies of scale so that companies can better compete and give a better service to their customers, as has happened in other utility markets? What is your general view of that analysis?

14:15

Alan Sutherland: The regulator in England and Wales has made clear its view that competition is not yet working there and that it wants a number of steps to be taken to make the framework effective.

As I understand it, the Scottish Government allows Business Stream to explore commercial opportunities south of the border. Should Business Stream seek a licence in England and Wales—there is no particular reason why it should not gain such a licence—it would be the only company in the United Kingdom that could supply a non-household customer in any part of the United Kingdom, because there is a restriction on incumbent companies in England serving anyone in their own area on a competitive basis. Business Stream would be at an advantage vis-à-vis the companies south of the border.

I am quietly confident that some of the larger companies from England will make service options available to Scotland, probably in the next six months to a year—no later than that.

David Stewart: I presume that the market will follow more mature markets, such as telecommunications, water south of the border and gas, where market entrants have tried to differentiate according to either price or quality, but

not both, because it is hard to achieve on both. Do you predict that you will follow the well-worn path of other utility providers in other markets?

Alan Sutherland: I agree with that, but with one caveat. One of the fundamental differences between a water and waste water market and an energy market is that, in the former, there is no easily transportable commodity that is traded on world markets. You will not get the price volatility that we have seen recently in the energy markets. We are not talking about the kind of market in which household gas and electricity bills go up by 15 per cent or whatever as a function of wholesale prices. Will some people get price offers with a cheaper and more cheerful service? Yes. Will others get services such as aggregated billing and more advice on recycling or using grey water? There is almost no doubt.

The 2005 act contains a useful facility that allows for additional cost savings to be passed on to customers who do things to reduce their burden on the system. The customers who do more recycling or deal with the drainage of their properties in a more sustainable way will get price advantages, which has to be a good thing.

The Convener: Thank you. No doubt the committee will want to keep an eye on whether the customers who receive the cheap service stay cheerful, but that remains to be seen.

In the chairman's foreword to the annual report, he writes that Scottish Water is

"conscious of the wishes of customers not to see inflation-busting increases in their utility bills."

Is that not a presentational issue, about whether there could be increases or decreases in the bills? It also relates to what customers see. Will you comment on the current arrangements for collecting domestic customers' water charges with the council tax? Is there a transparency problem to be solved?

Alan Sutherland: There are two parts to that question. Household collection rates have been improving. For household water customers in Scotland, the total cost of administering and collecting bad debt is as low as it is for any company in England and Wales. In a sense, the debt issue is not impacting on customers as directly, so as well as the obvious headline non-payment issue there are benefits to customers in the current system. Any improvements in the household payment rates would feed straight through into bills, which would be good.

Social policy is a matter for the Scottish Government and the Parliament. It is for them to decide the most equitable payments for households. The benefits that are available through council tax benefit, single person

discounts, the 3:1 ratio for council tax bands H to A and so on are a matter for Parliament.

Another question that may arise is, if there were a local income tax, how would water and sewerage charges be collected? That is also a matter for the Government.

The Convener: We will park that one for a while.

Alan Sutherland: It is a big one.

Cathy Peattie (Falkirk East) (Lab): I bring us back to competition. You spoke about the threat of competition. What is the Water Industry Commission for Scotland's view of further competition within the water industry in Scotland? Is it necessary?

Alan Sutherland: At this stage, we want to show that the work that we have done over the past few years to introduce a framework is bringing benefits to customers. Once we show that those benefits are manifesting themselves—as the convener rightly said, the level of service is as important as price; there must be no shortcuts—it may be right to discuss having more competition, but let us first confirm that what we have done is working and is delivering the benefits that we think it will deliver. After a period, it might be right to come back and say that other things can be done. Competition is not an end; it is a means to an end. The end is a better deal for customers, the environment and society.

Cathy Peattie: The chairman's foreword to the annual report states that Scottish Water

"points the way to what the public sector in Scotland can achieve for the Scottish people."

Does the commission have a view on the need to change Scottish Water's ownership status?

Alan Sutherland: No, the commission does not have a view.

Charles Coulthard (Water Industry Commission for Scotland): It is not our decision, anyway. In addition, if we seriously considered any change, we would be considering changing what is probably the most efficient company in the United Kingdom. Scottish Water has a way to go, but it is getting there. If we wanted it out, we would want it out on top.

Cathy Peattie: Your answer is that, at the moment, public ownership is the best way forward.

Charles Coulthard: The best way forward at the moment is a publicly owned company getting better.

Cathy Peattie: I like that idea.

The Convener: Is that compatible with the position, as reported in *The Scotsman*, that Sir Ian Byatt took in favour of mutualising Scottish Water?

Alan Sutherland: I am not sure that that is what Sir Ian Byatt advocated.

Charles Coulthard: The fact that the regulatory contract, if you will, between the regulator and the Scottish Government depends on all of us playing our part has been raised by us and by Sir Ian Byatt. It currently depends on the Scottish Government delivering some money every year. The only point that Sir Ian Byatt may have made was that, if the Scottish Government found that that became an ever-increasing burden, we might have to look for another way forward in which the regulatory contract would be satisfied and Scottish Water could undertake the investment that is needed if we are to have a better-quality service for all customers and the environment.

The Convener: But the commission's position is that that ought not to be necessary.

Charles Coulthard: It should not be necessary.

David Stewart: On page 10 of the report, in the chief executive's review section, you say:

"We are mindful of the need to keep bills as low as possible—for today's customers and for future generations".

How do you balance the need to keep down increases in water bills against the extra costs that Scottish Water may incur, particularly in taking action to reduce climate change impacts on its business?

Alan Sutherland: We worded that carefully. Bills should be kept as low as possible. I return to what I said in my opening statement on the framework. It is for the Scottish Government to decide what outcomes it wants from the industry and to cast them in terms of environment improvement, customer service, reductions in carbon generation and so on. We assess the lowest cost at which that should be achievable and set prices at that level. This is not about saying prices cannot go up, or prices must go down, or prices can go up, but only by X or Y. This is about asking how much it will cost to deliver efficiently what ministers have specified. That is where we are at.

David Stewart: If I understood you correctly, you said that any change in the external environment, such as new legislation—as you know, we expect new legislation this year on climate change—will increase costs for the business. The other side of the equation is that that is understandable, to some extent at least.

Alan Sutherland: Yes. Some of those changes might increase costs, and some might reduce them. Carbon reduction targets could increase costs in some areas, but they are likely to reduce them in others. In order to meet the Government's

objectives, we have to look at the whole of Scottish Water and all its costs.

Charlie Gordon (Glasgow Cathcart) (Lab): The chief executive's review in the report says that

"Capital cost efficiencies now need more attention"

and that in the capital programme for 2006 to 2010,

"there already appears to be some significant slippage."

You go on to say:

"As we look forward we must question whether or not such levels of investment are deliverable at efficient prices."

What is the commission doing about those issues?

Alan Sutherland: The commission is doing a few things. I will first address the agreed programme, on which we are carefully monitoring delivery—I will give the committee some of the numbers. As I think Scottish Water told the committee, it spent £413 million in 2006-07 and I think the committee was told that that was £37 million less than had been forecast. The figure was actually £127 million less than what had been financed in that year. Scottish Water chose to use a different profile, which meant that things were more back-end loaded. Our view was that the £127 million was a reasonable profile in terms of the delivery of the capital expenditure programme: we raised our concerns at the time of our annual report and in our investment performance and we said that we wanted Scottish Water to accelerate things in order to deliver its very large investment programme.

14:30

The capital programme is, looking forward, extremely large, which is what I was trying to explain in the words that Charlie Gordon quoted. We tend to use real-terms numbers and a particular base-year price—the 2003-04 price—so that we can more easily make year-on-year comparisons or comparisons between other periods. We allowed and financed a capital programme of £2.15 billion over four years, which is the second largest four-year programme in the United Kingdom. Only Thames Water is doing more, but it has about one and a half times as many water customers and about two and a half times as many sewerage customers as Scottish Water, which gives you an idea of the levels of investment.

Scottish Water's current investment programme represents the largest investment per connected property in the UK by a fair way. Investment per connected property is probably the best way to appreciate the scale; when we consider the investment in those terms, we find that it is in the top eight or nine programmes for any water

company at any time in the past 20 to 30 years, so we are challenging Scottish Water to deliver an extremely large programme. The only water companies that have delivered larger programmes per capita had programmes that were a fraction of that size. The capital programmes for Devon and Cornwall in different periods were bigger per connected property, but there was a relatively small number of people, which represents a capital programme that is perhaps a quarter of the Scottish Water programme's size.

We must think seriously about whether we can continue to deliver all that investment efficiently without putting pressures on the contracting market, on Scottish Water to be able to deliver the investment and, to be frank, on everyday life. Can we, for example, tolerate more disruption to roads and transport? We commissioned independent analysis of that, which we published at the end of December and in which we conclude that a capital programme in the low £400 millions per year is more likely to be delivered efficiently over the medium to long term than one in the low £500 millions per year.

I will put that £400 million a year in perspective. It would still represent a programme that would be quite a bit larger than those for the likes of Anglian Water Services or Yorkshire Water, which are similar-sized companies. We would still be talking about a faster rate of investment in public health, the environment and customer service improvement than in England and Wales.

Charlie Gordon: The indications from that analysis are that a smaller annual programme could be delivered more efficiently.

Alan Sutherland: Yes.

Charlie Gordon: With such resources, over the term of the programme the aggregate investment in the industry would, however, be less and politicians might be tempted to push forward non-water priorities.

Alan Sutherland: You will know what politicians might want to do.

Charlie Gordon: Unfortunately, I am the wrong one to ask.

Alan Sutherland: I guess that I am saying that it would not be in the customer's interest—or, indeed, anyone else's—if, at the margin, what we did about trying to spend more money was simply to bid up contracting rates because capacity was not available.

Charlie Gordon: That is an issue, but is it not slightly separate from the one that you touched on a moment ago? You said that the analysis showed that it may be more efficient to have a £400-million-a-year programme rather than a £500-million-a-year programme.

Alan Sutherland: Yes.

Charlie Gordon: I understand that, but will you tell us a bit more about the other issue, which is the pressures from the contracting industry?

Alan Sutherland: It is part of the same issue.

Charlie Gordon: It is a different aspect, if not a separate issue.

Alan Sutherland: Yes, it is. The report is on our website, but I can send it to you. It considers all such issues and it comments on them. The civil contracting market in Scotland is estimated to be worth about £1.2 billion a year. If we take up £500 million of that for water and sewerage, all the other elements of the civil contractors' build, such as roads, schools, hospitals, airports—

Charlie Gordon: Is Scottish Water quite relaxed about the notion that it should have a smaller annual programme?

Alan Sutherland: Most people in Scottish Water would say that the present programme represents the maximum that the organisation should ever have to deal with.

Charles Coulthard: The commissioners met the board of Scottish Water to discuss the issue and discussions have taken place at senior executive level. Scottish Water is trying to overcome the problems of managing such a large investment programme, but it recognises that, ultimately, the present programme might be a bit too big to manage efficiently without increasing the inflationary pressures on the rest of the civil engineering industry in Scotland—which Mr Sutherland commented on—the spin-off from which affects schools, roads and hospitals. Everyone loses as a result of the money being wasted through inflation.

Charlie Gordon: So you are looking at the problem—

The Convener: Could you please conclude the line of questioning fairly briefly?

Charlie Gordon: Okay—sorry. I will conclude there. Perhaps we can obtain the analysis that Mr Sutherland mentioned.

The Convener: That is appreciated.

Shirley-Anne Somerville (Lothians) (SNP): A section of your report mentions that in the four-year period 2006 to 2010,

“bills for most household customers will increase at 0.5% below inflation.”

That is welcome, but will any domestic customers receive an above-inflation increase? If so, which groups will be affected?

Alan Sutherland: That will happen only to customers whose circumstances change—for

example if, for whatever reason, someone's house gets a new council tax band or the status of their household changes. A husband-and-wife household in which the wife was a student would qualify for the single-person discount, but if the wife were to start working, the single-person discount would no longer apply. In effect, that would amount to an above-inflation increase. Only in such circumstances will customers receive above-inflation increases.

Shirley-Anne Somerville: There are no other circumstances in which you foresee people having that problem.

Alan Sutherland: If the water usage of the 440 metered households in Scotland were to change, they might experience a bigger increase, but they probably ought to.

Shirley-Anne Somerville: A variety of measures of inflation exist. Even though the increase in bills might be less than 3 per cent, that might represent an above-inflation increase, given some of the recent wage settlements. Have there been discussions about the measure of inflation that is used? Are you satisfied with the current mechanism?

Alan Sutherland: Regulation—not just in the water industry in Scotland and south of the border, but in other sectors—has always used a link to retail price inflation, which seems to be a perfectly reasonable link to the costs that Scottish Water incurs. The increase is calculated on the basis of the September retail prices index statistics. As of 1 April, the increase in household bills will be 3.74 per cent. That is 0.5 per cent less than retail price inflation in September, which was 4.24 per cent.

Shirley-Anne Somerville: The report says that the increase will be 0.5 per cent below inflation over the four-year period. Do you anticipate any changes within that four-year period? I am assuming that the figure is an average over the four years.

Alan Sutherland: No—the figure applies to each year's increase. Bills will change by whatever the September RPI figure is, minus 0.5 per cent. That could change only if the commission conducted an interim determination, which could happen because it thought that some of what had been financed in the contract was not being delivered or because Scottish Water thought that it faced other costs that were outside its control and ought to be recognised. An interim determination should be a last resort—they are not meant to be triggered. There is meant to be visibility over the medium term for households and businesses.

Shirley-Anne Somerville: Do you foresee the circumstances that you outlined arising or are you confident that changes will not be required?

Alan Sutherland: We have continued to refer to the capital programme because there are issues relating to it. We want acceleration of that programme. We do not want large non-delivery in the capital programme at the end of the regulatory period because it would not be in customers' interests or in the interests of the Government in managing public finances.

Alison McInnes (North East Scotland) (LD): Page 12 of the report clearly explains the effect of the efficiency targets that the commission set for the 2002-06 period. You have emphasised that you believe that bills were, on average, £90 a year lower than they would have been without the efficiency targets. In the foreword to the report, you noted that Scottish Water had not only met but had outperformed on its efficiency targets for 2002 to 2006. With hindsight, does that mean that the targets were not tough enough? How has that experience been taken into account in setting targets for 2006 to 2010?

Alan Sutherland: We talk about setting incentives and incentive-based regulation, although those phrases probably ought to be in one of those business textbooks on bad old jargon. However, we are essentially talking about allowing management to look good if, as a result of hard work, it can do better than reach a target. Sometimes targets can be aspirational—if we get 95 per cent of the way to such targets, we can agree that we have done quite well—but the targets in question are not aspirational. In our determinations, we talked several times about the targets being the minimum acceptable level of performance. We mean that the targets are for things that we know can be done. We challenge people to go and do those things, but we know that if people are as determined as we think they can be, they can do better than reach such targets. No company ever likes such a thing to be said, just as none of us would ever like it to be said to us, as it is invasive.

I will give an analogy. If I know that someone can give me something by Friday morning, I will say that Friday lunch time will do. The person will not commit to giving it to me on the Friday morning unless they know that they can have the work done by Thursday night. That is how the system works. Such an approach ensures that if Scottish Water does better and we are in a fortunate position with respect to customer service and reducing operating costs, that will be good for it and for customers' confidence in their public sector water supplier. That must be good.

Alison McInnes: Will you explain more clearly what efficiency targets have been set for 2006 to 2010? Do you expect Scottish Water to strive to outperform on those targets?

Alan Sutherland: The efficiency target is 3 per cent a year. That was a good question. We need

to be clear about what an efficiency target is: it is an improvement in the currently incurred cost for the level of service and level of compliance. When we add investment, for example in sewage treatment, some costs will go up because of the additional assets that are being operated. That is not included in that calculation. What tends to happen is that in real terms, the operating cost for a water company stays broadly the same over time. The costs that it incurs will go up broadly in line with inflation, but each year there are, through the investment programme, fairly substantial incremental improvements in respect of both waste water and public health compliance.

14:45

Rob Gibson (Highlands and Islands) (SNP): How appropriate is it to benchmark Scotland's water charges against those of England and Wales?

Alan Sutherland: It depends what you mean by "appropriate". Most households would want to know how much they would pay if they lived in a different area of the country—in other words, whether they are paying far too much. Benchmarking tends to be an issue when a population considers—often with reason—that it is paying a lot more than are people in other parts of the country. There is an on-going issue in Devon and Cornwall, for example, where household water charges are very much higher than they are in Bristol, which is not far away.

Rob Gibson: You are not comparing one privatised company with another; you are comparing a public service company with privately owned companies. How can you compare them?

Alan Sutherland: Does it matter to the customer whether the company is public or private? What matters to people—as customers rather than as citizens—is how much they are paying and what they are paying for. As citizens, they might well have views about whether they want water services to be public or private, but I suggest that as customers they are interested in what they are paying and what they are getting for it.

Rob Gibson: You said earlier, however, that the customer in Scotland is getting better value than the customer down south. How do you find it possible to make a direct comparison with what people receive down south? Customers might well be able to compare themselves with another country, but why compare a public company and a private one?

Alan Sutherland: Why not?

Charles Coulthard: I am not sure whether there is not an assumption behind Rob Gibson's

question that public ownership must be inherently different from private ownership in delivery of services. I have said that we want Scottish Water to be the best company in the United Kingdom, regardless of ownership. When one makes comparisons, one considers differences in delivery service levels; in effect, what people are getting for their money and how they are getting it. Some of the privatised companies in England and Wales are doing the same things as Scottish Water, including providing water and sewerage services, and dealing with trade effluent. It is quite reasonable to compare how well Scottish Water and South West Water are delivering those services to their customers.

It is also legitimate to compare the quality of service that Scottish Water is giving its customers with what the English companies are doing. That is what the overall performance assessment is designed to do as objectively as possible. Difference in the type of ownership does not disqualify comparison.

Rob Gibson: Do you think that the borrowing requirement that is available to Scottish Water is being used to the full?

Charles Coulthard: Scottish Water is getting all that it needs at present.

Rob Gibson: Is the borrowing requirement being used to the full?

Alan Sutherland: It is not being used fully at the moment, because Scottish Water is under-delivering on its capital programme. If it were delivering the programme, it would be borrowing rather more. As I recall, Scottish Water repaid borrowing in the previous financial year. That is purely a function of its being £127 million down on what it was forecast to have delivered. Our determination set out a total borrowing profile of £758 million, to be borrowed over four years, with £148 million to be borrowed in year 1. However, Scottish Water repaid money in year 1. Theoretically, had it been known how much of the capital programme would be delivered in that year, customer charges could have been lower and Scottish Water could have borrowed more. However, unless there had been an underlying change in the amount of capital investment that was to be delivered, customer prices would have moved around more. Customers would not have liked that much, because such movement makes it difficult to plan a household's or an organisation's budget.

Rob Gibson: Is not Scottish Water's ability to repay borrowing based on what it charges customers? Is the customer not paying for how the borrowing requirement is used?

Alan Sutherland: Yes.

Rob Gibson: So the charges that the customer is paying in Scotland are higher than they might be if Scottish Water used its whole borrowing requirement instead of charging customers in order to meet its capital costs.

Alan Sutherland: Yes—given the rate of delivery of the capital programme in year 1.

Charles Coulthard: In effect, we produce a four-year forecast when we carry out a strategic price review. The company tells us what ministers want over the next four years and how much that will cost. We then tell Scottish Water what it can charge customers over the next four years, although what happens may differ from that. In the current price review period, Scottish Water has, for all sorts of good and bad reasons, underspent its capital allocation. In so far as that allocation affected the prices that customers were charged, it can be argued that customers have paid too much this year. Had we known two and a half years ago what we know now, we may have set a different price level.

Rob Gibson: We are concerned that customers should pay a fair amount.

Alan Sutherland: Let me be absolutely clear. If we had set a lower charge for 2006-07 and the capital investment for that year had been delivered this year, we would be looking not at a year-on-year increase in the charge of the rate of inflation minus 0.5 per cent or the rate of inflation minus 1.5 per cent, but at a change of inflation minus 3 per cent in the previous year and of inflation plus 5 per cent in the current year, so there would have been a saw-tooth effect on household and non-household charges. There is strong research evidence that households and businesses like transparency in the profile of prices.

Rob Gibson: I am sure they do.

On page 13 of the report, you note that Scottish Water has achieved 20 per cent better value for money in capital costs since 2002, which is equivalent to saving £5 million per week. Capital costs include the costs of maintaining pipes, sewers and treatment works. Scottish Water is achieving capital cost reductions, which is welcome. However, it is also investing record amounts in infrastructure, and the cost of maintaining new infrastructure must be lower. To what extent are the capital cost reductions attributable to efficiencies on the part of Scottish Water, and to what extent could they be expected anyway because of investment?

Alan Sutherland: It is important to remember that that 20 per cent figure concerns the procurement of on-going capital projects—it is not about operation of those assets. It is purely about two things: first, replacement of old bits of kit that need to be replaced because they have reached

the end of their normal life; and secondly, enhancement and investment, which might mean increasing the size of the works or an upgrade to meet the requirements of an environmental directive or whatever. We are talking purely about the capital elements, which is where the savings are.

It is true that, on the margin, capital maintenance will typically help to keep operating costs under control. For example, if pipes are lined or replaced, leakage can be reduced and there will be fewer bursts, which will tend to bring some operating costs down, but will not impact much on the capital costs. On the other hand, when we enhance an asset to meet the requirements of an environmental directive—at least in the traditional way of doing it, which has essentially been through civil engineering work—that typically adds to the operating costs of the system.

In that sense, the water industry is quite different from many others in which there is a trade-off between running costs and capital costs. In the water industry, when we improve assets according to the traditional way of doing things, we see operating costs go up. Whether that will be the case on an on-going basis as we consider more sustainable drainage solutions, reed beds for treatment and so on, is a different question. The industry is still fairly new at doing most of that stuff.

Rob Gibson: That is perhaps for another day. Thank you for your explanation.

Cathy Peattie: The Water Industry Commission for Scotland says that it is “taking steps” to ensure that Scottish Water is delivering what it is required to deliver under the 2002 to 2006 investment programme. What steps is the commission taking and what is the timescale for delivery of those?

Alan Sutherland: At the time of the determination, we highlighted just how big a capital programme this was. We wrote to the Scottish ministers and suggested that they establish an output monitoring group, which would bring together all the stakeholders so that we would avoid any situation in which the Scottish Environment Protection Agency was being told one thing and the commission was being told another. If we were all on the group, we would all hear the explanation at the same time, and if there was a reason to act, then we could act. That was the first step that was taken.

The second step was to take quarterly information on progress in delivery, which we have done for the first year and a half of the programme. Having reviewed the information returned to us, we decided to ask for information to be provided by Scottish Water on a monthly basis from this month, simply because the time lag

that arises if we have to wait for three months and then a further month for updated information on performance makes it difficult for us to be able to react when there is not long left in the period. Earlier this week, we received our first monthly report from Scottish Water. Now that we receive the information monthly, if we do not see a substantial uptake by April or May, the commission will have to decide what to do next.

Cathy Peattie: Have you had any discussions about what you might do next if that is the case?

Alan Sutherland: The commission has discussed the implications of that for customer service performance and compliance with the various objectives that ministers have set. The fall-back position is that we would have to write to the Government to say that it looked like Scottish Water could not deliver the outputs that it was contracted to deliver over the period, and to suggest that the Government might consider delaying or rescheduling the outputs, in which case customer charges should be adjusted downwards appropriately.

15:00

Charles Coulthard: As we said, we have met the board of Scottish Water to discuss the issue—not to ask, “Why aren’t you getting this right?” but to consider how things might be done better. Scottish Water is putting considerable effort into improving. It is all about planning and processes and the need for Scottish Water to have a better idea of where it is on various projects. The large amount of money that we are talking about is made up of tens of thousands of projects, all of which must be planned and procured and so on. We are doing a lot and we discuss the matter at every commission meeting, along the lines that Mr Sutherland suggested.

Alison McInnes: On page 16 of your annual report, you say that it looks like the efficiency savings that were achieved in 2002 to 2006 “were maintained in 2006-07” and you refer to

“our ‘Costs and performance report’, which we will publish in November 2007.”

Did that report confirm that the efficiencies had been maintained?

Alan Sutherland: I have brought the report with me and members may have a copy of it. It confirmed not only that the efficiencies were maintained but that Scottish Water aspired to do better than I asked it to do.

Shirley-Anne Somerville: You briefly mentioned overall performance assessment. Will you give more detail? In your annual report, you say:

“Scottish Water has fully embraced this target.”

What does that mean in practice? How will customers benefit?

Alan Sutherland: I suspect that we said “fully embraced” because there had been a debate about whether Scottish Water should be held to account on the measure. It is encouraging that if you visit a Scottish Water facility now, you will see a thermometer-type chart, on which is written the OPA score and the level at which employees might receive their annual bonus. There are also warnings about how scores can go down as well as up and other such motivating tools. It is encouraging to see that staff at all levels are being incentivised to improve their performance.

What is OPA? In Scotland, we use 11 out of the 15 measures that are used in England and Wales. We measure aspects of the service that can be measured and which impact on the service as it is perceived by customers. Measures have different weightings based on their importance to customers, which is identified through survey work. That is how the system works. The detailed calculations are complex, but the way in which Scottish Water has rolled out OPA to its offices and depots has demonstrated that the system is readily explainable at all levels of an organisation. We are encouraged that the board of Scottish Water has tied employee bonuses to improvements in performance.

The results of doing that have been remarkable. Until we tasked Scottish Water with a target, its performance on the same measures over the previous three or four years had been broadly flat. They were a bit better, but not a lot better, and had sometimes gone a bit down as well as a bit up. However, in the first year of having the target, when the target was to achieve a score of 195, it achieved a score of 232.

Shirley-Anne Somerville: I want to ask not only about what will happen up to 2010 but about the annual milestones. You said that the score had increased. Were you satisfied with the increase, or did Scottish Water fail to reach any annual milestones?

Alan Sutherland: As I said, Scottish Water was given a target of 195 but scored 232.

Shirley-Anne Somerville: But are there any particular areas about which you still have concerns?

Alan Sutherland: Yes—continuous discharges from sewage treatment works. I do not want to overcomplicate this description but, for the measure for discharges, Scottish Water can score five points—the minimum—if it misses the range of targets or does not reach the appropriate performance levels, or it can score up to a maximum of 50 points if it does better. Scottish Water scored five points. There is substantial

scope and a great need for improvement on discharges from sewage treatment works to our environment. Some money in the current investment programme is to improve performance in that area, but much more needs doing. Improvement will require not only capital investment but changes in operational practice.

Shirley-Anne Somerville: You said that OPA in Scotland uses 11 out of the 15 measures that are used in England and Wales. Which ones are missed out? Is the difference simply a result of the different way in which the systems are set up?

Alan Sutherland: Four measures are missed out, but all four will be included by 2010. So, as a result of the present exercise, all 15 measures will be considered in future. Three of the four are relatively minor but still important; they relate to differences in the definition of pollution incidents—on both the water and the waste water side—between Scotland and England and Wales. SEPA and the Environment Agency were measuring broadly the same thing but doing so differently. However, the two agencies seem to have worked out how they will make the measurements in future, so the issue seems to have resolved itself. The measures will now be the same.

The fourth measure to be added is more qualitative. It will be carried out by Waterwatch Scotland, the customer group. A qualitative assessment of performance will be carried out against a series of benchmarks. Similar work will be carried out by Waterwatch Scotland's equivalent in England and Wales, the Consumer Council for Water. We have had fairly extensive discussions with Waterwatch Scotland about the exercise, which will complete the suite of measures.

David Stewart: How well is Scottish Water doing in reducing leakage? On page 17 of your report, you talk about a report from September 2007. I assume that you use the Water Services Regulation Authority—Ofwat—OPA measures for that.

You will probably be aware of the article in *The Herald* in June 2006 that said that Scottish Water's leakage was 1.1 billion litres a day. According to Scottish Water figures, that amount is half of all the water that it treats, so things do not seem very good. The public are concerned about leakages, and there will clearly be an impact on climate change because of the inefficiency and the waste of resources. What is your view on that? Is Scottish Water doing well, or should it be wearing the dunce's hat in the classroom?

Alan Sutherland: Scottish Water is not doing well in that regard, but I do not think that the dunce's hat is entirely appropriate. If I may, I will take a couple of minutes to give the committee a

bit of perspective on the matter. If we had asked the three former water authorities about leakage several years ago—as I did—we would have been told, “It’s not important. We’ve got lots of the stuff in Scotland. It all comes downhill. What are you worried about?” That was the attitude—I kid you not; that is what I was told. “It all comes down from Loch Katrine to Glasgow and if a bit of it leaks out, so what?” You are right: there is a huge amount of leakage from the Scottish system. In 2004-05, we lost 1.139 billion litres every day. That is a lot of litres of water; it is getting on for half of all the water that is treated in Scotland.

David Stewart: That is careless, is it not?

Alan Sutherland: It is quite profligate, yes. There is a level of water that it is appropriate to lose, where the costs of stopping it leaking might not justify doing so—although it depends how we want to define those costs. There are different ways to do the calculations. We might just consider the energy costs and the costs of maintenance, or we might extend that to a broader environmental view. There will be a level of leakage that is not inappropriate. However, we are a long way from that territory at the moment.

We asked Scottish Water to improve its rates of leakage in 2006-07 to 960 million litres a day, and then to 855 million litres per day after that. To put that 855 million litres in perspective, it is around the same level that Thames Water was being heavily criticised for last year, in absolute amounts of leakage. That is why I say that Scotland has a long way to go.

We financed Scottish Water to get halfway to an economic level of leakage—to be defined—by the end of this regulatory control period. We set targets for Scottish Water that we knew were demanding. However, based on what had been achieved in England and Wales, we thought that they were achievable. Instead of getting down to 960 megalitres per day, Scottish Water reported a level of leakage of 1,004 megalitres. It missed the target by 44 million litres per day. Instead of achieving a 16 per cent reduction in the level of leakage, it achieved a reduction of about 12 per cent. That is not bad, but we are not going to say that it is good. We would like there to be a marked improvement in that regard. There is encouragement from the discussions between the commission and the board of Scottish Water, to which Charles Coulthard referred, in that the board is fully engaged in dealing with the leakage issue.

David Stewart: Would you say that leakage is the most difficult problem that you are facing with Scottish Water? What sanctions do you have if its performance continues to be as poor as has been identified?

Alan Sutherland: We do not have any easy sanction. The initiative on leakage was the

commission's. We thought that it was important to deal with the issue for environmental reasons, among others. All that water is treated and a lot of it is pumped around Scotland, so Scottish Water's energy use would be reduced markedly if it did not lose so much water. We were keen for the issue to be addressed, but that was not a specific ministerial objective.

15:15

David Stewart: Time is running out, so this will be my last question. You will probably answer by saying that the issue is for politicians rather than the commission, but if leakage is one of the most serious problems that Scottish Water faces and you—in effect, the watchdog on Scottish Water—cannot take any sanctions, there seems to be a gap in the market. Perhaps you need more teeth to deal with what is obviously a major problem. From a layman's perspective, the fact that half of all the treated water is lost is not very good. There should be more sanctions in the system to ensure that Scottish Water is much more efficient in future, particularly given the climate change perspective and the forthcoming legislation on that.

Charles Coulthard: The talk of sanctions assumes that the company is reluctant or recalcitrant on the issue. You would need to ask Ronnie Mercer for the details, but I know that Scottish Water has applied a lot more resources on the issue—first, to establish the levels of leakage in various parts of the system and, secondly, to consider how best to deal with that. The company and the commission are not moving in different directions on the issue. While we are walking in the same direction, which we are now doing fairly quickly, I am not very worried about whether or not we have sanctions. If a problem arose, we would certainly not be slow in going to the Scottish ministers.

Alan Sutherland: The important point is that, through annual reports and by publishing information and bringing it to people's attention, progress is likely to be made. Leakage is not the sort of issue that is talked about, but now that we have put it on the agenda, it will be talked about. I am sure that the committee, newspapers and various other stakeholders will watch the issue. We look forward to that.

The Convener: You can be sure that we will.

We have a few more questions, which will, I hope, be fairly brief. Page 21 of the annual report rightly states that

“In order to be awarded a permanent licence, SWBS must demonstrate its compliance with three tests”,

the second of which is that the governance and management of Scottish Water and Scottish Water

Business Stream must not only be properly separated but be seen to be so. What is that test and how can two organisations with one chair meet it?

Alan Sutherland: We have published a governance code, which Scottish Water and Scottish Water Business Stream must abide by. I can send the committee a copy, if you are interested.

The Convener: We would appreciate that.

Alan Sutherland: The code explains exactly how much information should be available to each party about the other one. We have, I think, reassured the two new entrants into the market, and potential entrants, that Scottish Water Business Stream operates separately. On your question about the common chairman, there is often common management between one subsidiary company and another—there were examples of that among the original public electricity supply businesses. We will have to continue to monitor the situation. If the common chairman were to become an issue, either real or perceived, we might have to ask the companies to have another think about the issue. At present, we have ensured that the two companies operate separately. Non-executive directors are appointed to Scottish Water Business Stream independently of Scottish Water. They have the usual fiduciary duties that go with non-executive directorships and they have reputations to lose, which is important to the system.

The Convener: You say that the governance should be seen to be separate. By whom?

Alan Sutherland: By market participants and customers. Customers will want to ensure that they have a real choice, and new entrants into the market will want to know that the playing field is not tilted against them.

The Convener: How does the commission satisfy itself that that is seen to be the case by those parties?

Alan Sutherland: I can assure you that new entrants are quite keen on pointing out anything that they think is in any way, shape or form a breach of the published governance code. We have already looked at one or two little examples. Scottish Water has appointed a compliance officer and Scottish Water Business Stream has someone with similar responsibilities. If such an event happens, we ask them to tell us what has happened. It is a fairly robust arrangement.

Charles Coulthard: Further, during the process of setting up the market, we had a body called a licensing implementation group, whose members included people who are now licensees as well as others who are not yet licensees, along with

Scottish Water. The group was deeply involved in governance and compliance issues. Its members had a vested interest in ensuring that the structure that we put together was fit for purpose and they advised us right the way through the process.

There are also the normal compliance mechanisms that any companies have when they separate—people are told that they cannot go through a certain door or turn on certain computers and so on. Ultimately, the only way in which we can be sure that such an arrangement is working is to audit it regularly.

Katherine Russell (Water Industry Commission for Scotland): Which is what we do.

Charles Coulthard: Katherine is the lady in charge of it.

Katherine Russell: I knock on the door.

The Convener: The annual report provides some financial information on the commissioner's office. What targets has the commission set itself for efficiency savings? With regard to future annual reports, can you give me an assurance that we will be able to compare and contrast that information from year to year?

Alan Sutherland: Your last question is easy; the answer is yes.

With regard to our efficiency savings, we will have to limit ourselves to the same year-on-year change in budget that we require of Scottish Water. Every time we do what we are statutorily there to do, which is to keep Scottish Water's charges as low as possible—and, hopefully, to keep the rises below the rate of inflation—we are decreasing our expenditure at exactly the same rate. That is a challenge that we have to live with.

In terms of targets, we publish exactly what we are going to do, along with all our documents and methodology for the next price review. Those documents tell you that we have hit the dates that we have had to hit and I see no reason why we would not be able to hit the other dates that we have published. We also have internal targets for speed of response to freedom of information requests and other sorts of correspondence with external parties. Again, I think we are pretty much in compliance with those.

The Convener: In the statement of internal control on page 4 of the annual accounts, there is a line that states:

"My responsibilities as Accountable Officer have only recently been clarified and are subject to an on-going discussion with the Scottish Government."

Could you give us an update on that discussion?

Alan Sutherland: We are in better shape than I thought that we might be. Had you asked that

question in December, it might have been rather more difficult to answer.

The issue is that, as a matter of law, the water customer consultation panels that were established by the Water Industry (Scotland) Act 2002 operated as part of the commissioner's office and, then, the commission. However, the Scottish Executive handled them as, in effect, an independent public body, which meant that they had their own corporate plans and they had their own budget discussions with the Scottish ministers. We would get a letter from the Scottish ministers saying that we were getting an extra levy beyond what we were entitled to from Scottish Water and that the extra portion should be given to the panels, which later became Waterwatch Scotland.

That was all fine until there were some resourcing issues at Waterwatch Scotland, at which point it was suggested that the commission, or I, as the accountable officer, was accountable for what was going on at Waterwatch. That was about a year to 18 months ago, and it was the first that I had been told about it since the legislation in 2002. We sought clarification, and we have now solved the issues. Waterwatch has set up a company limited by guarantee that employs its staff and handles its budget. We will still pass money to it, but it is a legal entity with the usual accountabilities associated with a public body. That responsibility is clear as a matter of practice—it was not previously.

That is what the comment in the annual accounts is about. The problem is resolved, although a lot of work was put in by the commission's audit committee to solve it.

The Convener: That is helpful.

Cathy Peattie: The annual report refers to consultation with stakeholders undertaken in December 2006 on the proposed approach to the next regulatory control period of 2010 to 2014. Will you briefly explain the approach to be taken in conducting the next strategic review of charges and whether that is likely to be influenced by any of the feedback that you received in your consultation?

Alan Sutherland: On 20 December, we published our response to the consultation. There are several issues on which we have amended our approach to take account of the different views. Some responses from stakeholders focused on one or two specific issues; others, such as that from Scottish Water, were more all-encompassing. The documents are available on our website, and I can let you have a copy of them.

Essentially, the process looks at a high level not dissimilar to what happened last time and what we published. The next key input will be some clarity

and confirmation from the Scottish Government about what it wants to happen in the 2010 to 2014 period. There will also be a series of business plan iterations with Scottish Water that will tell us what it thinks will be the cost. Clearly, what it says the cost will be will probably be a little more than what we think the cost will be.

The Convener: I thank all three of our witnesses for the time that they have spent with us and the evidence that they have given. I doubt that it will be the last time that we discuss the water industry with them, but I thank them for the moment.

I suspend the meeting briefly to allow the witnesses to leave.

15:28

Meeting suspended.

15:31

On resuming—

Subordinate Legislation

Public Service Vehicles (Traffic Regulation Conditions) Amendment (Scotland) Regulations 2008 (SSI 2008/2)

Local Authorities' Traffic Orders (Procedure) (Scotland) Amendment Regulations 2008 (SSI 2008/3)

School Crossing Patrol Sign (Scotland) Regulations 2008 (SSI 2008/4)

The Convener: Item 2 is subordinate legislation. There are three instruments before the committee. The Subordinate Legislation Committee had no comments to make on the first two instruments. It sought further clarification from the Government on the School Crossing Patrol Sign (Scotland) Regulations 2008 and was content with the response that it received. No comments have been received from members and no motions to annul have been lodged in relation to the instruments. Are we agreed that the committee does not want to make any recommendations in relation to the instruments?

Members *indicated agreement.*

Petitions

Railway Infrastructure and Services (Inverness, Thurso and Wick) (PE894)

15:32

The Convener: Item 3 is petitions, the first of which is PE894. Members will have had a chance to read the petition and some of the background information on it. We are invited to note the work that has been undertaken by the Dornoch rail link action group and the recommendation in the Corus Scottish transport appraisal guidance 1 appraisal, which it commissioned, that a STAG 2 appraisal be undertaken. That relates to some information that we requested earlier. We are also invited to consider whether we want to recommend that the Dornoch rail link action group submit a copy of its STAG 1 appraisal to the Government. We might also want to write to the Minister for Transport, Infrastructure and Climate Change, advising him of the action that has been taken and asking him to take account of the work, as part of the Government's strategic transport projects review. At that point we can consider whether we want to close the petition or take further action.

Rob Gibson: What the letter from the Minister for Transport, Infrastructure and Climate Change says about what the Scottish Government will do to improve rail lines is interesting. The strategic transport projects review is due to report in the summer and will cover the period 2012 to 2022. Items in that review, such as the upgrades on the Perth to Inverness line, will be essential in opening up a large part of the Highlands, as will the section of rail line from Aberdeen to Inverness. What the petition is calling for must happen—the question is, when must it happen and should it happen at the same time?

I realise that it is unreasonable to ask ministers suddenly to find the kind of sum of money that is mentioned in the STAG 1 appraisal—£100 million—but it is a reasonably accurate consultant's estimate, so it at least gives us something to go on. It is worrying that we do not yet have the figures for what it will cost to upgrade the Perth to Inverness line, as part of the papers to back up the strategic transport projects review.

Given the importance of further developments on the far north line and their value for social and economic development, which we established at our last committee meeting, we face a dilemma in relation to when the proposals in the petition should happen and how we keep them in ministers' minds, although I agree that certain aspects of the proposals are acceptable.

If the committee agrees, I think that we should send the minister the STAG 1 appraisal and thank the Dornoch group for its work. This is not the time to close the petition. Aspects of it still require answers and it needs to go back to the minister before we take that step.

David Stewart: I back up Rob Gibson and reiterate the points that were made at our last meeting. We have said many times that it is important to have faster and more frequent services and to upgrade the rolling stock and so on. The economic argument that we made at the last meeting was that the 2,000 workers who are involved in decommissioning Dounreay will be desperately looking for new employment in future. They keep telling me that we need good transport infrastructure, and I agree with them. That includes roads and—although I know the convener will not agree—air links, but it is crucial to upgrade our rail links. Therefore, I would be reluctant to kill off the petition, and I agree with some of the options that we are being invited to pursue. We still need to consider some things, so I ask the committee to keep the petition alive.

Alison McInnes: I commend the work of the Dornoch rail link action group; it has been interesting to be brought up to speed with the issue. We need to reduce the area's peripherality and increase its economic development, so I am keen to keep the group's work alive and ensure that it is drawn to the minister's attention. The STAG 2 appraisal is an essential part of that, but I do not know whether we should suggest that the Government helps to fund it.

Cathy Peattie: I agree with all that has been said. It would be a pity to lose the work. It is about long-term planning and getting things moving for the future. I am happy with the recommendations; we should write to the minister. It would be a real pity to close the petition at this stage.

The Convener: No one seems to disagree with the suggestions that have been made. However, there is a sense that we need to add something, although no one has been specific about what that is. If we are recommending that the action group should submit its appraisal to the Government, we should also ask the Government to respond to the committee on it in due course.

Rob Gibson: If the Government is prepared to find the cost of the STAG 2 appraisal—

Cathy Peattie: Yes, that is really important.

The Convener: Yes. We can find a way of including that.

Rob Gibson: The Government might speak to the Highlands and Islands strategic transport partnership, whose report has not yet been accepted.

The Convener: I suggest that we ask whether the Government agrees that a STAG 2 appraisal is required and how it envisages it happening.

Rob Gibson: We could be stronger than that, convener.

Alison McInnes: The suggestion is that we call for the Government to work closely with the action group, which would involve putting some funding into a further appraisal. Such work is a very expensive process and we should be grateful that the local action group has already done a STAG 1 appraisal. We should recommend that the Government finds a way of doing the STAG 2 appraisal.

The Convener: I suggest that we ask the Government to respond to the proposal that a STAG 2 appraisal should be done and tell us whether it intends to find a way to make it happen.

Rob Gibson: Yes.

The Convener: Part of the problem is that the committee is not able to wave a magic wand and make the money appear to conduct an appraisal, any more than the Minister for Transport, Infrastructure and Climate Change is. We will underline the importance of the issue and make it clear that we expect a response on the need for a STAG 2 appraisal. Is that agreed?

Members indicated agreement.

The Convener: The other recommendations have been agreed, and we will keep the petition open at this stage.

Bridge Replacement (PE1064)

The Convener: PE1064 is on the replacement Forth crossing. We have discussed the Forth crossing at previous meetings in several different contexts, but the petition is specifically on the proposal that there should be a replacement or new crossing.

The clerk's paper invites us to: note the Government's decision to proceed with a replacement crossing; note the response from the Forth Estuary Transport Authority; and consider whether, in light of the Government's decision, the objectives of the petition remain realistic and, if not, whether the petition should be closed.

From the Public Petitions Committee's consideration of the petition, the petitioner might reasonably have expected that the petition would receive some further level of scrutiny. The strong impression was given that our committee was looking into the issue, whereas we were considering only the issue of tolls on the existing road bridge. That was the nature of our visit to the bridge, but people might not have drawn that impression from the comments that were made at

the Public Petitions Committee. Referring to our committee, the convener of that committee agreed that

“the debate needs to be aired clearly at that committee”.—
[*Official Report, Public Petitions Committee*, 23 October 2007; c 215.]

Some members—including those who know him—might feel that the convener of the Public Petitions Committee made a bit of a presumption about the work of our committee, but the petitioner was clearly given that expectation.

Finally, given recent public comments in the media to the effect that the First Minister has given a commitment to the Road Haulage Association that the existing bridge will not be closed to heavy goods vehicles on the date previously suggested, some questions remain open that we could explore in considering the petition.

Do members have any comments?

Shirley-Anne Somerville: I take the point that has been made, but I am reluctant to agree that we should deal with the petition in a particular way because of a miscommunication on the part of the Public Petitions Committee. The convener has clarified that we did not visit the bridge to discuss the replacement crossing so I think that we can put that aspect to bed.

We had a full statement in the chamber on the replacement crossing so, although the committee has not discussed the issue, the Parliament has discussed it at length. I appreciate that the Government's decision did not win unanimous support among all parties, but it was well supported by most parties in the Parliament. I think that the issue has had a sufficiently detailed airing to have allowed all the parties to put their points, so I am not sure that much more remains to be said. The repair work is perhaps a separate issue, on which it might be interesting to be kept up to date. I think that we decided on that when we visited FETA, which said that it would keep us abreast of what was happening. I am reluctant to take the petition further on the basis that we have not had enough debate on the issue, given that it has been considered in the chamber.

Cathy Peattie: I agree. The Parliament has already agreed—albeit not unanimously—on the need for a new crossing. We will continue to need to consider issues such as access for heavy good vehicles, but we should not confuse that with the issue of the replacement crossing. We should close the petition because, in a sense, things have moved on.

The Convener: Members will not be surprised to learn that my preference is for us to write to the Government in light of the First Minister's recent reported comments, which appeared subsequent to the ministerial statement and which throw a

different light on the issue. Is there any support for that view?

Alison McInnes: No.

Shirley-Anne Somerville: No.

The Convener: I think that I will need to accept that as the committee's position. Does Alison McInnes want to make any other comment?

Alison McInnes: No.

The Convener: I find myself in a minority on this. It seems to me that the mood of the committee is to close the petition, so we will close it.

That was the final item of business, so I close the meeting but ask members to stay on for a brief moment.

Meeting closed at 15:45.

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