

WAVERLEY RAILWAY (SCOTLAND) BILL COMMITTEE

Monday 28 February 2005

Session 2

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WAVERLEY RAILWAY (SCOTLAND) BILL COMMITTEE

2nd Meeting 2005, Session 2

CONVENER

*Tricia Marwick (Mid Scotland and Fife) (SNP)

DEPUTY CONVENER

*Christine May (Central Fife) (Lab)

COMMITTEE MEMBERS

*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

*Gordon Jackson (Glasgow Govan) (Lab)

*Margaret Smith (Edinburgh West) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Grahame Barn (Federation of Master Builders)

Anne Borthwick (Campaign for Borders Rail)

Dr Mark B Brown (Halcrow)

David Fish (LandAspects)

David Fox (Turner and Townsend)

David Gass (Scottish Enterprise Borders)

Alison Gorlov (John Kennedy & Co)

Riddell Graham (Former Chief Executive, Scottish Borders Tourist Board)

Andrew Holmes (City of Edinburgh Council)

David Hume (Scottish Borders Council)

Bill Jamieson (Campaign for Borders Rail)

Ashley Parry Jones (LandAspects)

Allan Lundmark (Homes for Scotland)

Neil McCowan (Turner and Townsend)

Jim McFarlane (Scottish Enterprise Edinburgh and Lothians)

Bryan McGrath (Scottish Borders Council)

Lesley Martin (Scottish Borders Council)

Dr Mark Robertson (Ryden)

Nigel Watson (Scottish Enterprise Borders)

David Williamson (Midlothian Council)

Peter Wood (Tribal HCH)

CLERK TO THE COMMITTEE

Fergus Cochrane

LOCATION

Langlee Community Centre, Galashiels

Scottish Parliament

Waverley Railway (Scotland) Bill Committee

Monday 28 February 2005

[THE CONVENER *opened the meeting at 11:06*]

Bill Notification Arrangements

The Convener (Tricia Marwick): I formally open the second meeting in 2005 of the Waverley Railway (Scotland) Bill Committee. This is the 10th meeting of the committee.

Of course, this is not the first time that a committee of the Parliament has been in Galashiels; the Public Petitions Committee has been here. However, it is a pleasure for us to be here and I thank the officials of Scottish Borders Council for their assistance in enabling us to hold this meeting in the Langlee complex.

All members of the committee have already undertaken a site visit along the entire route of the proposed railway and I think that I speak on behalf of all of us when I say how helpful we found that visit to our understanding of the issues surrounding the project and of the locations of the proposed route and stations, as well as some of the properties that are close to the line.

Today, the committee will concentrate on two aspects of the bill. First, we will hear evidence from the promoter on its notification arrangements. Because that will impact on our later considerations, I do not want to anticipate the committee's decision on those arrangements.

This meeting is being held in public, but it is not a public meeting. This is the formal work of the Parliament, so I would appreciate the co-operation of members of the public in ensuring the proper conduct of business today. I ask everyone to ensure that all mobile phones and pagers are switched off. Committee members have already done that.

As the meeting is quorate and no apologies have been received, we move to the first item on the agenda and will start with evidence from our first witnesses.

The first paper for consideration is paper 21, on a further error by the promoter in its notification arrangements. It transpires that an affected person's notice should have been served on a property at Westfield Drive in Eskbank when the bill was introduced in September 2003. Before I invite the committee to consider its approach to

this issue and its possible implications for the bill and our timetable, perhaps we could hear from the witnesses for the promoter. We have Alison Gorlov, the parliamentary agent with John Kennedy & Co, which acts for the promoter; Ashley Parry Jones, a referencing manager with LandAspects; and David Fish, a quality manager at LandAspects. Do any of the panel members have any brief opening remarks before I invite questions from the committee?

Alison Gorlov (John Kennedy & Co): First, I want to say on behalf of the promoter how sorry we all are that the committee is being troubled with a further referencing issue. Please accept our apologies to the committee and to Ms Taylor of Westfield Drive.

The convener asked about the impact of the omission, which is obviously of great concern. Not least, we are conscious of the impact on the more than 2,500 landowners who have already been notified and we are very much aware that, whatever the implications of the lack of one notice for the timetable for the bill, there is a potential impact on those landowners. That certainly made Scottish Borders Council pause to consider how best to respond to what happened. The obvious course of action was to serve a notice on Ms Taylor, which has been done, as we confirmed to Mr Cochrane. The notice was served as soon as we cleared with the clerks what was needed in relation to the dates for the petition period.

The other issue, which is quite separate and—with the greatest respect to Ms Taylor—might be the major issue for the committee, is the impact of the discovery of the error on the validity of last year's audit and the robustness of the assurances that the committee was given last year about the accuracy of the referencing process. The assurances were given in the utmost good faith after a check was made, but it is now self-evident that the check was deficient in at least one respect. Therefore, the only action that the promoter could take was to order a complete review—not an audit but a complete examination—of every aspect of the referencing process so far. LandAspects, to the company's credit, instantly volunteered to undertake that review. The committee has a copy of the letter that I received from Mr Dunlop, the director of LandAspects, and the methodology statement, which sets out in detail how, technically, the land referencing team will review what happened. The work commenced on 17 February and is being undertaken by a land referencing team from LandAspects—not the team that did the original referencing, but one that comes from Northern Ireland and has had no involvement with the Waverley process hitherto.

To give the committee and, indeed, the promoter

further comfort that the right course of action was being properly undertaken, we retained John Gannon, who is a director of another referencing company, to vet the methodology statement, which would be adjusted if Mr Gannon had any comment to make. This morning the committee received a copy of Mr Gannon's interim report. The report is highly technical and I found it a little difficult to follow, but that is not a criticism and no doubt Mr Fish will be able to take the committee through any parts of the report that members want to consider. The committee should note that the report says that

"the scope of the examination as set out appears to be adequate",

which should reassure the committee.

Before Mr Fish speaks to the report and to the exercise that he and his team are undertaking, I want to put the referencing into the wider context of referencing as it is generally undertaken, because the exercise is completely novel for people who are not involved in the world of infrastructure authorisation. First, there are only two dedicated referencing firms in the United Kingdom. Several firms undertake referencing, but only two do nothing but that and have been doing so for many years: LandAspects; and Terraquest Solutions plc, which are now both involved in the project. The two firms have worked together on major projects and I think that the committee knows that they acted jointly in relation to the Channel Tunnel Rail Link Bill and are involved in the referencing job for the London cross-rail—

The Convener: I think that the committee is in a position to ask you questions, which would be far more helpful.

11:15

Alison Gorlov: I understand that, but may I mention one other matter? We thought that it would be helpful to the committee if we drew comparisons. I have figures on the number of notices that went astray, were returned or were served late or incorrectly in relation to the channel tunnel rail link, which was a very large project—larger than the Waverley railway project—compared with the figures for Waverley project. I will not read out the figures if that does not suit the committee, but I can pass them to you. The figures show a huge number of matters that emerged and had to be rectified in relation to the 14-day period for the channel tunnel rail link. In a year and a half, there were far fewer such matters in relation to the Waverley project.

The Convener: Thank you. It would be helpful if you passed the information to the clerk, because we will return to notification arrangements at our meeting on 21 March. When we have had an

opportunity to consider the figures, I am sure that we will have questions for you about them.

Margaret Smith (Edinburgh West) (LD): All members of the committee will probably take the opportunity to express their concern at what happened in relation to the referencing and notification, given the assurances that we were given last year, which Alison Gorlov mentioned. Why, when it came to light on 8 February that the notice might not have been served, did it take until 17 February for you to notify the clerk to the committee of the failure to notify?

Alison Gorlov: That was the length of time that it took to ascertain the true position. The sequence of events was that Mr Muir of Midlothian Council telephoned me and I made inquiries of the land referencers, who investigated their records and came back to me to tell me what had happened. We did not serve the notice on the day that we found out; we served it, I think, two days later, after I had spoken to Mr Cochrane because, as has happened in the past when notices have been served, I needed to clear with him the date of service and the final date for presenting an objection, which is the date that goes in the notice and which I needed to agree with him.

Margaret Smith: What is the current position regarding the investigations into whether there are any other interests in the property?

Alison Gorlov: Mr Fish or Mr Parry Jones will be able to tell you that.

Ashley Parry Jones (LandAspects): Having done the necessary searches, we are not aware of any other interests being held in that property.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): Ms Gorlov, you have given us assurances that LandAspects is about to carry out an even more rigorous review than the one that it was supposed to carry out previously. Why did it not carry out such a comprehensive review last September following the promoter's failure to notify 130 properties in Gorebridge and Galashiels? Why has it taken five months to initiate the more rigorous review?

Alison Gorlov: I cannot say what decided the scope of the previous review—no doubt Mr Parry Jones can tell the committee that. I can say only that, last year, LandAspects was asked to confirm the accuracy of what it had done, went away, undertook whatever checks it did and assured us that the referencing was robust. When it came to light this year that that was not so, we expressed displeasure and insisted on a wider review, the scope of which we wanted to see and the methodology statement for which we wanted to vet. Those are the documents that the committee has before it now. The promoter did not see the scope of the previous audit; we were simply told

that it had been carried out. Perhaps Mr Parry Jones could tell the committee precisely what was done last year.

Ashley Parry Jones: Certainly. When the referencing was being undertaken, various checks were made during the process. They were conducted right at the end of the referencing process, as the notices were served in 2003. We were then dealing with notices that were returned. As Ms Gorlov said, some came back and we dealt with them, but, happily, there were few.

In addition, some errors came to light. Certain comments were made by various recipients and landowners, and we also looked at those. As we have discussed, it is regrettable that there were some errors. Not all of those were errors as such, but merely different interpretations. On occasion, we had over-notified and found that the error, such as it was, was because we had notified unnecessarily.

As a result of that feedback from recipients, when the objections were published, we looked at our referencing scope and felt that, in two areas—Gorebridge and Galashiels—it had not been sufficiently wide because although we had referenced the properties, we had deliberately excluded them from the notice production. We believed that we had failed to err on the side of caution and should have caught many of those properties. Indeed, it turned out that once those notices had been served, we had again over-served and some people received notices that they might not normally be entitled to. That was a concern to us and to the promoter.

We then undertook checks along the whole route to make sure that we had not missed anything. It appears now, for reasons that are impossible to explain, that that particular property has been missed, hence our requirement to provide the necessary assurance to the committee, the promoter, the public at large and ourselves that the process has been carried out properly. That is what we are undertaking now.

Mr Brocklebank: Given that fairly sorry catalogue that preceded the cross-checking methods that you have now instituted, are you satisfied then they will ensure that nothing further will pop up and that we will not find ourselves in the same situation further down the road?

Ashley Parry Jones: Land referencing is part science and part art. It is not safe to say that there can ever be a 100 per cent guarantee that the same situation will not arise again; we can only do our very best. We rely heavily on the co-operation of landowners and on the accuracy of other documents that are available to us. Those documents are not always accurate. We check them rigorously and we ask for feedback from

landowners who are in a position to know their land ownerships better than most others, and we call upon that as a resource.

Christine May (Central Fife) (Lab): Why will it take four weeks for the examination of the land referencing process to be carried out? That question is to Mr Fish.

David Fish (LandAspects): We review rigorously every piece of data collected throughout the referencing process and cross-check it with the land reference documents, with the book of references and then with the postal list that lists all the notices that were served. The process involves reviewing every piece of the audit trail—every piece of information that we have gathered from a great number of interests.

Ashley Parry Jones: I refer the committee to some of the published documents that it received—the copies of the notices, the books of reference and the plans and sections. Each notice is unique and comprises several pieces of information. For instance, each property is numbered and described and various people who may have an interest in the property are mentioned. Somebody can have two interests in the same property, for instance as an occupier and as an owner. I cannot be sure about this, but if one considers how the complex set of data breaks down, we have about 20,000 pieces of information that are somehow linked together. As a result, a thorough review will take some time.

Christine May: What will the promoter's view be if, following the examination, further failures to notify come to light?

Alison Gorlov: That is, in essence, a legal issue. Every person who is entitled to a notice is entitled to object within a 60-day period. The Procedures Committee has considered how the objection period operates and whether it should be closed before the conclusion of the preliminary stage. The issues may be resolved through a different system. Stop me if I am telling the committee what it already knows, but the committee can admit an objection any time up to the closure of the preliminary stage and every objector is entitled to object within a 60-day objection period. If one were to posit the worst possible scenario for all concerned, it would be that the review could not be completed until 21 March and that, on that day, a further failure to serve a notice came to light, the inevitable result of which would be delay.

The Convener: The programme for the review is that in the

"Two weeks starting 21st February 2005"

LandAspects will

"review documents including interim report of findings".

Will the witnesses confirm that the review has started?

David Fish: It started on 17 February.

The Convener: A number of what we shall call notification discrepancies have arisen since the bill was introduced. Of LandAspects, Ms Gorlov's letter to me on the issue stated:

"They appreciate that a major issue arising from this omission is to cast doubt on the assurances the Promoter gave last year concerning the adequacy of the referencing process and the audit that had been carried out."

Why should the committee have confidence in the promoter's referencing and notification procedures, as required by our rules?

Alison Gorlov: That is difficult to answer in ways that do not sound rather awkward, which is why I was anxious that the committee should understand the referencing process and be aware of the accuracy that it is capable of achieving. The Channel Tunnel Rail Link Bill involved the service of 6,953 notices, 782 of which were returned undelivered in a 14-day period, of which 200 were attributable to incorrect or incomplete addresses. Those were the two largest figures, but there were others. As I said, I will certainly produce a paper with the figures, but the Waverley notices numbered 4,500 and, undoubtedly, there has been further service of notices. My mental arithmetic tells me that a few hundred out of 4,500 is a much smaller percentage than more than a thousand out of 6,900 is. I do not pretend for one moment that one can simply bandy about statistics and percentages, but, awkward and unsatisfactory though it is, the Waverley situation is somewhat better than is frequently achieved through referencing.

The referencers have to do the best that they can, as Mr Parry Jones has said. The committee is undoubtedly entitled to expect a standard, and that is the standard that can best be reasonably achieved in the context of what it is that referencers can do. We freely admit that that is less than 100 per cent. In the case of the Channel Tunnel Rail Link Bill—when the quality of the referencing was complemented; I was there when that was done—the percentage was very much less than the percentage achieved with the Waverley Railway (Scotland) Bill. I say that not by way of an excuse, but to paint the background against which the referencing is done. Referencers can achieve only as much as they can achieve.

As the promoter, we are satisfied that LandAspects has done its work reasonably and competently. Unfortunately, the process has thrown up errors and omissions, some of which were the fault of LandAspects and some of which

were not. However, they are errors of omission, despite best efforts all round.

11:30

Christine May: Given the limitations, as you have described, of the current land referencing arrangements, and your earlier comment that LandAspects did not see the brief on which the previous check was based, I assume that those shortcomings of land referencing were known then. Why was that not asked for, given that your professional integrity is being called into question here?

Alison Gorlov: I am sorry; I do not follow the question.

Christine May: When the previous check was made of whether everybody had been notified by the promoter, you said that you were not involved in its terms of reference and you did not see the basis on which that check was performed. You accepted the information that you were given. Why, even at that stage, did you not ask to be involved?

Alison Gorlov: Because we were dealing with professional referencers who have done the work for years and with whom we have dealt for years—that is, I do not think that Scottish Borders Council has been dealing with them for years, but my firm has. As competent professionals, they undertook a review. They told us that they had undertaken a thorough review and we accepted that. We were entitled to accept that, as were my clients, on the same basis that I would accept a fellow professional telling me that he had undertaken a thorough check of his field of endeavour. That should have been the end of the matter, but it has turned out not to be. When a professional reasonably and competently tells me that he has done something, and it turns out that he has not, at that point I want to intrude into his field, even though it is off my own professional patch.

The Convener: Does anybody have any further questions?

Mr Brocklebank: I do not have questions, but I have comments.

The Convener: Okay. I thank all three witnesses for giving evidence. The committee will decide how to progress from here, but thank you for the moment.

Would Ted Brocklebank like to comment?

Mr Brocklebank: Yes. This is an altogether unsatisfactory state of affairs, given that this committee's work has been delayed for getting on for five months as a result of the initial failure to notify 130 people and this further failure—as far as we are aware at this stage—to notify one property

owner. I accept the argument that it affects simply one person, but as a committee we have a responsibility to regard one person as every bit as important as 130 people. It could be argued that this one particular individual deserves every bit as much consideration and every bit as much time to decide whether they want to object as did the other 130.

Having listened to the witnesses' evidence, my inclination is not to treat that one person differently from the other 130. However, I appreciate and accept—as do all members of the committee—that the matter has taken a huge amount of time to get even as far as this stage. We will see what others on the committee think, but I would be willing to contemplate carrying on and allowing this one individual to make any plea or objection during the course of our further deliberations. However, if any more pop out of the woodwork in the meantime, I will want to review the whole situation.

Margaret Smith: I totally agree with Ted Brocklebank on this matter. Any delay is unfortunate; however, delaying such a project is not only against the public interest but against the interests of the public purse. It has cost the committee a lot of extra effort to deal with this particular delay's consequences and I believe that it will also impact on the public purse. Ms Taylor is also unfortunate in the circumstances in which she finds herself, but from what we can gather she is dealing with the situation remarkably well.

I think that it would be in the public interest for us to go ahead with the process, because I am minded to accept Ms Gorlov's point about fairness to the people who have already been affected by it and are already living with a notice. After all, we should be trying to eliminate as much of the delay as possible for those people.

However, as Ted Brocklebank has pointed out, the committee felt that when the previous 130 people came to light it had to make a strong statement that promoters should not risk inconveniencing members of the public by coming to the parliamentary committee process without having done their homework. What would we do if we suddenly found that another 130 people had not been served with a notice? Obviously, we would have to look at the matter again. However, given that one individual is affected, given her views on the situation and given that we need to be fair to all the other people involved and that there is overwhelming public interest in pursuing the matter quickly, I suggest that we should go ahead.

Christine May: For the avoidance of doubt, I should say now that my view concurs with those expressed by my two colleagues. The fact that one individual is affected does not justify suspending the whole process again. However, I

will await the outcome of the review that is being carried out. Should a significant number of other properties be identified, the committee will need to take a view on the promoter's competence to carry out this particular task.

I also believe that there has been an over-reliance on and too much sympathy towards professional boundaries. Instead of relying on the professional competence of others, people should have asked more stringent questions, asked for information and checked things out.

The Convener: I concur with my colleagues. I am angry that, having suspended consideration of this project—whose importance is apparent from the number of people who have turned up to hear the evidence today—we have been placed in such a position again. As I understand it, Ms Taylor received notification in the usual form on 18 February. That notification advised her that she had 60 days in which to lodge an objection. As that period will expire on 18 April and as the committee's preliminary stage consideration of the bill is expected to last until mid-May, Ms Taylor has time to lodge an objection before the end of the stage. Because of that and because, as other colleagues have pointed out, it would not be fair on other people if we did not take evidence on the project, I am minded to agree that we should allow Ms Taylor's 60-day objection period to run parallel with our consideration of the evidence. As I have said, she will have time to lodge objections before the preliminary stage is finished and we will, of course, consider any that she might lodge.

I share the disquiet of committee members about notification errors. If there are any further errors, the committee might have to make a report to Parliament on the adequacy—or lack of it—of the accompanying documents. We are in a serious position. I hope that Ms Gorlov's confidence in the process is borne out, because it would be very serious if any further notification errors came to light.

I suggest that we take a short break of five or 10 minutes before we start taking evidence.

11:41

Meeting suspended.

11:49

On resuming—

Waverley Railway (Scotland) Bill: Preliminary Stage

The Convener: Welcome back. It might be useful for members of the public if I introduce myself and the other members of the committee; I am aware that the name-plates are very small. I will start from my far right. The committee members are Gordon Jackson, Margaret Smith, Ted Brocklebank and Christine May. I am Tricia Marwick.

It might also be useful for me to say that the committee will meet here again on Monday 14 March. Our meetings on 7 and 21 March will be held at the Scottish Mining Museum in Newtongrange. At the conclusion of the oral evidence-taking meetings, the committee will consider all the evidence and report to Parliament, which will debate its report. If Parliament approves the bill at the end of the preliminary stage, the bill will proceed to consideration stage and thereafter to the final stage.

We hope to break for lunch at about half past 12. Depending on our progress, we may take another short break in the afternoon. Members of the public are welcome to leave the meeting at any time, but I ask them to do so quietly.

Item 2 on the agenda is consideration of oral evidence on the general principles of the bill. I welcome David Hume, the chief executive of Scottish Borders Council; Andrew Holmes, the director of city development at the City of Edinburgh Council; David Williamson, the head of planning at Midlothian Council's strategic services; Dr Mark B Brown, the executive director of consulting at Halcrow; and Peter Wood, the managing director of Tribal HCH. David Hume will make a brief opening statement to the committee. After he has done so, the witnesses will take questions from members.

David Hume (Scottish Borders Council): We believe that the Waverley project's time has come and that it will underpin the success of the Edinburgh city region economy and the wider economy. We fear at the moment that an opportunity may be missed because of the lack of a good strategic framework, but we believe that the project will help to bring coherence to that framework.

At the moment, there is isolation and exclusion throughout the south of Scotland; the Waverley project will bring connectivity. There are efficiency losses to the regional economy and the project will help to bring about a much more integrated

framework and economy in the south-east of Scotland. We believe that there is an imbalance of opportunity and advantage and that the project will help to spread prosperity throughout the south of Scotland.

The Waverley project meets the needs of the city of Edinburgh and of our towns and communities throughout the south-east of Scotland. Edinburgh faces the challenges and problems of success. At the moment, the Edinburgh economy is characterised by tight labour markets and a limited labour supply, enormous pressure on housing land—especially for affordable housing—and deteriorating traffic-related environmental conditions. The project will deliver access to more affordable housing, an increase in the potential labour supply for the city and more sustainable commuter travel. It will be a key component of Edinburgh's approach to integrated transport in the city and city region.

The economy of Midlothian is very different—it is very much an economy in transition. Midlothian has been characterised by a decline in traditional industries. It has serious problems of social and economic exclusion and has in recent years struggled to attract inward investment. The project will deliver much wider job opportunities for the residents of Midlothian, including provision of access to higher-earning jobs. It will widen the transport choices that are available to the residents of Midlothian, especially in respect of access to Edinburgh, and it will assist and enhance access to key regional services and facilities. It will provide a basis for success in other key development projects that are planned for Midlothian.

The Scottish Borders faces problems, which can be summarised as being a challenge to unlock the potential of the Borders. The Scottish Borders has a fragile, narrowly based economy and there are limited opportunities in the local labour market. The problem is compounded by the loss of young people and families from the Borders. There is also a lack of strategic transport connections between the Borders and the rest of Scotland. Despite all that, the Scottish Borders has fantastic potential to contribute to the regional and national economy, which can be realised through the Waverley project.

The Waverley project will deliver for the Scottish Borders a younger and growing population. It will deliver increased choice of locations for families and commuters and it will provide fast and easy access between the Borders and Edinburgh. It will provide a cleaner environment and access to higher earning opportunities for job seekers and it will contribute to growth in tourism. It will act as a powerful engine for development in the Borders.

We believe that the Waverley project will also deliver for Scotland. It will help to achieve objectives for economic development and rural development in Scotland, it will help to deliver a smart, successful Scotland and it will help to achieve the objectives in the Scottish Executive's transport delivery report. It will also help to close the gaps in opportunities and equalities. The project is supported overwhelmingly by local public opinion and by the business community.

The Scottish Executive has stated clearly that it is looking for

"transport solutions which will work for the long term, but which extend choice and improve accessibility now."

That is exactly what the Waverley rail project will deliver, and we commend it to the committee.

The Convener: Thank you. Given the inconvenience and the delays that the committee has experienced due to, for example, notification discrepancies and lateness in receiving the business case—including updated data that we received only in the past two weeks—does the promoter consider that it was fully prepared and ready when it introduced the bill to Parliament in September 2003?

David Hume: I say emphatically that the promoter and partners did an enormous amount of thorough work in support of our determination to reinstate the Waverley rail project and are profoundly disappointed that the delays around land referencing have delayed the project as a whole. In coming to the project, I have been impressed by the quality of the work that has been generated by the partner agencies and the contracting companies that have been involved in the project. I have also been impressed by the extent of cross-checking and support that has been given laterally across the project, where other agencies have been involved in checking the work in some of the papers that members have before them as evidence.

There were discussions within the promoting organisation and with the partners when the problem first came to light last year. I am convinced that the process that we went through to engage the contracting agencies was sound and reliable. That did not avoid problems, but I am certain that our process to secure the engagement of the companies was sound. In terms of where we are at the moment, it is plain that the actions and the attitude of the promoter and the partner authorities do not end here. We will continue to discuss with the land referencing company what went wrong and why.

The Convener: We have examined the notification discrepancies fairly thoroughly. I also asked you about the business case, which is in your hands rather than the land agent's. We

received updated data for the business case only a fortnight ago. Given that there has been a six-month delay in the project because of the notification difficulties, do you consider, regarding the business case in particular, that in September 2003 you were in a position to introduce the bill to Parliament?

12:00

David Hume: The case is extremely complex. It is apparent to anybody who has been looking at the evolution of the business case that new information has been coming to light not only locally, but in terms of awareness of guidance that has been provided by the Scottish Executive. The evidence that you cite refers to a different approach being followed in calculating the net present value. We are aware that it would obviously have been better to have all of that absolutely signed up, but the reality is that new information has been becoming available and we have been working extremely hard to incorporate it into the evolving business case.

With regard to the most recent information, I ask Mark Brown to explain the rationale and the reason behind that later information's being brought to bear on the business case.

Dr Mark B Brown (Halcrow): Two significant changes have occurred over the past two years and are reflected in the new information that has been provided to the committee. Both reflect the evolving economic landscape upon which the analysis has progressed over the past few years. The first change concerns assumptions regarding housing to be developed in Midlothian and the Borders. We now have far more firm evidence about housing commitments within the corridor over the next 10 years; those commitments have required us to re-estimate the patronage and revenue that would be generated by the railway. In effect, there are now firm proposals for about 10,000 new homes, roughly half of which will be in Midlothian and half of which will be in the Borders, within the catchment of the corridor. That reflects a change, based on which we can be far more firm in our assumptions about the level of commitment to that housing.

That change required that we take account of that housing in our revenue projections. Such a level of development—10,000 new houses resulting in an increasing population of just over 20,000—was always going to be highly significant in terms of the railway's viability. Really, we had no option but to take account of that new evidence, re-estimate the business case and resubmit it to the committee. The change will result in additional patronage and a fairly significant change in revenue.

The second change reflects an evolving approach to the appraisal of major infrastructure projects in the United Kingdom. About three years ago, the Treasury produced new guidelines for appraisal of major infrastructure projects, which involved a major departure from practice over the previous 20 years. Before that, the test discount rate was designed to reflect both what is called the opportunity cost of capital and the inherent risk in the infrastructure project. Around three years ago, the Treasury changed its guidance and decreed that the discount rate should reflect just the opportunity cost of capital, so that it would reduce significantly from what had been in the range of 6 to 9 per cent—depending on the period of time—to 3.5 per cent, and so that risk would be treated separately and explicitly in the scheme costs. That is why we now cost risk and why we cost optimism bias in effect as a cash sum in the capital cost estimate of the project. That has reduced the discount rate from 6 to 3.5 per cent, which has had a significant impact on the long-term benefits of the project. Previously, if one discounted a stream of benefits over time, the value of those benefits in about year 30 would be very low because of the effect of discounting. Therefore, with the exception of very large projects that generate very high annual benefits, it was simply not worth our while to consider benefits beyond year 30.

With a lower test discount rate for projects of a certain sort—this happens to be one such project—there are still significant streams of benefits beyond year 30. The Department for Transport and the Strategic Rail Authority have, in the past two years, produced advice on how to treat benefits beyond year 30. Both recommend that, when those benefits are likely to be material, the evaluation process should take account of net benefits; that is, benefits and additional costs that occur beyond year 30 up to year 60.

The Scottish Executive has recently advised us that that process should also apply to the Waverley project, so we have changed not the way in which costs and benefits are calculated, but the way in which they are treated beyond year 30. In the latest submission to the committee, we have included the net benefit from the residual value of the asset beyond year 30 up to year 60, which has had a material impact on the business case. Those two factors have changed over the past couple of years, and we have taken the opportunity to reflect them in the latest submission to the committee.

The Convener: I will pick up on two issues that you raised. The first concerns the housing market commentary report by Ryden to Scottish Enterprise Borders, which was dated January 2004, and the letter of 24 September 2004 from Ryden to the promoter. We did not receive that

material until last week. Why was it not made available to us sooner?

David Hume: I am afraid that I do not know the answer to that question. I will need to get back to the committee on that.

The Convener: I would be grateful if you would. Perhaps, if you cannot answer the next question, you would get back to us on it as well. The committee has now received the tourism impact study, which is dated May 2004 but was made available to the committee only last week. Why was it not made available to us earlier than that?

Dr Brown: Tourism is treated as an upside in the economic appraisal, so the benefits from additional tourism are not explicitly captured in the cost-benefit analysis in the headline business case figures that you have before you. Therefore, the late report on tourism does not impact on the net present value of £75.3 million but can be regarded as additional information over and above the principal business case figures. It is not material to the central case, but can be viewed as providing additional peripheral evidence.

The Convener: However, you did not think that that additional information should be made available to the committee before last week although it was dated May 2004.

Dr Brown: I cannot comment on that.

The Convener: Perhaps Mr Hume could write back to the committee and let us know his views on that matter.

Christine May: I will ask two questions, one of which is related to something that Dr Brown said regarding the changes to Treasury guidelines—I think he said that those changes were first mooted two or three years ago. What discussions did the promoter have with the Scottish Executive to determine whether the business case for the project was eligible to be treated under the revised guidelines?

Dr Brown: We have been having discussions with the Scottish Executive over the past two years, and the guidance from the United Kingdom Treasury and the Scottish Executive has in that time evolved in response to the radical change in Treasury guidelines that reduced the discount rate and required that risk be explicitly costed. During the past 12 months, we ran a number of sensitivity tests, which we shared with the Scottish Executive and produced in various papers that have been circulated to the promoter, but we were not in a firm position to change our central case until we were advised quite strongly by the Scottish Executive that, in its opinion, the revised Treasury guidelines should be explicitly reflected in the central case for the project rather than just as a sensitivity test.

During the past two or three years, the Treasury, the Scottish Executive and, it is fair to say, professionals like me in the industry have gradually firmed up the view that the inclusion of the residual value of assets beyond what had traditionally been the 30-year life of a project should be part of the core case, in response to the changing discount rate and the separate treatment of optimism bias in capital costs.

Christine May: The committee might want to return to the matter, because the delay in getting that determination from the Executive means that the committee has had less time to examine the business case in that light. However, that is a matter for the committee, not for Dr Brown.

The aim of the project is to deliver a rail link by 2008. How have the delays affected the end date?

David Hume: Again, Dr Brown can comment on that.

Dr Brown: Perhaps colleagues who give evidence later in the meeting will be able to provide a more detailed response. I understand that the 2008 date can still be achieved. From the technical and economic points of view, our assumption remains that if the process follows the timetable that we assume, the asset can be delivered and opened by 2008.

Mr Brocklebank: I accept that you will address in writing to the committee some matters that have been raised, but in the light of the evidence that we have heard, are you fully confident that the committee is now in a position to consider and make recommendations on the proposal and that we have all the necessary relevant data and evidence from the promoter?

David Hume: I would answer your question in the affirmative. You will have seen from the outline business case and background papers that an extraordinarily large amount of work has been undertaken. As Dr Brown indicated, we have kept up to date as the business case has evolved and we have brought together the latest information and guidance that we have. As I said, aspects of our work have been cross-checked throughout the process and it gives the promoter a degree of comfort to know that we are not merely discussing individual papers that have been submitted. The committee is considering an extremely thorough piece of work, which has involved not just the promoter but a number of agencies that advise the promoter. We are convinced that we are making the best possible case to the committee.

Mr Brocklebank: Mr Hume outlined the local, regional and national economic benefits that the proposed railway would bring, but what benefits could the railway bring that the existing transport network simply cannot produce?

David Hume: As you know, we undertook a number of option appraisal exercises during the course of the study, one of which included consideration of other options. From the outset, we made the firm assumption that there is a fracturing and a lack of joined-upness in the economy, certainly within the Borders and Midlothian, given the rapidly changing Edinburgh economy. The analyses that were undertaken—independently by Scottish Borders Council, Midlothian Council and City of Edinburgh Council and through community planning partnerships—suggested that the disparate economic problems and difficulties that the Borders, Midlothian and Edinburgh face would be addressed by a project that had at its heart the making of connections between the three areas. On that basis, and after considering various forms of investment in busways and road developments, we are convinced that development of the railway project is central to the programme for bringing about a much more coherent economic framework and better conditions, which will result in increased jobs and will fit with strategic priorities in the three areas.

However, we are not saying that the project is a one-club solution to the area's problems. In the Borders in particular there is a broad commitment to transport developments throughout the region—in the east and at its heart. In addition, our single concern is the lack of connectivity between the economies of the Borders, central Scotland and the rest of Scotland, so we are not considering the railway as the only solution and leaving it at that. We have taken the analysis of connectivity and, in parallel with the bill process, we are working with colleagues in Dumfries and Galloway to develop an exciting new broadband pathfinder project for the south of Scotland that will strike at one problem in lack of connectivity.

The railway is but one solution in a range of solutions. We arrived at it through thorough analysis of the problems that we face. We undertook an option appraisal of other options that might provide the same solution before we finally decided that reinstating the railway would be the single most important step that we could take to address the problems that we face.

12:15

Margaret Smith: Mr Hume outlined key benefits of the project not only to the Borders but to the wider region and to the country. I am looking at a table of the Scottish transport appraisal guidance stage 1 findings on the environment, safety, the economy, integration, and accessibility and social inclusion. The Waverley railway line is shown to have the potential for major benefit in some areas, such as connectivity and integration, as you said.

However, the one area in which the line might have a negative impact is the environment. Will you comment on that?

David Hume: I said in my introduction that the region as a whole and Edinburgh in particular face environmental problems. As supporting statements show, we expect a significant number of bus and car trips to be taken off the A7-A68 corridor, which goes all the way from the central Borders into Edinburgh. As people switch travel modes from cars and long bus journeys to the railway, a significant benefit will occur in the form of a reduction of about 2,000 trips a day on that corridor into Edinburgh.

Dr Brown will comment on the environmental assessment.

Dr Brown: I am not a witness on environmental matters; an opportunity to discuss environmental issues will arise later. However, I will provide evidence from the traffic assessment, which predicts 777,000 fewer car journeys per year as a result of the scheme in the project's early years. That significant removal of traffic from the highway network will have two benefits. It will help to reduce congestion, particularly through Midlothian and on approaches to Edinburgh, which will create environmental benefits. The safety benefit will be between six and eight fewer road accidents every year. As a wider transport impact, we hope that the railway will link the Borders and Midlothian into the Scottish rail network, which will start to change the transport culture by providing a viable public transport mode to challenge the instinctive response of jumping into a car and driving. In the long term, that also gives us an opportunity to change people's travel behaviour, which would have clear environmental benefits. The environmental science is a subject for a subsequent witness session.

Margaret Smith: Just for your reference, I picked up those figures in table 14 on page 53 of the promoter's memorandum on the general principles. Paragraph 210 says that the environmental disbenefit is considered to be moderate. Perhaps you will come back to us with a little more information about what you see as the environmental disbenefits. I am happy to accept that somebody from the promoter's side will do that later on.

Mr Hume touched on some of the other things that are being done. The committee would be interested to have more information to ensure that that is not the only club in your bag, so to speak. What would be the economic and social impact, both locally and regionally, were the project not to proceed?

David Hume: If the project were not to proceed, the benefits that we set out in the submissions

would not be realised—the £250 million to three local authority areas, the £112 million to the Borders, the creation of jobs and the boost to businesses and other projects.

I emphasise that we are not taking a single-club approach to the problem. We are looking at rail connectivity with the eastern Borders. We are not neglecting bus investment and we will pursue a bus route development grant through the Scottish Executive so that we can enhance and develop the bus service on the A68-A7 corridor to provide a much more frequent and modern service in that area. However, as I said in answer to the previous question, we are convinced that those other solutions will not bring the significant step forward and benefits of bringing income into the area and acting as a spur to jobs growth and to new housing and other development. The other options will not ease the pressures on the south of Edinburgh to the same extent in the search for land for affordable and other housing.

Andrew Holmes (City of Edinburgh Council): One of the City of Edinburgh Council's keen interests in the project is not just to achieve environmental relief, as was referred to, but to extend the Edinburgh labour market and bring the Borders more firmly within it. Many decisions about inward investment into Edinburgh depend on assurances about the availability of the right sort of labour for the foreseeable future. If we cannot continue to show that the labour market is expanding, those investment decisions will go against us—as some have done recently—and that will represent a net loss to the economy of south-east Scotland and the rest of Scotland.

David Hume: From the Borders perspective, before we embarked on the work, we were aware from the results of studies that the Scottish Low Pay Unit and other agencies undertook that the Borders could be categorised as being a low-wage area. However, in connection with my wider responsibilities in the Borders, I was shocked to see that the average earnings differential between the Borders and Edinburgh is in the region of £7,000 gross. If we were unable to take the action that we want to take through the establishment of the railway to begin to address inequality and lack of opportunity and to spread the prosperity that exists in Edinburgh and boost the earnings and living conditions of people in the Borders, the promoting authority and I would be profoundly disappointed.

The Convener: Thank you very much for coming today and for answering our questions.

Normally, I would call a one-minute suspension to let the members of the next panel take their places, but I would be grateful if they would slip into their seats while I explain what we will do. The second part of our consideration is to take an

overview of the promoter's business case and the STAG process. Again, our panel of witnesses is from the promoter. David Fox is director, Turner and Townsend; Peter Wood is managing director, Tribal HCH; David Webster is technical director, Scott Wilson Scotland; Dr Mark B Brown is executive director, consulting, Halcrow; and Tony Rose is assistant director, finance, PricewaterhouseCoopers. I will invite David Fox to make a short opening statement on behalf of the panel. At that point, I will suspend the meeting for lunch for 45 minutes. When we come back after lunch, the committee will put its questions to members of the panel.

If David Fox is now settled, I invite him to make his statement.

David Fox (Turner and Townsend): My statement will deal with the business case and the STAG 1 appraisal.

The Waverley railway will deliver significant and measurable economic, social, transport and environmental benefits at local, regional and national level. Modelling confirms that the principal objectives of the Waverley railway will be met in a number of ways. The railway will secure ready access to Edinburgh's buoyant labour market for workers who live in the area that is to be served by it. It will provide an incentive for inward investment in Midlothian and the Scottish Borders. It will assist Edinburgh and the Lothians to manage their demand for housing by spreading commuter pressure southwards. It will improve accessibility. By increasing the potential for people to make commuter trips to Edinburgh by public transport rather than by car, it will reduce the projected increase in congestion, and by providing efficient transport to employment opportunities in Edinburgh, it will maintain the sustainability of Midlothian and the Borders by helping with the retention of population.

I will summarise the economic case. The 60-year transport appraisal estimates that the railway has a net present value of £75.3 million and a positive benefit-cost ratio of 1.21. Over the initial 30-year period, the wider economic benefits are estimated to have a value of between £90 million and £258 million.

A number of alternative transport and terminus options have been considered, including road improvements to the A7, the provision of additional high-quality bus services that would utilise the route of the former railway line and tram and light rail options. Although some of those options exhibited a degree of merit, it was clear that only the provision of a regular rail service that penetrated to the central Borders would be capable of delivering wider economic and social benefits to the area. If we did not proceed with the Waverley railway, car ownership would continue to

grow, there would be increased pressure on the congested road space on the southern approaches to Edinburgh and the social exclusion implications for a rural area that has declining traditional industries and low average incomes would fail to be addressed.

It is estimated that at the anticipated time of tender—which is the fourth quarter of 2005—the capital cost for the scheme will be £151 million. At the outset of the project, Sarah Boyack, who was the minister responsible for transport at the time, set us the challenge of maximising private sector funding. As a result, it is intended that contributions from the partner councils will take three principal forms: the allocation of resources to develop and monitor the implementation of the railway; the assignment of developer contributions that have already been agreed; and the assignment of developer contributions that will come from future developments.

The partner councils already have confirmed contributions from developers within Scottish Borders and Midlothian that total £6.6 million. They include the pledge by Shawfair Developments Ltd of £4.2 million and the offer to provide an additional £0.6 million in kind, if required, and the pledge by Asda of £1.8 million in connection with the proposed supermarket development at Currie Road in Galashiels. The partner councils have also identified prospective developments where it would be reasonable to require section 75 developer contributions and to use planning agreements for that purpose.

The promoter concludes, having undertaken a systematic study of all the realistic alternatives, that the reinstatement of the Waverley railway is demonstrably the preferred option—and indeed the only practical option—that meets the requirements of national, regional and local transport and planning policies. The promoter believes that the proposed Waverley railway represents best value and that, given all the benefits that will be derived, it is a robust long-term investment.

The Convener: Many thanks for your statement, Mr Fox. It is now half past 12. I suspend the meeting until quarter past 1, at which point we will come back and the committee will pose questions to you.

12:30

Meeting suspended.

13:21

On resuming—

The Convener: Welcome back to the afternoon session of our evidence taking. Before the

suspension for lunch, David Fox made a short opening statement.

I remind members of the public, who no doubt have been outside and switched on their mobile phones, to switch them off again so that we are not interrupted. I am sure that committee members have done the same.

We start with questions to the panel.

Christine May: Good afternoon. The final patronage forecast that was provided in the technical note of 14 February by Halcrow indicates a revised annual patronage growth rate of 5 to 6 per cent, which is considerably greater than the rate previously quoted of about 1.4 per cent. While certain lines—for example Edinburgh to Bathgate—have achieved that level of growth over a short period, how do you justify that level of growth in the case of the Waverley line?

David Fox: I will pass that question to Mark Brown.

Dr Brown: Patronage growth is driven by two things in the model. The first is general economic growth within the east of Scotland region, which increases the rate of trip making among all travellers. That is a fairly common phenomenon, whereby propensity to travel grows in line with growth in the economy. We have assumed that in that region the economy will grow at 2.5 per cent per annum, which is in line with Government projections, even though it is quite likely that within the greater Edinburgh region growth could be well ahead of that rate.

The second and most significant aspect of growth is that due to the increase in the population as a result of a very significant rate of housing development within the corridor over the next 10 years. As I mentioned earlier, there is a deviation from the earlier patronage forecast, which reflects our growing confidence in the intervening period that that rate of development will happen. It is already happening to a large extent in Midlothian and the Borders. The additional 10,000 houses will increase the rate of traffic within the corridor by about 50 per cent. That will not happen all at once, but there will be a ramp-up over approximately 10 to 12 years as new houses are completed. New travel patterns will set in as people recognise the journey opportunities that are provided by the corridor and change their leisure and work activities as a result.

The rate of patronage growth of just over 5.5 per cent per annum, which is an average rate over the life of the railway, has many precedents in the United Kingdom. Patronage of the Bathgate line, as you mentioned, has been growing at 6 per cent per annum compound for the past nine years. In the south of England, patronage of the Thameslink railway to the north of London and the Great

Eastern railway to the east of London has been growing at 5 and 5.6 per cent per annum respectively over the past seven years. Patronage of the Robin Hood line—which is directly comparable to the Waverley line, as it was reopened about 15 years ago, having been closed during the Beeching era—is currently growing at 15 per cent per annum. Given the fact that the long-term rate of growth that we propose is driven by bricks and mortar—by new housing coming on stream and by more people moving into the region—it is well within the range of similar schemes and similar railways elsewhere in the UK.

Christine May: Mr Wood, you seemed to dissent from something that was said earlier. Do you want to comment?

Peter Wood (Tribal HCH): It is a minor point. Dr Brown correctly said that the Government's projected growth rate for the UK national economy is 2.5 per cent. I was merely remembering that the Executive has not set a growth target for Scotland.

Christine May: You are talking about the Borders economy growing, although we have heard that much of the development is predicated on the need to get people into the Edinburgh labour market from the Borders area. How is the growth in housebuilding for commuters to the Edinburgh area going to achieve growth in the Borders economy?

Peter Wood: There are several points to make. There are a number of ways—no doubt we could explore them—in which the railway line offers benefits that could not be obtained by any likely alternative. However, if we look at this specific issue, both in Midlothian and the Borders it has been determined, as a matter of policy, that a substantial increase in housebuilding will be possible and sustainable only if the railway line is produced. We are talking about 900 houses in the Borders and 3,500 in Midlothian, the development of which is contingent upon the transport access that the railway line will provide. Those houses will, largely, accommodate people who will work in and be part of the wider Edinburgh regional economy. If the railway development did not take place, that housing would have to be located elsewhere. It might not be possible to locate it within the Edinburgh region at all, and the opportunity to expand the population would be lost.

The specific benefit that the railway will bring is the opportunity to increase the populations of the Borders and Midlothian. As the new households inject spending into the local economy they will help to sustain the economies and service economies of the communities in the Borders and in Midlothian.

Gordon Jackson (Glasgow Govan) (Lab): I sometimes find it difficult to work out just what is and is not taken into account in these projections. The documents contain a table that illustrates the number of daily journeys to work by car from various locations in the Edinburgh travel-to-work area. Are you suggesting that the railway will be convenient for other Borders towns, such as Peebles, Kelso and Coldstream—places from which travellers would need to detour to Tweedbank or Galashiels? Where does that idea fit in? Does that have a bearing on the figures that you cite for the number of journeys that will be made?

David Fox: I will pass that question on to Dr Brown. Mr Wood wants to add a brief word on that, too.

Dr Brown: The majority of the demand for the railway will come from people who live within around 2.5km of the railway. The further away someone is from the railway, the less likely they are to travel to the railway, park there and take the train. However, the railway is designed with a significant number of park-and-ride stations, the largest being at Tweedbank, which is well sited for people who are travelling from Melrose, Jedburgh and other small towns in the area. We expect a proportion of the demand—this has been quantified—to come from those more distant towns. People will park in the car park that is situated next to the proposed station at Tweedbank and take the train into Edinburgh. However, the majority of the demand will come from people whose journey starts within 2.5km of the stations.

13:30

Gordon Jackson: So your projected figures of use or patronage rate are not based entirely on the 2.5km radius. Is the patronage rate a percentage? How does that work?

Dr Brown: The model that we use has what is called a gravity component that takes into account the journeys that people are currently making and are likely to make in the future. That information is drawn from a Scotland-wide database of people's daily journeys—where they are travelling from and to. It has a deterrence function that takes into account the cost of making those journeys using different modes. That cost includes fares, petrol, parking charges and the time it takes the person to make the journey. Taking account of the cost of alternative modes and the ability to pay of different travel groups will assign different percentages of travellers from each zone of origin, which will largely relate to the towns and villages in the Borders and Midlothian area. It will assign a proportion of travellers to each mode: some to car, some to bus and some to rail. Clearly, the further

the journey's origin is from the railway station, the lower the percentage of travellers from that origin that will be assigned to the railway.

Mr Brocklebank: Many train operators receive subsidies, but those are not included in the calculation of passenger yield. For example, First ScotRail receives financial support from the Scottish Executive and Strathclyde Passenger Transport Executive to cover the revenue shortfall difference. What consideration have you given to such subsidies in your calculations?

David Fox: I will start off and then pass to Dr Brown, who is best qualified to answer. As you will have seen from the outline business case and its recent updates, there has been an analysis of income, or revenue, against operating costs on an on-going basis. Within the first six years, we anticipate that the railway will move from a deficit into a positive situation where it is contributing to the national franchise and, indeed, to the bigger railway picture.

In the early years we expect there to be a degree of build-up through new rail services as travel patterns are changed and, in this case, as housing is constructed and new potential passengers become available to use the line.

I will pass the question to Dr Brown who can talk about the specifics.

Dr Brown: I can add one or two points. We have not considered subsidy at this point. The economic modelling has been done from a purely economic perspective and it considers the costs and benefits to the state and the wider community. Nevertheless, the analysis has included forecasts of revenue and operating costs. Putting those two together, the railway will start to make an annual operating profit in about 2013, which is about five years after opening. For that year, operating revenue will start to exceed annual operating costs. By 2017, there will be a net cumulative operating profit covering the preceding 10 years of operation. From 2017 onwards, the railway project as a whole will be turning an operating profit.

Mr Brocklebank: Your technical note discusses the methodology that was used to calculate induced or generated demand. You acknowledge that there has been limited research on the topic, although you quote some. Why did you use the high-speed lines from Madrid to Seville and Paris to Lyon as reasonable comparators for the Waverley route?

Dr Brown: There are few examples of railways like the Waverley line opening in the United Kingdom in the past few years. I tried to show that the estimate of induced or generated demand of 10 per cent of patronage is at the lowest end of the scale, given the precedents that we could find.

The nearest analogy to the Waverley line is the Robin Hood line, which is an almost identical project, although I assure members that no two railways are ever the same, by a long way. The Robin Hood line is a reopened railway line, of about the same length as the Waverley line, that links Nottingham with Worksop via Mansfield. Fifteen years after opening—a reasonable amount of time for demand trends to settle down—about 30 per cent of trips on that railway are induced or generated. It is significant that a third of generated trips, or about 10 per cent of all trips, are made by people who have moved into the catchment of the railway since it opened. The inference is that the railway influenced those people's locational decision. That trend is relevant to some of the points that we make about the Waverley railway's wider social and economic benefits. The key point that I was trying to make is that, given the observed precedents and other ex ante studies, we have taken a conservative view of the likely rate of generated or induced traffic.

Christine May: Seville and Lyon are major cities with significant existing populations. You say that you took a conservative approach, but I press you on why it was appropriate to use the lines to those cities as comparators. I argue that they are in no way similar to the Waverley line.

Dr Brown: The main point is that there is little ex post evidence of how much traffic railways generate. There have been relatively few similar railway projects in the United Kingdom. Route modernisations have taken place in the past couple of decades, such as those on the Thameslink line north of London and, to some extent, on the line between Glasgow and Edinburgh, but there is relatively little evidence from the reopening of old lines or the construction of brand new ones. The closest analogy in the UK is the channel tunnel rail link, the first geographical stage of which is similar in length to the Waverley line. Most of the published research on railways comes from high-speed railways. Many such lines have been built in recent years and a lot of money has been spent, mainly by the European Commission, on ex post research into their impact. A main reason for quoting the lines to Lyon and Seville as examples was that not a lot of other evidence was available.

Christine May: So it would be reasonable for us to bear in mind major caveats in considering those lines as reasonable examples.

Dr Brown: Yes. The Robin Hood line is the best comparison.

The Convener: I thank the witnesses for their evidence. We will write to you with more detailed and technical questions—we would appreciate it if you could respond as quickly as possible.

I now invite Jim McFarlane, the chief executive of Scottish Enterprise Edinburgh and Lothians to give evidence. Welcome to the meeting, Mr McFarlane. I understand that you wish to make a short opening statement.

Jim McFarlane (Scottish Enterprise Edinburgh and Lothians): Yes, indeed. Good afternoon. Thank you for the opportunity to address the committee today.

Other witnesses have indicated that the reopening of the Waverley line is a significant economic development opportunity for the Scottish Borders and I too take that view. However, I also believe that it is a significant economic development opportunity for the wider Edinburgh city region and for Scotland as a whole. I make that point quite deliberately; it comes out of the wider general understanding that successful city regions can have a disproportionate positive impact on the economies of the countries in which they are situated.

The importance of cities to Scotland's economic performance was recognised by the Scottish Executive in its cities review in 2003, in the updated framework for economic development that was published last year, and in the refreshed "Smart, Successful Scotland" document that was published last November. All those documents stress the importance of high-performing city regions to the economy of Scotland as a whole. I quote from the refreshed "Smart, Successful Scotland" document:

"Scotland's cities are vital to driving the overall economic health of Scotland."

The document also stresses the importance of connectivity between our cities and their regions:

"The effective operation of local economies, labour and housing markets depends on the interrelationship between the cities and their regions and the infrastructure which connects them."

The economy of the Edinburgh city region has been performing well, to the benefit of the country as a whole. Output in Edinburgh and Lothians, at £18,600 gross value added, is 33 per cent higher than in the country as a whole. New firm formation rates and educational attainment levels are significantly higher than the Scottish average and the region has a significant concentration of growth industries, which have great potential to grow in the coming years. One third of Scotland's software and information technology jobs, 72 per cent of culture and media jobs and 44 per cent of life sciences employment is found in the region.

The geographic entity that is the Edinburgh city region is defined by a travel-to-work area that extends from Fife to the Scottish Borders and across the central region to east Strathclyde. Some 70,000 people commute into Edinburgh

every day, including almost half the working population of Midlothian. Levels of commuting are growing and they are predicted to grow still further. If economic growth is to continue, the way in which we manage and facilitate effective and efficient commuter growth is one of the key challenges facing the Edinburgh city region.

As has been mentioned today, the Lothian structure plan envisages some 43,000 net additional jobs in Lothian in the period to 2015. Against the background of a tightening labour market, with economic activity rates at an all-time high and unemployment at an all-time low, an extension to the reach of the labour markets that serve Edinburgh is vital to economic growth.

To conclude, the reopening of the Waverley line can and must form a key component of a cohesive, sustainable transport infrastructure for the Edinburgh city region. Only by investing in our transport infrastructure can we create the economic activity that will allow efficient and effective working of the Labour market, which, in turn, is essential for the continued economic growth of the Edinburgh city region and the continued expansion of the Scottish economy.

Christine May: You clearly outline the difficulties that the Edinburgh economy faces in the housing shortage and the need for workers to travel in, but will you outline the economic benefits of the proposed railway to Galashiels compared with the benefits that might come from investment in the transport infrastructure closer to Edinburgh, where there is perhaps the most immediate potential for housing? What will building a railway as far as Galashiels do that the existing transport system cannot do?

13:45

Jim McFarlane: My colleague David Gass from Scottish Enterprise Borders is probably more able than I am to comment on the economic benefits of the line to the Scottish Borders and Galashiels. In my view, the existing transport infrastructure will not be able to cope with continued commuting patterns. Already there are about 12,000 commuter trips through the Sheriffhall roundabout every day. I have mentioned that almost half of the economically active population of Midlothian travels into the city of Edinburgh every day. We have heard about the potential for a significant increase in new house completions in the foreseeable future. That will generate levels of additional traffic on the existing road system that it will be unable to accommodate.

We believe that a means of moving significant numbers of people from the south into the city of Edinburgh is vital. We already have good rail links to the west and to East Lothian. We do not have

such rail links to the south. In the south of Edinburgh, around Shawfair and elsewhere, there is significant expansion of both housing and economic activity. In the absence of good public transport, new opportunities for the growth that we expect will not be realised, simply because of capacity problems in the existing road infrastructure.

Christine May: Would taking the railway to Stow not achieve the bulk of what you are arguing for? What is the justification for extending the line to Galashiels?

Jim McFarlane: The extension of the line would allow further penetration into the potential labour market in the central Scottish Borders, bearing in mind the housebuilding that could and would take place there if the line were built. The level of economic activity in the Lothians is at an all-time record high. More than 80 per cent of the working-age population is either in work or in full-time education. Unemployment is at a record low of 2.5 per cent and falling. The structure plan predicts significant growth in employment. The real challenge for those involved in economic development in Edinburgh is to grapple with the question of where the labour market will come from. By extending the reach of the line, we can help to solve that problem.

Gordon Jackson: Where will the people who will come to live here come from, according to your model? If the roads are congested, building a railway will help us to deal with that problem. However, by building more houses here, we will simply replace the people who have been taken off the road. You say that people living here would become the labour market for Edinburgh. Are you talking about people who are born here and will not leave?

Jim McFarlane: There are two aspects to your question. Inward migration to Edinburgh and the Lothians is significant. Edinburgh and the Lothians is one of the few areas in Scotland in which the population is growing. Much of its population comes from the rest of Scotland, the UK and abroad. Obviously, those people require places in which to live. The Edinburgh housing market extends well beyond the city boundaries and Lothian. As I have mentioned, the travel-to-work area for Edinburgh can be demonstrated to cover a geographical area that extends from Fife down into the Scottish Borders and across Strathclyde. There has been a significant increase in commuting in recent years, which will continue. How the extended labour market works and can be made more efficient is a critical factor in sustaining growth in the Edinburgh economy.

Margaret Smith: Some people say that the proposed formation, route and locations of the stops along the railway could be improved. My

colleague Christine May mentioned that Stow has the potential for a stop. Are you content with the proposals, or would there be benefit in increasing the number of stops, for example?

Jim McFarlane: The trade-off between the number of stops and overall journey time must be considered. Stow is a relatively small settlement. I can well understand the wish of its population to have a stop in the village, but the main point in answer to Christine May's earlier question is that we genuinely believe that accessing the current and future labour markets of the Scottish Borders is essential. The line is planned to Galashiels and then to Tweedbank, with extended park-and-ride facilities, which is probably the best option.

Margaret Smith: Does the projected regionwide and Scotland-wide net economic benefit of the railway represent a good return on a public investment of at least £115 million?

Jim McFarlane: This morning, other witnesses answered questions about the net present value calculations. I believe that the STAG appraisal system fails to capture wider economic benefits that can accrue from major public transport capital investment projects. The point of my evidence is to link the line's reopening to the necessary sustaining of the Edinburgh economy. Connectivity and the availability of labour to service that growth are key constraints that the appraisal methodology has not fully taken into account.

Mr Brocklebank: I will return to the assertion in your introduction that the railway would be of major significance in the development of the city region. Can you assess how much of the railway's purported benefit is geared towards the economic and social regeneration of the Borders and Midlothian areas as distinct from Edinburgh's social and economic development?

Jim McFarlane: My colleague David Gass from Scottish Enterprise Borders is probably better placed than I am to deal with the benefits to the Scottish Borders. I have talked about the contribution of the Edinburgh city region to Scotland. From a wider Edinburgh city region perspective, the project is important and relevant.

I will further illustrate that by pointing out that, in recent years, Scottish Enterprise has researched the performance of Scottish cities in comparison with equivalent cities in Europe. The economy of the Edinburgh city region is performing exceptionally well in the Scottish context and probably better than that of any other provincial UK city, but we are doing less well than other cities in Europe.

Cities are part of a global economy. We compete for inward investment and for talented individuals for our knowledge industries. The more that we can do to improve the quality of life—in

which public transport is a key factor—the more economically competitive the country and the wider Edinburgh city region will be.

Mr Brocklebank: I can see how the railway would be advantageous to the city of Edinburgh, by pushing its commuter belt further out to Gorebridge and so on, which would relieve some of Edinburgh's transport pressures. You have said that this is not really a matter for you, but although extending the line to Galashiels might be looked on as socially convenient, you consider the real economic benefit to be in extending the Edinburgh city boundary.

Jim McFarlane: Essentially, in economic development terms, it is probably no longer appropriate to distinguish the economy of the Scottish Borders and Midlothian from that of the wider Edinburgh city region as such things are very much interconnected.

It is also worth pointing out that our patterns of commuter flows include people—albeit in relatively modest numbers—who travel outwards from Edinburgh to Midlothian. Midlothian is the location for much of our life sciences industry, which is a relatively new industry with great potential in Scotland.

In addition, economic development opportunities of a physical nature exist at Shawfair, which is on the Midlothian side of the City of Edinburgh Council boundary. Shawfair will be served by a new station on the Waverley line. Close to the Shawfair development is the new hospital at Little France, where the teaching hospital for the University of Edinburgh has already opened. The centre for biomedical research, which is the biggest physical project in which Scottish Enterprise Edinburgh and Lothians will be involved over the next few years, will be located adjacent to Little France.

It is important that public transport serves those new developments. Having participated in the proceedings of the Parliament's two tramline bill committees, on which members' parliamentary colleagues sat, I know that an issue that those committees dealt with repeatedly was the importance of public transport connectivity to Edinburgh Park and the new developments on the west side of Edinburgh that have taken place over the past 10 years. The Waverley line gives us an opportunity to plan for new areas of economic opportunity in the south-east of the city and in Midlothian. We can build in public transport at the beginning of those developments rather than add it only some years later after the developments are under way.

The Convener: You have made an excellent case for having a railway line that extends as far as Shawfair, but we have not heard much from

you about the case for extending it to Galashiels and Tweedbank. You have repeatedly said that that is a matter for your colleagues, but we have not heard much from you about the advantages that the line will bring to the Borders.

Jim McFarlane: I apologise if I gave that impression. I said that my colleagues from Scottish Enterprise Borders will be able to explain the economic benefits to the Borders more ably than I can because they are closer to the situation. I have a certain familiarity with those arguments because I spent some time as chief executive of Scottish Enterprise Borders. Indeed, I was based in Scottish Enterprise Borders when the initial feasibility studies for the line were undertaken in the late 1990s.

However, from an Edinburgh perspective, the extension of the Edinburgh travel-to-work area into the Borders will be much more effective if we facilitate significant commuter movements both now and in future by extending the line all the way to Galashiels and Tweedbank. Given the significant housing opportunities in the Borders—we have already heard about an additional 10,000 houses, which is equivalent to a significant population of perhaps 20,000 people—enabling that population to travel into Edinburgh to serve the growing economy of the city will benefit the wider city region as well as the Scottish Borders.

The Convener: I thank Mr McFarlane for his evidence. I suspend the meeting for two minutes while the next panel gets into place.

13:59

Meeting suspended.

14:02

On resuming—

The Convener: We shall now hear from David Gass, chief executive of Scottish Enterprise Borders, Nigel Watson, director of physical business infrastructure at Scottish Enterprise Borders, and Riddell Graham, former chief executive of Scottish Borders Tourist Board. I understand that David Gass will make a short opening statement.

David Gass (Scottish Enterprise Borders): Good afternoon and thank you for the opportunity to address the committee. Our written evidence to the committee, which was submitted in September 2004, highlights the difficult economic conditions that the Borders area has experienced in recent years. The economy remains fragile and is characterised as low wage with low gross domestic product per head of population; it is still heavily dependent on traditional and primary industries that face considerable restructuring

challenges. We have an aging population and significant levels of outmigration of young people from the area, accentuated by the strong feeling that the Borders area remains disconnected from the wider regional and Scottish economy.

We consider that the Waverley rail project will produce long-term benefits for the Scottish Borders and play a crucial role in addressing the challenges that are faced by the area. However, it will also have a much larger geographic impact in contributing to the Edinburgh city region and helping to address the major growth challenges that face Edinburgh. My colleague Jim McFarlane referred earlier to those challenges.

The board of Scottish Enterprise Borders has supported the proposal to reopen the railway since the inception of the project. The project fits clearly with the aims and intent of the Scottish Executive's framework for economic development, with its commitment to regional development and economic growth and opportunity for all regions of Scotland, and with the recently refreshed "Smart, Successful Scotland" strategy, with its emphasis on the economic competitiveness of our city regions. It is also identified as a key priority in the Borders' local economic strategy.

Aligned with its strategic fit at national and local level, we believe that the project will deliver significant benefits to the Scottish Borders and to the wider city region, specifically in providing improved connectivity between the Borders and Edinburgh; allowing borderers to have increased access to higher-earning jobs whilst remaining in the Borders; providing increased expenditure in the local economy; and sustaining local services. Increased housing development will make a positive impact on population and population balance in the Borders, providing additional labour supply and spend.

Increased tourism is anticipated to bring more than £1 million additional income annually to the Scottish Borders. The project will also support the diversification of the Borders economy; provide access to well-paid and value-added jobs locally and in Edinburgh; encourage inward investment; and ensure efficiency gains and cost savings for Borders companies travelling to Edinburgh.

Finally, the railway is vital in presenting the Borders as a connected region, addressing the exclusion of the Borders population and allowing the region to play a positive part in the wider Edinburgh city region and Scottish economies. The railway will have a long-term and overwhelmingly positive impact for the Scottish Borders and the Edinburgh city region.

The Convener: Thank you.

Christine May: Good afternoon, gentlemen. Mr McFarlane has left Mr Gass with a number of

questions to answer, and I am sure that he will do his best to deal with them.

Everyone has outlined the railway's positive aspects. I want to turn that approach on its head and ask about the project's major negative aspects and the steps that you are taking to address them. For example, although he did not do so overtly, Mr McFarlane seemed to suggest that the Borders economy would grow through service jobs, which tend to be relatively low paid.

David Gass: First, we believe firmly that the project as it stands will provide the maximum economic benefits for the area. Concern has been expressed that, according to the unemployment statistics, the Borders has a tight labour market. However, about 35 per cent of the area's working population works part time and we believe that the railway project provides the ideal solution with regard to the population's access to higher-paid and value-added jobs in the area and in the Edinburgh city region.

I am sorry—what was the second part of your question?

Christine May: I wanted to explore other negative aspects. For example, increasing tourism will mean a great increase in housebuilding, which might affect scenic aspects. How will you mitigate such effects?

David Gass: As far as development is concerned, the Scottish Borders already has a reputation for preserving both the integrity and the beauty of its environment and many of its other inherent strengths.

I struggle to see the project's negatives. Our board identified the Waverley railway project as one of six key long-term priorities for the wider Borders economy, and the project itself supports other key aims such as the wider diversification of the Borders economy, university linkages, labour supply and the balance of population in the Borders. We believe that the railway will have a tremendously positive impact on all those aims.

Christine May: What is your plan B if that does not happen?

David Gass: Our plan B will have to deal with tremendous problems for the Scottish Borders. I have painted a picture of the economy's current state. We believe that the project will play an immensely powerful role in accelerating the development not just of the region's transport infrastructure but of other strategies, including diversification of the economy, and aspects such as the area's gross domestic product and wage levels. All those strands and strategies remain very relevant to what we do. We also face the added disadvantage of the changes to European funding in 2006, which will bring their own

challenges to the region. Without the Waverley rail project, the longer-term growth and sustainability of the economy of the Borders and the wider city region will be adversely affected.

Nigel Watson (Scottish Enterprise Borders): Because of isolation, people in rural areas rely heavily on car transport. If public transport projects such as the rail project are kept away from areas such as the Borders, not only will people have to remain on low incomes but they will face increasing petrol charges, which will make it even more difficult for them to cover the distances that they have to travel. The cost of meeting such expenses will begin to form a larger and larger part of their available income.

Riddell Graham (Former Chief Executive, Scottish Borders Tourist Board): The Borders tourism strategy identifies huge overreliance on car-borne visitors. At the moment, 96 per cent of visitors to the area have to come by car, because there is no other easy way of getting here. The Borders does not appear on maps because it is not connected up.

However, this is not just about putting a line on the map; it is about making the region seem more accessible. It is significant that the marketing campaign that VisitScotland launched a couple of weeks back promotes a city-rural combined short break. What is in that television advert? Edinburgh and the Borders are together for the first time. VisitScotland has already identified that, in Scottish and international terms, the city region concept is key to developing tourism. The Borders is ideally placed for that.

We can build on the huge investment that has been made in activity infrastructure in the Tweed valley, and on our position as Scotland's leading short-break destination. It was pretty audacious to suggest that we were the leading destination, but doing so has led to major benefits in knocking on the head some of our seasonality problems. We have done that with fairly minimal investment in marketing.

We are now talking about a huge investment in infrastructure to put the Borders really on the map. That would show not only that we are accessible, but that we are open for business—a new kind of tourism business that we cannot currently tap into.

Margaret Smith: Could the proposed formation and route, and location of stops, be improved? If so, what changes would you make, and why?

David Gass: I will answer that first and then ask my colleagues if they wish to add anything. Picking up on earlier questions that were put to my colleague Jim McFarlane, I would say that the proposed route is the optimum—in terms of both the net present value that can be seen in the business case and providing a link and route into

the central Borders. That is where we see opportunities for population growth and the development of land to maximise the economic benefits of the railway.

In addition, the Edinburgh city region faces labour shortages and housing demand. The railway will provide the Edinburgh city region with the greatest access to the population and settlements of the Scottish Borders.

Riddell Graham: I repeat that the railway is not simply a line on the map. Tourism will rely on effective promotion of the route and of everything that people can do once they have arrived in the area. It will also rely heavily on proper visitor reception facilities and on support for transport systems to the other towns in the Borders, which could be effectively accessed for short breaks within a relatively short travel time.

We should bear in mind the fact that the second-largest hotel in the Borders is about 200yd away from the final point on Tweedbank, and that there is a huge accommodation base in Melrose. Such facilities are acknowledged as key aspects in attracting tourists for short breaks.

Margaret Smith: Will the location of the line benefit the development of outdoor tourism, which seems to be a growth area in Scotland?

Riddell Graham: Absolutely. I referred earlier to the huge investment that Forest Enterprise and the Forestry Commission have made in developing outdoor access facilities in the Tweed valley—not only in the Peebles area, as everyone appears to assume, but all the way down the Tweed valley. Developments in other parts of the Borders are making the area much more accessible to walkers, horse riders and cyclists. Melrose sits right on the southern upland way and is a key entry point to the four abbeys way. It is also the hub for many other outdoor activities. It is therefore ideally placed.

Margaret Smith: That was a perfect advert for the Borders. Will the projected net economic benefits of the railway—Scotland-wide, regionally and locally—represent a good return on a public investment of at least £115 million?

David Gass: Yes—both in terms of the positive net present value as seen in the proposal as it stands, and in terms of the longer-term benefits of connecting up the Scottish Borders region. The outline business case has shown the economic benefits. The line would be the ideal catalyst for the spread—successfully and sustainably—of the success of the city region into the Borders.

Margaret Smith: Most of the evidence that we have heard has concerned commuters coming from the Borders and Midlothian into Edinburgh. Have you considered the number of commuters

who might come from Edinburgh into Midlothian and the Borders as a result of the railway? We have the current figures. What is the potential growth in commuting in the opposite direction from that which we have heard about mostly today?

14:15

David Gass: I think that such growth will occur, but it will take place in the longer term and, rightly, as part of a wider city region and a wider labour flow across that city region. Some responses, which the committee may have seen, from companies such as ProStrakan Group Ltd, Perident Ltd and some of the cashmere companies, see the railway providing operating efficiency gains for their staff and beginning to address some of the recruitment issues that they face. Principally, in the short term, the attractiveness of the jobs that are available through Edinburgh is something that we would aspire to see throughout the region. The railway is an important first step in allowing that to happen.

Riddell Graham: From a tourism point of view, the market specialist study that was conducted and published at the beginning of last year suggests that, based on very moderate assumptions, in the order of 6,000 staying visitors and 3,500 day visitors per annum will be generated. Those are new and additional visitors who would otherwise not come to the area. That is very significant for tourism: those people would all be heading to the Borders rather than away from the area.

The Convener: Scottish Enterprise Borders has committed £1 million towards the railway. Is that money still available? Does SEB have any plans to make further contributions towards the cost of the project?

David Gass: As I said, the project sits with Scottish Enterprise Borders as one of our key board priorities. The committee will be well aware of the letter to the clerk from Jack Perry of Scottish Enterprise. A subsequent letter to the promoter confirms the £1 million commitment that sits within the network's five-year strategic investment plan, which covers high-priority infrastructure projects throughout Scotland. Scottish Enterprise does not see itself as the primary funder for transport infrastructure. However, we see the clear economic benefits that the Waverley rail project would bring. As a result of our discussions, principally with the promoter—Scottish Borders Council—we have committed the £1 million that sits within our five-year investment plan. Subject to proper approval, we are also open to considering individual projects that would enhance the economic benefit that we believe the railway will bring.

Mr Brocklebank: Is there evidence to suggest that the need to secure developer contributions—I gather that the cost is £1,500 on all new-build homes in the area—could impact negatively on development along the proposed route of the railway?

Nigel Watson: That is probably unlikely. There has been a rise in land values. Once the market knows that an extra cost is being placed on development, it takes that into account and should therefore offer less for the development land that is available. In real terms, we are talking about reasonably modest sums of money for the housing in question.

Mr Brocklebank: Will there not be a particular impact on further extending the Edinburgh housing market into the Borders? I presume that that will have an impact on the affordability of houses for borderers, given that the business case states that average earnings in the Borders are 21 per cent lower than the national average, while Edinburgh house prices are the highest in Scotland.

Nigel Watson: People in the Edinburgh market who may, for example, be trying to bring up a family in a tenement flat, might get a better choice at a more affordable price in the Borders. That is where some of the demand is likely to come from. The planning authority has taken the effect of that into consideration and is developing policies. I think that the committee will have a follow-up session on that matter, so you would be better to direct such questions to the planning authority at that session. I understand that the planning authority is taking affordable housing into account and making appropriate allocations for it.

David Gass: One of our priorities is to work closely with Scottish Borders Council on its structure and local plans in respect of the industrial development land that is available and on the key issue of affordable housing. Our belief, which is reinforced by the Ryden report, is that there is currently a very healthy housing market in the Scottish Borders, with a 20 to 30 per cent increase in house prices. In that context we do not see the matter as a constraint on any developers, although I would refer to the council as the experts on the matter.

Gordon Jackson: Availability of affordable housing has been a problem all over the country, but you seem to minimise it. I heard on the radio about all kinds of problems in the Yorkshire dales. However, you do not seem to find it a problem that people who live here will be priced out of the market.

David Gass: That is an issue for the Scottish Borders as a whole. In a month's time, we will chair a meeting that will involve the business community and our local MSPs and which will deal

with the issue of affordable housing. We believe that the council has built policies on affordable housing into its planning and we have continued to inform that process.

Gordon Jackson: I will take up that point elsewhere.

One of the main issues is the idea that a rail link will be better for businesses in the area and will cause more businesses to come to the area. Do you think that the fact that it will take approximately one hour to cover a distance of 33 miles will be a huge incentive to inward investment or tourism?

Riddell Graham: As someone who used to travel on the line into Edinburgh, I can say that it must be one of the most scenic routes in Scotland, which is part of its appeal. Compared with the road journey into Edinburgh, which I now make every morning, I think that the rail journey would prove to be a major attraction; certainly, that is how it would be promoted to visitors.

Gordon Jackson: The issues relating to business are hypothetical, obviously. I am not asking you to tell me things that are confidential, but could you give me any specific examples of businesses that would have established a base in the Borders but for the lack of a rail link? Do you know of any businesses that have indicated that they will establish a base in the area if there is a rail link? Are there specifics available or is there just a vague idea?

David Gass: I do not think that it will come as a surprise to anyone to learn that one of the key discussions that we have with any potential inward investor relates to the transport links in the area, along with the connectivity, the labour supply and all the other issues that are referred to in the case for the project. For example, we are beginning to see the service sector move into suitable business accommodation that we have developed, such as Ettrick Riverside in Selkirk. The Edinburgh city region is a key market for such businesses.

Further, transport and connectivity are key areas on which regions are assessed in relation to public sector relocations, for which we think there is potential in the Scottish Borders. At the moment, I believe that the Borders is disadvantaged in that regard because it does not have a rail network.

Nigel Watson: On inward investment, one important factor is the fact that the Borders is quite a low-cost area in which to operate compared with the overheated Edinburgh market, especially in terms of office accommodation.

We used to think of inward investment as involving large American or Japanese companies employing several hundred people in the central belt. Those days are in the past and we are

starting to see smaller niche companies coming into the area. Such companies have no need to pay the costs that they would have to pay in Edinburgh to get the quality of life and the housing that are available in the Borders. However, if they locate in the Borders, they still have access to Edinburgh and can go there twice a week or once a month to meet clients and do business.

Gordon Jackson: You are obviously excited about the ways in which tourism might develop in the Borders, which is a beautiful and scenic area. However, I am interested in specifics. Do you have any evidence of tourism benefits being seen in another region in the United Kingdom simply because a railway line was opened?

Riddell Graham: I am not aware of any figures with which a comparison could be made.

However, I was handed a wee booklet at the end of last year that was part of a promotion of the 24 most scenic travel routes in the UK. As I said earlier, this is less about the line and more about how it can be promoted and what can be seen along the route. From that booklet, it was evident that tourism was a key aspect of the promotion.

Nigel Watson: Some of the occupants of the new housing will be from Edinburgh, and they will attract visiting friends and relatives as a niche in the market. There is also rugby; a professional team is being established in Netherdale and it is hoped that that will mean that visitors and fans from other clubs will come into Edinburgh airport and travel down using the line. It would be too far for people to travel in a short time otherwise.

The railway will be positive for visiting friends and relatives. It will also allow new products, such as country and capital holidays, to be developed in the city region. People could come to Galashiels during the summer and use bed and breakfast and other forms of accommodation when there is no capacity left in Edinburgh because the festival is on. During their holidays, people could commute up to the capital as well as spend time in the Borders.

Christine May: I want to go back to housing and direct two questions at Scottish Enterprise Borders; perhaps I will return to them later in respect of other witnesses.

I am concerned about the viability of the project, which is predicated on significant housebuilding generating £1,500 per house. However, we have heard that steps are being taken to introduce affordable housing, and many of the people who will get new jobs in the Borders are, in the first instance, likely to be working in lower-paid service industries. Given those points, I would like to hear your thoughts on how things stack up.

Mr Graham raised concerns in his submission about the potential disbenefit to tourism that would result from increased housebuilding. That was glossed over earlier, but I would like you to give a more detailed rebuttal.

Nigel Watson: When you raised the issue previously, I was going to say that the council's structure plan suggests that most of the new housing will be concentrated in a pretty restricted area, so the damage to the rest of the Borders—if it is in fact damaged—will be relatively slight.

Riddell Graham: From a tourism aspect, we are aware of the need to preserve the very thing that people are attracted to in the first place. We have been drawn to comment on the tourism aspect of several planning applications that could have a negative impact. The last thing that we want to see is a development that destroys the very fabric of attraction for visitors. However, with the right kind of planning—and if the right kind of environmental impact assessment is done in advance—the impacts could be minimised by restricting development to the least damaging locations in a way that brings the benefit.

I see substantial benefit in locating additional people in the Borders. The market for visiting friends and relatives is significant at the moment, and would be even more so in such circumstances. I am equally aware that the last thing that we want is overdevelopment of housing in a particularly scenic part of the central Borders. I do not believe that that will happen. The situation will be properly controlled and all the environmental protection that will be needed will minimise the impact.

Christine May: I will return to the balance between social and commercial housing, and how the gap will be addressed, at a later stage.

Mr Brocklebank: We have heard differing figures on the number of houses that are likely to be attracted by the project. We have heard mention of 700 homes in Midlothian and 1,100 in the Borders. Elsewhere, we have heard mention of something like 10,000 houses in the corridor between Edinburgh and Galashiels. Can you explain those figures and tell us exactly what we are talking about?

Nigel Watson: I will certainly try. The figure of 1,100 houses in the Borders is made up of 900 houses in the central Borders hub, in reference to the structure plan; 100 houses in the south Roxburgh area; and another 100 houses in the north Roxburgh area, which is really Hawick and Kelso. Those figures relate to the structure plan period that ends in 2012. I would guess that any additional housing would be built beyond the appraisal period for the project—in say, 2030, or

something of that nature—but that is a question for one of the later groups of witnesses.

Mr Brocklebank: There is a massive difference between the two figures. Twice today, the overall figure of 10,000 houses has been mentioned. Can you take us to where that is coming from?

Nigel Watson: That is the projection for the longer period to which I am referring. With the reopening of the railway, housing developers would recognise and be interested in the area. There would then be a build-up of housing, over a period of time and subject to all the usual controls, in the next structure plan and so forth, which would lead to other totals. However, that might be a question for the later group of witnesses.

David Gass: We are happy to come back to the committee with a written response on that.

The Convener: Perhaps you could clear up another point that is puzzling me. Most of the housing for the Borders area will be in Roxburgh and Hawick. Are you suggesting that the people there will catch the train in Galashiels?

David Gass: No. The figures to which my colleague referred initially—the 900 houses in the central Borders area, which are dependent on the railway line, and the further 700 houses in Midlothian—were the figures that were originally worked on. The development opportunity for those houses will be primarily within the central corridor of Galashiels, Melrose and St Boswells.

The Convener: I think that we could do with some clarification. We would be grateful if you could write to us on that point.

I thank Mr Gass, Mr Watson and Mr Graham for giving evidence. I suspend the meeting while the next panel of witnesses take their places.

14:31

Meeting suspended.

14:33

On resuming—

The Convener: I welcome Anne Borthwick, the chairperson of the Campaign for Borders Rail, and Bill Jamieson, who is standing in for Mr Fraser, who has been unable to make it to the meeting so far. I understand that Anne Borthwick wishes to make a short opening statement.

Anne Borthwick (Campaign for Borders Rail): I apologise for the fact that George Fraser is unable to be here. His car broke down and of course he is not able to hop on a train.

I thank the committee for inviting the Campaign for Borders Rail to put our case for the

development of a Borders rail link to Tweedbank, which we regard as the first phase of the reinstatement of the whole line from Edinburgh to Carlisle. The Campaign for Borders Rail presented its case to the Public Petitions Committee in March 2000. We were supported by more than 17,000 signatories—a large proportion of Borders residents—who recognise the importance of the route, not just locally but as a major transport artery to connect the Borders directly with the rest of Scotland, with England and with Europe.

Borderers are an immensely talented and hard-working people. Given a level playing field, we can successfully compete with the rest of the world in industry, sport and commerce. We are not asking for a level playing field; we are asking only for an opportunity to contribute more effectively and efficiently to the economy of Scotland. We recognise that we can do that only with a decent public transport system, with a rail link to Edinburgh as a central plank. It is difficult for people who have access to a railway to have a concept of how limiting it is to live without one.

For 36 years, borderers have been denied easy access to major cities and centres of education and employment, which has resulted in increasing isolation and economic and social decline. The Borders is the largest area in Europe without rail links. We demand equality with our neighbours and with regions throughout Scotland and Europe. We have supplied the committee with a written submission and we welcome the opportunity to answer any questions that members may have.

Mr Brocklebank: Good afternoon and welcome. Despite the plea that you have just given us, I am sure that you accept that there is a counter-argument, which is that enhancement and improvement of existing bus services would address many of the concerns that are outlined in your evidence, such as the number of young people who leave the Borders to study and stay in Edinburgh and the lack of potential for business start-ups.

Anne Borthwick: With all due respect, I find that idea difficult. An enhanced bus service would perhaps improve the situation but I do not think that it would completely resolve it. I am sorry—I am going to hand over to Bill Jamieson as I am completely nervous.

Bill Jamieson (Campaign for Borders Rail): Excuse me. I am just recovering from a cold, so today is not the ideal day for me to appear here.

The Convener: My sympathies are with you.

Bill Jamieson: Thanks.

On bus services, journey times to Edinburgh are a limiting factor. At the moment, the X95—which is not an express service despite its “X” prefix—

takes 75 minutes to travel from Galashiels to St Andrew Square bus station. There is no way on earth to improve that, especially now that congestion charging in Edinburgh is out of the picture. We are stuck with a journey time of at least 75 minutes.

It is not just a question of providing a better bus service for the people who already use it, important though that is. In the longer term, we must attract people out of their cars. I do not have the figures with me today, but in some research that was done in Germany on a line that was to reopen, 4 per cent of people said that they would transfer to public transport if the alternative was a bus and 40 per cent of people said that they would transfer if the alternative was a railway. Those statistics speak volumes.

Mr Brocklebank: On timing, it would take only a 15-minute improvement by the bus service for it to achieve the projected journey time for the railway, which is one hour. We would not be asking for a huge reduction in the journey time of the bus service.

Bill Jamieson: You are putting me in a rather difficult spot, because I am not here to defend the current proposals. I accept your point about the slow journey time—that matter will perhaps be dealt with next week. I do not see where the improvement in the journey time of the bus service will come from.

The traffic flows pretty freely between Galashiels and Sheriffhall roundabout and the city bypass. However, my record on the bus for the five and a half miles coming out from Edinburgh to the bypass is 44 minutes. As I said, given that the populace of Edinburgh has thrown out the congestion charging scheme, we must consider where the improvements to journey times within the Edinburgh city boundary will come from.

Anne Borthwick: I will add something now that I am a bit more composed.

I accept the point about bus travel from Galashiels, but there are many other people in the Borders. There is a large town just south of Galashiels called Hawick, which is just a hop away in terms of Borders transport. However, it takes 117 minutes to go from Hawick to Edinburgh, which is a distance of 50 miles. The scheme would improve the journey time from the Borders towns that are further away from Edinburgh than Galashiels is. We hope to target not only people who use buses at present, given that, as our buses are unreliable, many people do not use them. A travel time of two and a quarter hours from Hawick to Edinburgh is not feasible for business people. The people whom we need to target are those who travel in cars. That issue has been discussed. What will we do as oil stocks

decline? Car travel is all very well at present because we are flush with oil, but it will not last for ever. We must put in place an alternative, otherwise the Borders will be totally isolated.

Margaret Smith: In your opening statement, you said that you see the project as the first phase of the reinstatement of the Edinburgh to Carlisle line. Could the proposed formation, route and location of the stops along the railway be improved for the benefit of Borders residents? If so, what changes would you like to be made and why?

Anne Borthwick: I would welcome any railway that came into the Borders, but the line might be better for the purposes of tourism if it went straight to Melrose, which would allow people to hop on the train in Edinburgh, hop off at Melrose and from there go to other Borders towns. I accept that Tweedbank is not far from Melrose, but Melrose would probably be a better stop for the development of the rest of the line.

We have talked a lot about tourism. There should also be a stop at Stow, from where it is only a few miles over the hill to Glentworth forest, where there is a huge tourism development. If that route was served by a proper bus service, who knows how many people would stop at Stow? Glentworth forest is huge and has enormous tourism potential—people from all over Europe go there. If we had public transport to the forest, as happens in similar areas in France or Germany, that would be superb. For the future development of the line, it would probably be better if we had stops at Stow and Melrose.

Margaret Smith: Have you been told what the difference would be between the cost of terminating the line at Tweedbank and the cost of taking it to Melrose?

Anne Borthwick: No, but I am just a layperson.

Margaret Smith: So are we.

Anne Borthwick: Most of the track is there. The distance is only one or two miles, I think. Bill Jamieson knows.

Bill Jamieson: It is a mile and half from Tweedbank to Melrose and, as Anne Borthwick said, some of the formation is still there. We may be getting into issues that will be discussed next week, but the Corus report that was done for the Waverley Route Trust came up with a figure of about £4 million or £5 million—I am struggling to remember it exactly—for those one and a half miles, which is roughly in proportion to the cost of the rest of the line. That was pretty much an off-the-top-of-the-head estimate; not a great deal of work was put into it.

Margaret Smith: Would it be acceptable to ask for written evidence on that point from the promoter as well as from the Campaign for

Borders Rail—if it feels able to provide such information?

Bill Jamieson: I can certainly get the Corus figures without any great problem.

14:45

Margaret Smith: We have been told that there would be a park and ride at Tweedbank, where it is proposed that the railway line would terminate. Do you accept that, in effect, that would open up the line to other borderers apart from those who are in the central Borders area?

Anne Borthwick: Yes.

Bill Jamieson: We accept that Tweedbank is a vital part of the scheme. I come from Stow, so I will say no more about that issue.

Christine May: I thank Mr Jamieson, who has just given me the opening that I need for my next question. I welcome Anne Borthwick and Bill Jamieson and congratulate the campaign on getting as far as it has.

That said, our purpose is to scrutinise and to ask awkward questions. According to what Mr Jamieson has said, the major congestion point is Sheriffhall. Why would it not be sufficient to put a large park and ride at Stow, for example, from where people could commute the relatively easy distance to Galashiels? That would cost less and would achieve the same purpose.

Bill Jamieson: Are you asking about having a park-and-ride facility at Stow?

Christine May: Yes—or at some other mid-point.

Bill Jamieson: The first point to bear in mind is that not everyone in the Borders has a car. I know that there is a perception that the percentage of car-owning households in the Borders is very high. That is certainly true once one gets into the rural areas, but I think that 32 per cent of households in Galashiels and 37.5 per cent of households in Hawick do not have access to a car. Moreover, we must remember that the bulk of the car-owning households have only one car. The chances are that there are members of those households who do not have access to a car for most of the day. If we were to provide just a park-and-ride facility, we would be far from catering for the majority of the Borders population.

Christine May: Would that be the case even if the bus service were improved?

Bill Jamieson: As I said before, bus services are not particularly attractive to motorists. About 200 to 250 people a day use the bus service on the A7 corridor. If you compare that with what could be achieved were a railway to be built, it is

peanuts. At the moment, about 5,000 vehicles a day use the main roads that go north from the central Borders—the A7 and the A68. The penetration of the bus service into the travel market is pretty low. It is a hard job to get people out of their cars and on to buses.

Christine May: I have a question about the fare levels. It is proposed that a single journey on the train would cost £6.50. At present, the bus fare is £5. Do you think that price-sensitive customers such as students and those people who are in lower-paid jobs would be prepared to pay the extra £1.50? If so, why?

Bill Jamieson: A single fare of £6.50 sounds quite high; it is certainly high in comparison with the fare levels on comparable lines in central Scotland. It is misleading to refer only to the single fare because, on most Scottish lines, an off-peak day return costs only a fraction more than a single. We do not know what the rail operator would charge if the railway reopened. It would be up to the operator to set fares that it thought would be sustainable and would attract passengers. It may well be that the fare levels that are chosen are nothing like the one that has been mentioned. The peak fare might cost only marginally more than the off-peak fare. I think that that is the case with journeys from Stirling into Edinburgh, for example. Stirling is marginally further from Edinburgh than Galashiels is and the peak fare is something like £8—or at least it was before the recent increases—and the off-peak fare was only a pound less. It is not certain that the Borders will face premium fares on the proposed train service.

Christine May: Thank you. I might want to return to that question with other witnesses.

The Convener: Given that the railway was taken away some years ago, how much is the case for a Waverley to the Borders railway line based on emotional as opposed to economic and social grounds?

Anne Borthwick: You make a strong point. The Borders relied heavily on the railway 36 years ago and before. I recognise the argument about facts versus emotion and there is no harm in being emotional about needing the railway back again. All the economists in this room are able to put the facts to you very clearly, but we represent people who are not represented in any other way.

I return to Ms May's suggestion that Stow might be a good place for a park and ride. All that that would achieve would be the further isolation of the southern Borders. We are in great danger of being seen as stuck down at the bottom of Scotland, and we want to be part of a whole Scotland. We have a new Parliament and we want to be part of the new Scotland, but unless we have proper transport links, we cannot be.

It is right to be emotional about not being equal. I belong to a sex that has not been equal for a long time. There are an awful lot of inequalities in the world and there is nothing wrong with being emotional about that. Emotion starts the ball rolling; after that, the facts come thick and fast. Members have had all the facts today.

Bill Jamieson: There is no doubt that our membership has a big emotional input into the situation, but we have always stressed issues such as social inclusion, access to job opportunities for young people and access to leisure activities up in the capital. Then there are the really big issues. We have been here for four and a half hours and I have not heard global warming mentioned once, which is rather unusual these days. Anne Borthwick was the first person to mention oil depletion, which is the big issue lurking on the horizon—most people are not yet aware of it, but it is about to explode on an unsuspecting public.

As I see it, extending the use of public transport is vital in areas such as ours to reduce our output of global warming gases and to put us in the position of being ready for increased petrol costs and, eventually, the much-reduced availability of petrol, as Anne Borthwick said. We might be emotional, but we are also very hard headed, and even if we are not in a position to undertake economic analysis, we have some pretty good facts behind us.

The Convener: Thank you. Margaret Smith discussed with you earlier how much it would cost to extend the proposed line to Melrose. I am advised that, although that is an interesting question, it is outwith the scope of the bill that we are considering. Therefore, we cannot consider the matter as part of our report.

I thank both of you for coming and for giving your evidence. I call a short suspension of about 10 minutes to give people a comfort break and to allow the next panel of witnesses to come in.

14:54

Meeting suspended.

15:07

On resuming—

The Convener: To aid our consideration of economic development and social regeneration, we shall now hear evidence on our fourth topic of the day, which is housing provision assumptions and developer contributions. Neil McCowan, who is director of Turner and Townsend, does not wish to make an opening statement so we shall move straight to questions.

Can you clarify the current position with regard to your application to Midlothian Council for outline planning consent?

Neil McCowan (Turner and Townsend): In September 2002, we submitted to Midlothian Council an outline planning consent application for the Shawfair development and other associated land parcels. At the same time, we made a similar application to the City of Edinburgh Council on the northern part of our overall development. As far as Shawfair and the Waverley route are concerned, the September 2002 application was put before the committee in December 2004 and achieved minded-to-consent status.

Gordon Jackson: The Shawfair development is obviously important. What stage are we at with businesses even expressing an interest in locating or relocating there? What scale of business development are we talking about in terms of the number of jobs? [*Interruption.*] By the sound of things, we are getting a new airport as well as a new train station.

Neil McCowan: Within the Shawfair community, there is a business park element of 40,000m², or approximately 400,000ft², of class 4 business space. There are some retail developments, including a large-scale 6,000m² supermarket and units for sundry other high-street commercial units including smaller-scale retail. At present, because we are still some way from securing full consent and getting on site, we are not looking for interest in the developments as such.

Gordon Jackson: Do you assume that you would get interest if you looked for it? I presume that you have a reason for assuming that.

Neil McCowan: When we move towards securing consent—perhaps in the latter part of this year—we will start to market the business parks. One of the developments close to Shawfair is Todhills business park, which sits on the A7 and is owned by the Duke of Buccleuch. Buccleuch Estates Ltd has a separate planning application for a 25,000m² business park and is seeking interest from potential occupants.

Gordon Jackson: You do not anticipate that generating interest will be difficult.

Neil McCowan: No.

Gordon Jackson: I will move on to housing. From where will the expected 12,000 new residents come? Will they be people who move out of Edinburgh and into the area or people who move up from the Borders?

Neil McCowan: Shawfair Developments, which holds the council land, has approximately 50 per cent of the land. For the other land, we are acting with the joint developers Mactaggart & Mickel Ltd, Morston Assets Ltd and Buccleuch Estates, which

are all confident that they can market the 3,500 homes successfully. The interest and a large part of the occupancy will come from the Edinburgh area and peripheral zones in the Lothians.

Gordon Jackson: Will the proposed £1,500-per-house developer contribution for new-build properties in the Borders area have an impact on the potential for the residential development at Shawfair?

Neil McCowan: If we added all the infrastructure investment for the south-east wedge project, which includes the Danderhall extensions, the total would be in excess of £80 million. We are aware of the need for a contribution from the wider development. The developer contribution is only a small proportion of what is required for ground remediation, utilities, road structures and the like but we have no qualms about that. The money that is required for the Waverley rail project is firmly in our business plan.

Christine May: If the developer contribution of £1,500 per house became £2,500 because you had to discount 10 per cent of properties for social housing, would that put a different perspective on the matter?

Neil McCowan: No. We adjust development appraisals to cover social housing. To pile similar proportions on that element would be unsustainable in social housing terms. An adjustment to the appraisal would move emphasis towards the privately owned and conventionally procured direction.

Margaret Smith: How much does the development of Shawfair depend on the railway's construction? What housing and business development would go ahead were the railway not to proceed?

Neil McCowan: We started to create the master plan for Shawfair at the same time as the Waverley railway partnership was developing its route alignment. Our master plan has always had the rail route in it, so we never analysed in detail what not having the rail route would mean. In the local plan before the Waverley line came along, Shawfair was always considered to be a sustainable stand-alone development. We just have not analysed the position without the rail route.

Margaret Smith: If the Shawfair development proceeded without the Waverley railway, what would be the impact on the road network in the south-east wedge? How would it impact on your development's attractiveness?

Neil McCowan: I do not have the figures with me, but our transportation assessment is that the proportion of trips by rail will not be major, unfortunately, because of the continuing

attractiveness of road travel. If predicted rail use shifted on to roads, we would aim to increase public transport rather than the number of car trips. Our plans allow for bus travel into and out of the town centre immediately adjacent to the rail route.

Margaret Smith: You have not modelled the situation if the railway were not constructed.

Neil McCowan: No.

Gordon Jackson: I will be blunt. Are you saying that your development does not depend on the railway?

Neil McCowan: The point is that we see enormous benefit in having the railway.

Gordon Jackson: I understand that answer, but I am asking a blunt question—perhaps you do not want to answer it. If for whatever reason the railway was not reopened, would that affect your development?

Neil McCowan: We would prefer to have the railway. I know what answer you are looking for.

Gordon Jackson: The question is not very difficult. You can tell me that you will not answer it.

Neil McCowan: I cannot answer because we have not analysed the matter. We do not know what the difference would be.

Christine May: I am going to ask the question. Why have you not done an appraisal of the development without the railway?

15:15

Neil McCowan: In getting to where we are today, we have spent in excess of £1.5 million on professional fees and the preparation of planning applications. The level of analysis that would be required to answer that question would mean our spending not far short of that sum again. We have decided that we will follow the Waverley partnership principles for as long as we can. If it comes to pass that a decision is taken not to reinstate the Waverley route, we would revisit the entire scheme.

Christine May: Thank you.

The Convener: Thank you, Mr McCowan.

I ask Grahame Barn, the director of the Federation of Master Builders, and Allan Lundmark, who is director of planning communications for Homes for Scotland, to take their places on the panel. I welcome you both to the meeting. I understand that you want to make a short opening statement.

Grahame Barn (Federation of Master Builders): I do not want to make a statement, but Allan Lundmark certainly does.

The Convener: I would appreciate a short opening statement.

Allan Lundmark (Homes for Scotland): Thank you for agreeing to allow me to make a statement. I did not intend to make one, but in the light of information that has been provided to the committee this morning, I believe that it would be helpful, if not important, to do so.

I stress that Homes for Scotland and our member companies support any initiative to introduce sustainable transport systems, particularly those that we could use to build additional housing development. I hope to assist the committee in respect of the ability of the housebuilding industry to contribute to funding the railway, and in respect of the extent to which the railway might become a marketing tool to sell houses in new developments.

This morning, the committee was advised that 10,000 additional new homes could be built during the next 10 years to support the development of the railway. That is the first time I have heard that figure mentioned. Such a number has never been discussed with the housebuilding industry and certainly not with Homes for Scotland, whose member companies build 94 per cent of all the houses built in Scotland each year.

I would like the opportunity to give more detailed consideration to those numbers and perhaps to submit more considered thoughts to the committee. However, my initial reaction is to advise the committee that I have major concerns about our ability to procure that level of development over 10 years. I have technical, perhaps legal and certainly commercial reasons to be concerned.

On a technical level, it is probably true to say that those numbers cannot be driven out as development opportunities without changes to structure plans, and those alterations will not be easy to achieve in a short timescale. They will require changes to local plans, and we all know that when local plans try to drive out significant housing developments, they attract vociferous opposition and end up in local planning inquiries. It might be speculation, but it could take five or six years to drive such changes into a development plan before anyone could consider the possibility of project appraisals and submit development applications.

Our commercial reason for being concerned is that such a level of procurement would mean that we would have to hit numbers that have never been achieved in the relevant local authority areas. To put the matter into some kind of context, since 1994 in Midlothian, the average requirement for housebuilding has been 604 units per annum. Actual completions have averaged 245 houses per

annum. The indications are that next year in Midlothian we may have the lowest level of starts that we have had in the past 10 years, so the trend is downwards. I concede that Shawfair will have a significant impact, but if you strip out Shawfair, there is major cause for concern.

There are infrastructural deficits in parts of Midlothian that will be difficult to address. We know that there are drainage constraints around Gorebridge and Newtongrange. In his statement to Parliament on the future expenditure of Scottish Water, Lewis Macdonald gave us no comfort; in fact, he confirmed that he will be prepared to produce funding to support the production of 15,000 units a year, but that is a 10,000 units-per-year reduction on current levels. There is no indication that we can, under current constraints, grow housing development in Midlothian. I cannot provide precise figures for the Borders because we are in the process of an audit, but the figures look as though there are currently about 200 houses a year being built there.

There are serious commercial concerns about our ability to procure the stated level of development. I would welcome an opportunity to give the issue more detailed consideration. It is important that the procurement of 10,000 units is discussed—or at least the commercial testing is discussed—with the housebuilding industry.

The Convener: Thank you for your comments. The committee would appreciate your following them up with a more detailed analysis to be sent to us as soon as possible. In the meantime, we have a few questions for either or both witnesses.

Mr Brocklebank: That was a very interesting presentation. Previous witnesses downplayed the importance of the £1,500 developer contribution in building up housing in the corridor. Do you think that it will be a disincentive?

Allan Lundmark: We have to be clear about where the £1,500 will come from. It will come from the landowner who—to use the jargon of industry—is prepared to take the hit. The landowner has to be prepared to forego that amount as part of their capital receipt.

It is possible to accommodate £1,500 per unit. It has to be seen in the context of the contributions that are required to be made towards new schools, new community centres, new health centres, new roads systems and sustainable urban drainage systems. Of course the local authorities have policies that require part of the land allocation to be given over for affordable housing at suppressed land values. Once one starts to build those factors one on top of the other, project viability could be threatened. The question that is posed in my mind at this stage is this: at what point do all those contributions become a

disincentive for the landowner to release the land that you wish to develop through the development plan system?

The £1,500 on its own is not a problem per se, but there is one aspect that I and my member companies believe to be important and which requires examination, which is whether it is lawful to apply a standard fixed levy across an entire planning area by way of a developer contribution. Developer contributions are meant to mitigate detriment that would be created by a development. That detriment will change depending on geography and the nature of the development. It might be worth asking the committee's legal advisers whether it is competent to apply a levy across the board—in effect, a tax on development. From my position as a planner, that does not appear to conform to advice and guidance from the Executive on the use of section 75 agreements.

Mr Brocklebank: Have you had any notification from prospective developers who may have decided against proceeding with planned developments because of the contribution?

Allan Lundmark: No, I do not know of any developer for whom the possible requirement for such a contribution has been a disincentive. That does not necessarily mean that the contribution is not a disincentive. If the level of the contribution was to threaten the commercial viability of a development, developers would negotiate for the contribution to be set aside by seeking to persuade the planning authority to forego developer contributions either towards the railway line or towards the remediation of other infrastructural deficits. It is possible that the contribution is a disincentive, but it is difficult to be precise as to whether it has been the straw that has broken the camel's back in any specific project. At present, I have no evidence that any project has been put in jeopardy, but that is partly because the contribution has not yet been driven in.

Mr Brocklebank: The other side of that argument is that an additional £1,500 on the cost of a home near the railway is not high enough to make any proposed development unviable, given that such a sum represents only 1.3 per cent of the average cost of a house in Scotland.

Allan Lundmark: As I said, it is unlikely that such a contribution would have an impact on house prices, which are determined by other commercial factors such as the operation of the housing market in the surrounding area. The price that can be obtained for a new-build house is dictated not by the cost per unit of building the development but by the price at which similar accommodation is sold in the vicinity. The developer works out what it will cost to build each

unit and deducts that amount from the current market value of surrounding properties. If the first sum can be brought below the second sum, the developer will have made a profit. Otherwise, the developer will make a loss. That is how the matter is approached.

I suppose that if the land owner is not prepared to take that hit, the cost of the contribution might need to be added on to the cost of the house. However, such occasions are probably quite rare. Of course, it is also worth bearing it in mind that the impact of a £1,500 contribution on a £250,000 house will be quite different from its impact on a £80,000 or £90,000 affordable house.

Grahame Barn: I should add that housing developers will also take into account competing locations and the current location of the people who will buy the homes. Given that places in Fife and West Lothian might be available as alternative options—indeed, prospective purchasers of the homes might already be commuters who are looking to move to another area—housing developments in the Borders might be at a price disadvantage compared with those in West Lothian or Fife that would not incur such a contribution.

The Convener: For the benefit of the committee and our panel members, it might be helpful if I clarify matters by quoting the explanatory notes to the Waverley Railway (Scotland) Bill:

“Section 37 extends the scope of what may be dealt with by a relevant planning agreement⁶⁸ so as to allow for developers to be required to contribute towards or support the provision of the authorised works which will benefit their proposed developments.”

In other words, if the bill is passed, the relevant planning authorities in terms of the Waverley Railway (Scotland) Bill will be able legally to authorise a contribution from developers.

Allan Lundmark: My comments were about only the existing legislation. I am well aware that, if I draw a problem to Parliament's attention, it can solve it for me.

Christine May: Good afternoon, gentlemen. How important is the location of a railway station for prospective developers and how does a developer factor that into consideration of the economic viability of a housing development? I am thinking of, for example, the campaign to include a station at Stow and the potential for housebuilding there.

Allan Lundmark: If a station can reduce travel-to-work times, it is undoubtedly a marketing tool. People now ask not how far a development is from the local town centre but how long it takes to get there. If a station can reduce journey-to-work times, there is no question about whether that helps to market properties. Midlothian will

undoubtedly gain an advantage from having the railway. If we can explain to people that their journey-to-work time from Midlothian to the centre of Edinburgh will be 20 minutes—as opposed to one hour in the car—that will be a positive marketing tool. That case is made for Midlothian.

However, I am not convinced that that case is made for locations south of Midlothian. Many factors govern a decision to buy a house including location, geography, facilities in the surrounding area and whether the house is in an attractive part of the world. Several times today, the committee has been told that Galashiels could become an attractive location for commuters because of reduced travel-to-work times, but I see no evidence to suggest that the sort of travel-to-work times that are being talked about in relation to Galashiels would be a marketing incentive.

I think that Jim McFarlane told the committee about the extent of the geographical area from which Edinburgh draws its workforce. If you were to buy a house in Falkirk or Larbert, you would have a journey-to-work time to Edinburgh of about 20 minutes, with five or 10 minutes on either end of the journey. That is a powerful marketing tool for those towns, especially when compared with a travel-to-work time of one hour on the train alone.

Proposals for major developments in West Lothian that will release about 7,500 units are predicated on their being tied to sustainable public transport systems—either rail, or bus and rail. The travel-to-work time from those developments to Edinburgh will be 20 minutes. The time that it would take to travel from Galashiels to Edinburgh is not a positive marketing tool.

15:30

Christine May: If that is a negative marketing tool, what would be the positive marketing tools?

Allan Lundmark: One positive tool would be the ability to use the journey time as work time.

Christine May: What housing development do you think would go ahead if the railway were not to proceed?

Allan Lundmark: At the moment, we are working with Scottish Borders Council on the housing land audit. The preliminary figures suggest that we are building about 200 houses a year in the relevant part of the Borders and there are no current market indications that that rate could be accelerated. I am not convinced that a travel-to-work time of one hour would help us. The journey time will not be a significant marketing tool unless it can be reduced significantly.

Christine May: If you combine that point with what you said about the construction and technical constraints on building large numbers of houses,

is it your view that it is likely that considerably fewer houses will be built than is suggested in the business case?

Allan Lundmark: I have not seen the entire business case. At the moment, however, we are building fewer than 250 houses a year in Midlothian and the relevant part of the Borders. I see no reason to be optimistic about our ability to accelerate that rate. It takes considerable time to secure the necessary consents to build and there are considerable infrastructure difficulties that must be overcome.

The housebuilding industry probably has the capacity to accelerate the rate, but is there the political will to deliver the necessary consents and to put in place the necessary infrastructure to support that level of development? I do not know. However, over the past 10 years, there has been resistance to releasing additional land for housing. Calls by Homes for Scotland at the time of the production of the Edinburgh and Lothian structure plan, and at the various local planning inquiries, for additional land to be released have been resisted. Similar calls for additional releases in the Borders have also been resisted. If the political will exists to create the additional use of land, we can technically deliver the suggested number of houses, but the support infrastructure must also be delivered.

Gordon Jackson: We have found your evidence interesting. I want to make sure that I have understood it. A railway to Midlothian would allow people who live in that area and who work in Edinburgh to get to work quickly. Is it correct to say that that would be a marketing tool for you as housebuilders?

Allan Lundmark: Yes.

Gordon Jackson: Therefore, assuming that you were able to get the land, that the infrastructure was in place and that you had the capacity, you would be inclined to increase housebuilding in that area. Is that correct?

Allan Lundmark: Yes.

Gordon Jackson: Do you have the capacity to do that?

Allan Lundmark: Yes.

Gordon Jackson: Would your ability to do so be dependent on getting co-operation on other matters in Midlothian?

Allan Lundmark: The local authorities and Scottish Water would have to grant the necessary consents.

Gordon Jackson: You told us the current rate of housebuilding in Midlothian without a railway. If there was a railway for you to use as a marketing tool, by how much could you increase that rate?

Without being overly optimistic, what would be a reasonable ballpark figure?

Allan Lundmark: I said earlier that I would like an opportunity to give more detailed consideration to the impact of the proposed 10,000 additional units. I hope to be able to address that question, but at the moment it is difficult for me to advise you on that.

Gordon Jackson: I turn to address the area that we are in now—the Borders. I presume that a number of units are built each year in the central Borders area, but as a builder you do not think that a railway will make it a more attractive place in which to build houses because of the inability to market a reduced journey time to Edinburgh.

Allan Lundmark: I do not think that that journey time is a positive marketing tool.

Gordon Jackson: An impression that we sometimes get from other people—I speak personally and not for the committee—is that if there is a railway it will suddenly be so much easier to get to Edinburgh that half the world will want to come and live here and lots of houses will be built. You seem to be saying that that is not the case.

Allan Lundmark: People buy houses for many reasons, but the evidence that we have about journey-to-work times raises a question: if people wish to travel into Edinburgh by rail and journey-to-work times matter to them, why would they choose a journey that takes more than an hour when the equivalent train journey from West Lothian, Falkirk or some parts of Fife takes only 20 minutes? I do not agree that the line would allow the Borders to compete effectively with other housing releases around Edinburgh.

Gordon Jackson: I am trying to complete the picture. Are there reasons why a Borders railway would make it more attractive to build houses here? You discounted the factor of people getting to work more quickly because the time is still too great. Are there other reasons or are you saying that a railway would not increase the number of houses that are built in this part of the world?

Allan Lundmark: I would not go that far. As I said, there are other reasons to buy houses in the Borders. If the railway made the journey to Edinburgh more pleasant for shopping or for recreational purposes such as an evening out, that might be a factor. However, journey-to-work times would not be a useful marketing tool in this case. Such journey times are a big issue when we sell houses.

I concede that there might be other reasons for buying a house in the Borders. If people want to go to Edinburgh they might find it more pleasant to sit on a train for an hour than to drive for an hour. I

do not dispute that; it could be used as a marketing tool, but I am not sure that it would be particularly powerful.

Gordon Jackson: I return to my question about Midlothian. Assuming that for commercial reasons you decided that the Borders railway would make a difference and that you would like to build more houses in the area, can you give us an idea—not necessarily today, but perhaps later—of the level to which housebuilding might increase? How likely is it that the level will increase? Do planning and other local authority constraints make the idea a non-starter?

Allan Lundmark: After this meeting, I will use our internal structures to consult builders who might consider developing in the area and I will give the committee a considered view.

The Convener: It might be helpful to the committee, and indeed to our witnesses, if I read out a paragraph from the promoter's response to a request for further information on the outline business case. The clerk to the committee requested the information on 2 February. It concerns the 10,000 houses that have been mentioned. The response states:

"The second paragraph requests an explanation of differences between Halcrow's forecasts and previous work by Scott Wilson. The principle change to the analysis contained within the new Halcrow Outline Business Case is the inclusion of new housing within the corridor. This had previously not been included in either the Scott Wilson or the original Halcrow forecasts. The reason for the inclusion of new housing within the model is that, in the course of this study, local authorities (Midlothian and Borders) committed to the development of 4,793 and 5,319 new units respectively between 2004 and 2011. The strength of this commitment was such that it provided a very firm basis for forecasting additional trips (it is our experience that demand forecasts based upon firm housing commitments tend to be highly reliable)."

It seems from that quotation that Scottish Borders Council and Midlothian Council have a firm commitment to that housing. You have said that that was the first that you had heard of that figure, that it had not been referred to you and that there had been no discussion with the House Builders Federation or Homes for Scotland. Do you stand by what you said about the 10,000 housing figure simply not being possible? Are you surprised that both Scottish Borders Council and Midlothian Council have made such firm commitments to 10,000 housing units without any reference to you?

Allan Lundmark: I am surprised that they drove out such numbers without any reference to us to check the commercial viability of the proposals. I do not know the geographical locations of the proposed housing units. I know nothing about the site constraints or the infrastructure. I am surprised that they did not ask us for a view on the

commercial viability of the projects. That is why I said at the beginning that I would welcome an opportunity to go away and look at the proposals in detail, to take advice from my member companies that operate in those areas and to give a considered view. The industry has the capacity to build those units, but the question is whether it is commercially possible to build those units in the timeframe concerned. On the basis of the information that I have, I cannot give you any clearer advice.

Margaret Smith: Earlier, in response to a comment from Ted Brocklebank, we agreed that we would seek further clarification on the issue of the 10,000 homes. Bearing in mind what Mr Lundmark has said about the councils not consulting the housebuilders, one of the key things that we have to clarify is whether the councils, in setting those committed targets for themselves, have involved Scottish Water and other bodies. We all know the capacity constraints that Scottish Water currently has across the country, so that is a specific matter that we would have to check.

The Convener: We might be able to put some of those questions to the representatives of the promoter on the next panel. Do other members have questions for Mr Lundmark and Mr Barn?

Christine May: I have a question for Mr Barn about the capacity of the building trades to cope with any significant increase in the projected number of houses.

Grahame Barn: The construction industry has a skills gap at present. Any significant increase in housebuilding in the area will pose certain challenges for the industry in dealing with that locally. I can speak only for the small and medium-sized enterprises in the area, which tend to do the training of new apprentices, as well as being the companies that would build the houses on behalf of the volume housebuilders. There is not a great deal of slack in the system. Training is a big issue for the industry and construction courses at most colleges seem to be at capacity. To ramp up the available skills will take some time. The industry is working at it, but I would hate to give the impression that if the scheme were to go ahead, 10,000 new houses could be built tomorrow. I severely doubt that that could be done.

Allan Lundmark: It is important to stress the positive aspects of a development on the scale of 10,000 units. Such a development would be welcomed by the housebuilding and construction industries. It would give the industries long-term certainty and the ability to invest in new products, new processes and training. Therefore, I would not resist the numbers; the question is whether we can produce those numbers in these areas within the proposed timeframes.

The Convener: I thank Mr Barn and Mr Lundmark for their evidence. Mr Lundmark, we would appreciate it if you would send us more detailed information about the housing. The clerks advise me that we would need that information as quickly as possible. We would be extremely grateful if you could send it by 11 March.

15:45

Meeting suspended.

15:48

On resuming—

The Convener: We remain on the subject of economic regeneration. I welcome Bryan McGrath, who is assistant head of economic development at Scottish Borders Council; David Williamson, who is head of planning and strategic services at Midlothian Council; Lesley Martin, who is assistant head of planning and implementation at Scottish Borders Council; John Inman, who is acting strategy manager in the city development department of City of Edinburgh Council; and Peter Wood, who is the managing director of Tribal HCH. I welcome you all to the meeting, and I understand that Bryan McGrath wishes to make a short opening statement.

Bryan McGrath (Scottish Borders Council): Yes, thank you. One of the Scottish Executive's principal objectives—set out in "A Framework for Economic Development in Scotland"—is to achieve regional development. Economic growth is highlighted as a prerequisite for all regions so that they can enjoy the same economic opportunities.

The reopening of the Waverley railway is essential if economic opportunities are to be increased for communities in Midlothian and the Scottish Borders. Specifically, the railway will greatly enhance public transport access to the buoyant Edinburgh jobs market and to potential higher earnings. It will also help to address the labour supply shortfall in the city. The railway will attract inward investment to Midlothian and the Scottish Borders, thus boosting local job opportunities; it will enhance public transport access to colleges and universities and to health and other facilities; and it will stimulate higher housebuilding rates, which will assist with the housing pressures in the city and increase affordable housing provision.

"A Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland" identifies cities as vital to driving Scotland's overall economic health but also recognises that cities are dependent on their wider regions. It states:

"Sustainable cities need thriving regions and, in turn, the success of the national economy depends on the economic competitiveness of our city regions."

The picture of the economic performance of the Edinburgh city region, which includes Midlothian and the Scottish Borders, is largely positive. Gross value added in the city region is 33 per cent higher than the Scottish average, new firm formation rates and skill and education levels are well above the Scottish average, and unemployment remains significantly below the Scottish average.

Although the city region outperforms the rest of Scotland on a range of key indicators, the picture disguises important differences within the region. The city is experiencing the challenges of growth, while much of the surrounding region suffers from decline and a need for regeneration. In particular, the Scottish Borders has a fragile economy with clear structural weaknesses. The area is dependent on low-value manufacturing and primary industries and productivity is low in all sectors compared with other parts of the region. The average gross weekly earnings for full-time adults in the Borders and Midlothian are significantly lower than earnings in Edinburgh and the differences in gross domestic product per head are startling, with estimates for Edinburgh more than double that for the Borders or Midlothian.

The Waverley railway project will be a key element in securing the future competitiveness of the Edinburgh city region. By reconnecting the city to peripheral areas of the region, the railway can help to match excess demand in Edinburgh's labour and housing markets with potential supply in the Scottish Borders and Midlothian, thus sharing the benefits of growth throughout the region.

Christine May: Your comment about gross value added is the second time that we have heard about that today. I want to compare the gross value added to the capital cost of the project. How far down the line will that comparison still be positive and where will it become negative?

Bryan McGrath: I ask Peter Wood to comment on that.

Peter Wood: I am not sure that I understand the question fully, but I will explain how we see the issue. We have measured what we call the railway's wider economic benefit using the higher income—or the gross value added—that will accrue to the Borders economy as a result of the positive effects, such as the increased population, people commuting to Edinburgh to access higher-earning jobs and others to which we will no doubt return. On our mid-estimate, the gain over the three local authorities will be £171 million—that is a present-value capital equivalent. Our lowest estimate of the value of the total benefit to the three economies from the economic activity that

the railway will stimulate is £90 million. That is the way in which we measure the impact.

The difference in gross value added for the Borders and for Edinburgh is, in essence, that if people switch from working in low-productivity businesses in the Borders to working in higher-productivity businesses in Edinburgh, there will be a net gain for the regional economy. That calculation forms part of the economic benefit element to which I referred.

Christine May: That is helpful. I anticipate returning to the issue at a later stage in the evidence.

Paragraph 4 of your written evidence on the general principles of the bill that is dated September 2004 states:

"Increased commuting may not directly increase employment in the Borders and Midlothian".

Can you clarify that statement in relation to your evidence at paragraph 19, where you indicate that up to 213 jobs could be created in the Borders and 308 in Midlothian as a result of the railway? Can you indicate where those jobs would be and what the nature of them might be?

Peter Wood: I will explain the issue to do with commuting first. If somebody in the Borders, even if they are currently unemployed, starts to travel to Edinburgh to work, there is a net increase in employment. We expect that quite soon as many as 100 people who are not currently travelling to work will travel to work in Edinburgh by way of the railway. As those 100 jobs will be in Edinburgh rather than in the Borders, they will be recorded in Edinburgh and will have no impact on employment in the Borders. We assume that the jobs that those people vacate—although they may have been unemployed—are backfilled, so what happens in the Borders is a reduction in unemployment rather than an increase in employment. That is that half of the equation.

The jobs are in the primary new employment centres, which as we see it now will include the city of Edinburgh and, to some extent, the new business parks in Midlothian. Through other mechanisms, there will be some increased employment in the Borders, but the effect of people being able to move from where they are to where the jobs are is that the jobs are recorded at the place where they are performed. To a large extent, that will not be in the Borders, although it will be Borders people who enjoy the employment.

Christine May: Paragraph 32 of your written evidence refers to the concentration of small businesses in the Borders and states that that is the basis of its business base. Why do you think that that is a cause for concern?

Bryan McGrath: More than 90 per cent of businesses in the Borders are small businesses, with 10 or fewer employees. That means that the economy is challenged by the lack of strength and employing power of local businesses. Although we have a strong entrepreneurial background, we find it challenging to grow those businesses into medium-sized enterprises that in turn have the ability to draw down additional levels of investment and further increase their growth. Our local economy is definitely held back by the emphasis on smaller business.

Mr Brocklebank: Peter Wood may already have answered this question, but I seek further clarification. If I understand what you have said, the benefit across the three economies that we are talking about will be £171 million, yet most of the proposed railway will be in the Borders and most of the stations will be in Midlothian. Which areas do you see benefiting most among the three areas that we are talking about?

Peter Wood: The biggest winner is Midlothian. If we take the mid-figure, which is £180 million net benefit, about £97 million of that will accrue to Midlothian, about £66 million to the Borders and the balance to Edinburgh. The reason why Midlothian does so well is that it gets both kinds of benefits. It gains from improved access to Edinburgh, which stimulates housing development—I do not think that anybody disputes that—and, in particular because of the Shawfair development, it is enhanced as a centre for employment.

Midlothian gets the biggest benefit, but I would by no means discount the benefit in the Borders because, although it is not quite as large as the benefit in Midlothian—it is about two thirds of the size, if Mr Brocklebank want the proportion—it is still a substantial gain to the Borders economy. People might argue that the need for regeneration is even greater in the Borders than it is in Midlothian. That is the distribution of the benefit. Midlothian takes the biggest individual slice of the cake, but the Borders gets the second biggest slice.

The Convener: In your written and oral evidence, you highlight the fact that the Scottish Borders is a lower-wage, lower-added-value economy. How will reopening the railway change that situation? If the aim is mostly to attract people from the Borders to work in Edinburgh, where the higher-paid jobs are, surely it follows that most of the employment arising from new housing and tourism will be service industry jobs, which are traditionally low wage. In percentage terms, by how much will the introduction of the Borders railway line increase wages in the Borders?

16:00

Bryan McGrath: One of the key aims of our local economic development strategy is to address the social exclusion issue of low wages and productivity. You rightly point out that part of doing that is to open up opportunities in the Edinburgh job market. However, we also believe that inward investment will create job opportunities in the Borders over the medium to long term.

Issues such as connectedness and the perception of the area's peripherality, which have already been mentioned, are key to inward investment. Over the past few decades, we have found it hard to attract new businesses to the Borders. In fact, over the past decade, one of the most significant relocations to the Borders has been the Scottish Public Pensions Agency, which is a public sector body. Altering the perception of peripherality will have a significant impact on attracting business to the area.

The Convener: Apart from your statements of hope and expectation, are you able to provide any evidence that there will be inward investment in the Borders at some time in the future as a result of the Borders railway line? For example, although there is a rail link from Fife to Edinburgh, some parts of Fife are desperate for inward investment, but they are not receiving any. What makes you think that the very existence of the railway and connectivity to the Edinburgh economy will create an overspill of inward investment to the Borders?

Bryan McGrath: As witnesses from Scottish Enterprise Borders have already made clear, people think that the Scottish Borders is an attractive cost location. Undoubtedly, improving transport connections will increase that attraction. However, as you have pointed out, there is limited empirical evidence of prospective inward investors.

Peter Wood: In estimating the railway's economic development impact, we considered the possible effect on inward investment. First of all, with the help of staff at Scottish Development International, we examined the pattern of inward investment into Scotland, especially to rural areas. In particular, we examined the average size of projects and their location. With that information, we alighted on a model of a typical inward investment project in one of the more rural parts of Scotland. Such a project would provide about 80 jobs. We then discussed with staff in Scottish Enterprise and the council the likelihood that the railway would add another string to the bow and would represent another factor that could be put on the table to encourage businesses to consider locating in the Borders. Indeed, witnesses from Scottish Enterprise Borders made that point earlier.

Our assumption was extremely conservative. For example, our low and mid-estimates of benefit assume that we do not gain a single additional inward investment project within 10 years. Our highest estimate is that within 10 years the existence of the railway will encourage a single inward investment project that would not otherwise have come to the area to locate in the Borders. That is quite a conservative assumption, which I acknowledge is based on judgment and experience rather than on evidence that a particular company is considering the Borders. The assumption demonstrates that we have not in any way over-egged expectations of inward investment.

The Convener: Do the two proposed railway stations in the Borders serve the areas of greatest disadvantage or potential growth?

Bryan McGrath: The central location of the two stations makes them best placed to provide an ideal service in delivering transport links to Edinburgh.

Margaret Smith: I am not sure whether the officials on this panel are the best people to answer my question, which has just occurred to me in the light of previous comments. I will throw the question into the mix and I am sure that the committee will accept further written comments from anyone who wants to respond. We talked earlier about the STAG 2 appraisal and the assumption of a single fare of £6.50 and there was discussion about how the fare compares with the single bus fare of £5. Did the promoter incorporate the impact of concessionary bus travel into its appraisals of likely modal shift on to the railway? The current concessionary travel scheme applies to older people who travel off-peak within council boundaries, but the minister announced in December that from spring 2006 free bus travel will be extended to all areas at all times, in a scheme that will apply to older people, disabled people and young people. Such people represent a significant number of the people whom we understand that the project is trying to reach.

Bryan McGrath: I do not think that the officials on this panel can respond to that, but we can write to the committee.

The Convener: Thank you. We will return to the subject with another panel. I thank the witnesses for their contribution and I suspend the meeting to allow the next panel of witnesses to take their place.

16:07

Meeting suspended.

16:14

On resuming—

The Convener: I thank everyone for their patience. I welcome David Williamson, head of planning in the strategic services division of Midlothian Council; Lesley Martin, assistant head of planning and implementation for Scottish Borders Council; John Inman, acting strategy manager of the city development department of the City of Edinburgh Council; Alison Gorlov, parliamentary agent from John Kennedy & Co; and Dr Mark Robertson, partner and head of consulting at Ryden. I understand that David Williamson wishes to make a short opening statement.

David Williamson (Midlothian Council): As recognised by the Executive in its review of Scotland's cities, the country's future prosperity in terms of wealth creation is closely linked to the health of its cities. The Lothians has the fastest growing population in Scotland, as borne out by the registrar general for Scotland's most recent projections to 2018.

The committee has already heard that the approved structure plan for Edinburgh and the Lothians forecasts a growing shortfall in the labour supply to meet employment growth in the city, with a need for increased commuting from neighbouring areas to fill the new jobs.

The growing economy and demand for labour must be supported by an adequate supply of housing. The structure plan identifies a requirement for 70,200 houses by 2015, of which 18,200 are to be on new sites. However, it states that the new housing is dependent on investment in infrastructure, including transport, without which it might not be able to proceed. As part of the Edinburgh market area, the Scottish Borders will be expected to meet some of that housing demand. Housebuilding forecasts for the Waverley corridor show that a total of 27,500 houses are to be built by 2030—13,700 in Midlothian and 13,800 in the Scottish Borders. Those figures include affordable housing and windfalls.

The forecasts for the early years are robust, as they relate to housing sites that have already been allocated in development plans. They also reflect the views of the development industry, with which the figures are monitored through a formal annual audit. Developers continue to regard Midlothian and the Scottish Borders as attractive and marketable locations in which to build and sell new homes. Forecasts for the later years up to 2030 are notional, as they will be subject to statutory planning processes. That said, the figures are considered conservative by the consultants Ove Arup & Partners Scotland Ltd in its peer review.

On developer contributions, in 2000 the then transport minister invited the three councils to maximise the use of alternative forms of funding for the Waverley railway, in order to minimise the call on the public purse. Following that advice, the promoters of the scheme are seeking to achieve a significant proportion of their contributions towards the project from housing developments located within the Waverley corridor. The Waverley Railway (Scotland) Bill sets out additional powers that will allow the authorities to capture those contributions—including retrospectively—for up to 30 years. There are confirmed contributions from the planned new community at Shawfair and from a supermarket development in Galashiels. In addition, there are anticipated contributions from new housing developments in the central Borders and from a potential new settlement near Gorebridge, which will be secured through legal agreements.

We reject the argument put forward by the Federation of Master Builders and Homes for Scotland that developer contributions to the railway are inappropriate. Support for the principle of developer contributions is clearly set out in national guidance, for example in Scottish planning policy 3, "Planning for Housing", and draft SPP17, "Planning for Transport". There are also specific references to developer contributions towards the Waverley railway in the structure plans for Edinburgh and the Lothians and the Scottish Borders, as approved by Scottish ministers.

Local plans will be as precise as possible about the likely scale and timing of developer contributions that are required for infrastructure and facilities. That will allow developers to anticipate at an early stage the financial implications in relation to land values. We believe that the railway will greatly help to stimulate the economy and housebuilding in Midlothian and the Scottish Borders and that it is reasonable to seek a modest level of contributions towards this key piece of infrastructure.

Gordon Jackson: That is very interesting and repeats what we have heard often, which is that if we have a railway it will stimulate housebuilding big time in the Borders and Midlothian. A previous witness's presentation included the idea of this hugely wonderful labour market in Edinburgh, and the railway would mean that lots of people would want to live here to travel to work in Edinburgh and that lots of houses would be built. The problem that I have is that I have listened to the man who represents the people who build the houses and it is fair to summarise him as saying that he does not buy the assertion that that would happen. You might be right to argue that what you are saying is reasonable, but the people who build the houses say that that is not the case.

The first point that the housebuilders' representative made was that we would not get the increase in housebuilding in the Borders that has been suggested because the marketing tool of attraction—the distance to Edinburgh—is not real. That tool is real in Midlothian: if we can say to someone that they will be able to get from Gorebridge to work in 25 minutes on the train instead of having to spend an hour and 10 minutes in traffic, that is real. It is not real to offer people the ability to get from the Borders to work in an hour, because there are already railway lines to Edinburgh from Fife, West Lothian and East Lothian and, in future, there might also be a line from Gorebridge. He seemed to be telling us that that factor was illusory. I want you to comment on what he said about that. He said that, for him as a housebuilder, the idea that people could get to work in an hour was not a big marketing tool.

That is compounded by the fact that, according to the housebuilders' representative, only about 200 houses are built each year in the Borders. He argued that the proposed increase in the number of houses that will be built is not realistic. He went into matters such as structure plans, which the councils might be able to get round. That is not his main problem; his problem is being able to sell the houses. In the promoter's presentation this morning, the figure of 10,000 houses was mentioned, but the representative of most of the housebuilders said that he had never heard of that figure. How much consultation have you done with the trade that will have to deliver on those targets? Are you just hoping that they will be met?

Margaret Smith mentioned Scottish Water. As MSPs, we know that there are problems with development all over the country because of Scottish Water's capacity. How much detailed work has been done on discussing with infrastructure providers the wonderful stimulation in housing that we want to achieve? The last thing that we want to discover is that Scottish Water says what the housebuilders are saying—that it does not think that it can do what is being proposed.

David Williamson: That is quite a long question.

Gordon Jackson: I asked lots of questions, but I can go back over them; there is no problem with that.

David Williamson: I will deal with two or three of your points to start with, before passing you on to my colleagues Dr Robertson and Lesley Martin.

I was somewhat taken aback by the evidence that Mr Lundmark gave for Homes for Scotland when he said that he had not heard about the figures. The figure of 10,000 relates to housing sites that are in approved structure plans and

adopted local plans. The figures that I gave in my evidence offer a longer housing profile right through to 2030. The 10,000 figure, which goes up to 2011, is in statutory documents.

Mr Lundmark challenged the housebuilding rates. He seemed to suggest that the housebuilding industry just would not be able to cope. I will deal with that in the regional context. First, I will give the picture in the Lothians. I make no apology for that because Midlothian is part of the Lothians and the landward parts of the Lothians have to accommodate much of Edinburgh's growth. Throughout the 1990s, on average just over 3,500 houses were built per annum in the Lothians. Over the past six years, that has gone up to 4,250 houses per annum. The structure plan that was approved by Scottish ministers in June 2004 sets a target for the councils to build 5,000 houses per annum. Homes for Scotland asked for the figure to be higher than that. That is the context. A substantial amount of housebuilding is going on in the Lothians, especially in Midlothian. I dispute the suggestion that we will not achieve the proposed number of house completions.

Gordon Jackson: I want to pause for a minute to ensure that we are not at cross-purposes. I did not understand Mr Lundmark to be saying that housebuilders could not cope; that was not his main thrust. In some ways, he welcomed the targets, as they would mean lots of work for housebuilders. I thought that his main thrust was that the railway was not the marketing tool that it was made out to be. He disagreed most strongly with your point that folk will be willing to spend an hour on the train to Edinburgh. He said that that was not a selling point.

David Williamson: I will come on to the Scottish Borders in a minute. I take cognisance of that point, though. In reference to Midlothian, he mentioned that there had been only about 240 houses built per annum over the past few years, and I do not dispute that figure; he is right about that. However, the two Midlothian local plans—one for Shawfair and one for the rest of Midlothian—propose a total of 8,500 houses. Both plans were adopted at the end of 2003, and the planning authority is now dealing with the applications that are rolling in from those major developments. The housebuild rate is therefore estimated in the housing audit process to go up to as much as 900 houses per annum by the middle of the period 2010 to 2015.

I would like to touch on the housing audit process. The authorities, in line with practice in the Lothians and elsewhere, have an annual audit with Homes for Scotland, in which we go over all the housing sites that have come through structure plans, local plans and planning applications. They

are put into the programme and any that are considered to be non-effective and which are not coming forward are discounted. Homes for Scotland is closely involved in that process, and the figures that have gone into the promoter's outline business case are those that have been discussed with Homes for Scotland through the audit process, so we are quite confident that those figures are robust.

If I may, I would like to make one last point on Midlothian. I know that you are eager to get on to the Scottish Borders—

Gordon Jackson: That is where the issue is, I think.

David Williamson: You have heard already this afternoon from a spokesman for Shawfair Developments Ltd. The housing audit actually shows Shawfair taking about five or six years to get up to the full housebuilding level of about 300 to 400 houses per annum. In fact, the representative told me that, as a developer, Shawfair Developments Ltd is trying to increase that rate because of the initial on-costs for the development, so it is looking for a faster housebuilding rate rather than the one that the authority has suggested.

I shall pass you on first to Dr Robertson and then back to—

The Convener: Before we move away from Shawfair, I want to ask about the suggestion that the housebuilding could be accelerated. That comes back to one of Gordon Jackson's points, which I do not think you have addressed, about Scottish Water. We know of the problems that exist throughout Scotland. If Shawfair is to be accelerated, what discussions have been held with Scottish Water? Can Scottish Water and the infrastructure that needs to be put in place cope with the demands?

David Williamson: That is one point that I failed to touch on. Scottish Water has caused a problem for us. I do not think that it is so much a problem in Shawfair; I understand that Shawfair Development Ltd has been in close touch with Scottish Water over what is required to allow the development to progress. It may be that Scottish Water is able to put in some stand-alone facilities to deal with that. However, I understand that Scottish Water has identified some issues relating to sites in the Gorebridge area, and it may be that they will take a year or two longer to come through.

Gordon Jackson asked whether we consulted those authorities. Yes, we consulted Scottish Water and its predecessor, East of Scotland Water, throughout the plan-making process, but that did not stop Scottish Water suddenly saying at a later stage that there might be a problem in

some communities. There may be a small delay in the Gorebridge area, and I accept that.

The Convener: We move on to Dr Mark Robertson.

Dr Mark Robertson (Ryden): The question, I understand, is to do with the market response to the Homes for Scotland view. I would like to split my response into three parts—I hope that that will begin to give us an insight into the issue. I was rather surprised by the evidence that was given, because the first part of my response is based on the Scottish Executive's own research. The comparative data from the 2001 and 1991 censuses demonstrate quite conclusively that there is a whole outer ring of locations that are now part of the Edinburgh city region, travel-to-work, housing market and retail catchment area. Those locations include areas in the Forth valley such as Stirling, parts of the east Strathclyde catchment area, the central Borders, all of East Lothian, the Fife circle towns and a whole ring of places that were not previously in the Edinburgh catchment area. Halcrow is the expert on disincentive and travel, but some of those locations are at least 50 minutes by train from central Edinburgh.

The second point is about the housebuilding industry. Separate from the formal consultations that the development planners have conducted, my firm and another property firm undertook 11 consultations with housebuilders. Those consultations are written up and reported in full in the documents that were presented to the committee last week. There is a general agreement among those housebuilders that the central Borders area is already in the Edinburgh housing market area and that the growth of that market will accelerate if the railway is reintroduced. Their expertise on the market varies: some are active in the area and some do not know it as well. There is a range of responses, but the general agreement is that a railway would help to accelerate the growth.

Gordon Jackson: Could you give us those responses? Is that data published? Perhaps we have already been sent the information; we have got so much paper that I do not pretend to have read it all.

Dr Robertson: I would be happy to point you towards it.

The Convener: You could have a word with the clerk later to ensure that we have all the information that you are speaking about. I am aware that we have some of the housing projections from Ryden already but I do not know whether we have them all.

16:30

Dr Robertson: I would be pleased to do that.

On the issue of whether the housebuilders have been consulted, we carried out a consultation exercise that has been written up and reported.

The final point relates to the extremely large number of houses. I did not use the figures of 10,000 or 30,000 and so on in my impact calculations or in the economic impact calculations. They might be in the patronage figures but, when we claim the commuting and social impact figures, the numbers of houses that are being built for commuters are not as high as the large numbers that were mentioned. Those numbers are part of the development plan allocation. Within the individual reports, you will see the more conservative figures that have been assumed for the housing market impact of the railway.

The Convener: You say that you did not use those figures but the paragraph that I read out earlier, which was from the response on behalf of the promoter to questions posed by the clerk, said:

"The reason for the inclusion of new housing within the model is that, in the course of this study, local authorities (Midlothian and Borders) committed to the development of 4,793 and 5,319 new units ... The strength of this commitment was such that it provided a very firm basis for forecasting additional trips".

That seems to suggest that housing is being used as a means of forecasting the number of trips, which is different from what you are telling us. Are you right or is the promoter right?

Dr Robertson: It is an iterative process. The work that we did was begun two years ago and involved working out the exact number of houses that would be needed as a result of the railway. The development plan applications supersede that.

The Convener: That is something that we should return to at a later point.

I invite Lesley Martin, from Scottish Borders Council, to comment.

Lesley Martin (Scottish Borders Council): I want to say a few words about the strategy of the Scottish Borders structure plan. We have aimed to meet Government guidance in trying to locate new development—business development as well as domestic development—where it can meet existing and planned transport provision, including public transport provision. We have had regard to national Government policy and the national planning framework.

In the Borders, we do not have a capital but we have a concentrated distribution of towns in the central Borders—not just Galashiels but the other towns around about. Most of the business

inquiries are about that area and most of the population live in that area. Borderers feel that they do not want a ring of commuter development around Edinburgh and that it would be better if development came into the heart of the Borders, where it can support existing services and facilities and, in the longer term, provide jobs. We accept that, in the shorter term, a lot of our people will need to work in Edinburgh but we are playing the long game as well. Our strategy is a long-term one that will take us into the future.

A lot of figures have been mentioned and I will try not to get ourselves too tangled up with them. However, in relation to the structure plan figures, I would like to talk about Mr Lundmark's concerns about the political will to deliver the number of houses that have been mentioned. All I would say about that is that the Scottish Borders Council structure plan has provided a substantial amount of additional flexibility. We started with a baseline requirement of something like 2,000 houses for the central Borders, but we added to that substantially because we recognised both the likely potential demand and what the housebuilders were saying to us. As Mr Lundmark would confirm, in his submissions to us on the local plan, he said that he feels that there is capacity in the industry to deliver more. It is true that we have something like 200-odd completions a year in the central Borders. To achieve the future figures that we seek, that number would need to be increased substantially. I think that it can be, partly because demand will increase as a result of the railway.

Mr Robertson spoke about the fact that many builders said that the railway would be a factor that they would consider when making their plans. We must remember that not all builders are members of Homes for Scotland, particularly in the Borders where some of the bigger-volume builders are only just starting to move into the area.

There is lots of evidence that the more sites and volume builders that one has, the faster the completion rate. As the Borders develops and grows, we are finding that we are getting more and bigger sites—there is a history in the Borders of small sites—of 100 and 200 units, and more volume builders are starting to move into the area. I am convinced that the completion rate will increase.

When looking at whether the figures can be delivered, we have found that about a third of the structure plan requirement to 2011 has either already been built or is ready to go. We are already on target to meet the figures by 2011. When we consider that some other areas in the Borders have met all the structure plan requirements—Peebles, for example, is a high-

demand area—I have no reason to believe that we cannot achieve that in the central Borders.

The Convener: How many of the houses proposed in the structure plan are within a 10-mile radius of Galashiels?

Lesley Martin: When drawing up the structure plan, the council decided that it would locate a substantial proportion of the housing allocations for the central Borders in that very focused Galashiels-Melrose-St Boswells corridor. Again, we are talking about political will. The councillors debated the matter and decided that that was the approach that they would follow. In fact, 90 per cent of the allocations that were made in the local plan on which the consultation has just finished are within a 10-mile radius—and most are within a 2.5km radius—of the proposed stations. We have focused the development on an area that is very close to the proposed stations because the council is absolutely committed to providing the necessary number of people who can help to support the stations.

Margaret Smith: I want to pick up the concessionary fares question that I put to the previous panel, but I am not sure whether anyone on this panel of witnesses can answer it.

David Williamson: We do not have the relevant experts on this panel, but we will send you a response.

Margaret Smith: Okay, thank you.

What will happen if the planned level of residential and commercial development does not take place? What will the impact be?

David Williamson: First, the structure plan contains the fall-back position that the councils will have to propose additional sites if they do not deliver the five-year land supply that is required by national policy. If the sites that we have already allocated are not available, developers will propose other sites. I suspect that, increasingly, they will win cases on appeal because of the need to have a five-year land supply at all times. However, there is no evidence of a slow-down in the Lothian housing market.

Mr Brocklebank: I have an observation rather than a question, but perhaps the witnesses will comment on it. In his submission, I think that Dr Robertson said that even without the railway, there is a recognisable pressure from Edinburgh down into the central Borders. I am sure that he has figures to back that up.

I make my observation wearing a different hat, as I am also a member of the Finance Committee and came down to take evidence from the Scottish Public Pensions Agency in Galashiels. As people know, about 200 jobs were transferred from Edinburgh to Galashiels. It was interesting for the

members of the Finance Committee to hear that only seven people—including a husband and wife—chose to be transferred from Edinburgh to Galashiels. All the rest of the staff were recruited in Galashiels. Perhaps those 190 jobs were tremendous for Galashiels, but the figures did not show any evidence that Edinburgh people were desperate to move down to Galashiels. You might say that that is because there is no railway, but there does not seem to be the push to move that you are talking about in relation to the figures.

Lesley Martin: The absence of a railway is one reason why people do not want to come here, but there are many others. In a way, we have a two-pronged strategy. First, we want to encourage people to stay here because we have lots of evidence that many of our people, particularly the younger ones, are leaving the Borders. That is a trend that we must try to reverse.

Secondly, we want to encourage people to come to live here—not just older people but those of working age and families. The decisions that people make will be based on what is important, and it will be important to have jobs and fast and frequent transport links in the area. We also need a choice of transport modes. We have talked about roads and bus services, but it is important that people have a choice. We also need more clubs, pubs and other services and facilities. The Borders wants better shops; people do not want to have to go to Edinburgh for everything. However, to get those better facilities, we must build the population, and we have to do so in a place where there is already a fair concentration of people. That place is the central Borders, which is why it is so vital that we bring the railway to that area. We already have a reasonable concentration of people there and so have something to build on.

However, the area is fragile, and it is a terrible worry to borderers that they might lose some of the services and facilities that they have at present. We have the hospital and Heriot-Watt University's school of textiles and design, although there have recently been issues with those. We have to hang on to those facilities, although we sometimes feel as if we are hanging on to them by the skin of our teeth. It is essential that we try to build a population and we feel that the railway is a very strong catalyst for that. We need something that is really going to set the Borders on fire, and I think that the railway can do that.

The Convener: Do members have any further points?

Gordon Jackson: No; we just have to take that on board.

The Convener: I thank everyone for attending today. We will be back here in a fortnight. Next Monday we will be in Newtongrange at 10.30. I look forward to seeing as many people at that meeting as are at this one.

I thank Scottish Borders Council, its staff and caretakers for their hospitality today. I also thank the members of the public who have come to see the committee in action for their time and attention.

Meeting closed at 16:43.

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