

WAVERLEY RAILWAY (SCOTLAND) BILL COMMITTEE

Monday 14 March 2005

Session 2

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WAVERLEY RAILWAY (SCOTLAND) BILL COMMITTEE 4th 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:

George Baillie

Stephen Bennett (Strategic Rail Authority)

Dr Mark B Brown (Halcrow)

David Fox (Turner and Townsend)

Peter Fuller (Strategic Rail Authority)

Douglas Muir (Midlothian Council)

Bruce Rutherford (Scottish Borders Council)

Graeme Sandie

Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Nicol Stephen (Minister for Transport)

Ron Street

David Williamson (Midlothian Council)

Keith Wallace (Scott Wilson Railways Ltd)

CLERK TO THE COMMITTEE

Fergus Cochrane

LOCATION

Langlee Complex, Galashiels

Scottish Parliament

Waverley Railway (Scotland) Bill Committee

Monday 14 March 2005

[THE CONVENER *opened the meeting at 10:59*]

Waverley Railway (Scotland) Bill: Preliminary Stage

The Convener (Tricia Marwick): Good morning. I open the fourth meeting in 2005—and the 12th meeting overall—of the Waverley Railway (Scotland) Bill Committee. Today, the committee will continue its consideration of the bill's general principles.

I would like to say a few words for the benefit of objectors in particular about unhelpful stories concerning funding of the railway proposal that have appeared in the media over the past few days. I and the rest of the committee regret that any such important announcement has been trailed in advance of today's meeting and make it clear for the *Official Report* that the committee deprecates such a practice.

We have concerns about assertions in the media that the project will now go ahead. I make it absolutely clear that, although the Executive may have agreed funding for the project, the committee has made no decision on recommending whether the proposed Waverley railway should go ahead. The committee has been charged by the Parliament to report to it on the project's general principles and merits. A report cannot and will not be prepared and submitted until the committee has carefully considered all the written and oral evidence. It will then be for the Parliament to consider the report and to debate and decide whether the bill should be passed.

From the outset of the bill process, we have sought to be impartial, balanced and fair and we have striven to ensure that all parties—particularly objectors—have been involved. We will continue to do so. We will not be influenced by speculative pieces in the media and we will not allow parliamentary processes to be undermined by such pieces. I make it clear that the committee has received no notification from the Scottish Executive about whether it will provide funding for the Waverley project or about how much funding would be provided. The minister is here this morning and he will no doubt address that issue.

Funding for the project is dependent on the bill being passed by the Parliament. Contrary to media reports, if the Executive decides to

contribute funding to the project, it will be for the Parliament alone to decide whether the project will go ahead.

As for today's meeting, I ask everyone to ensure that their phones and pagers are turned off. I remind people that, although the meeting is being held in public, it is not a public meeting; it is part of the Parliament's formal process. I would therefore be grateful for the co-operation of members of the public to ensure the proper conduct of business.

The meeting is quorate and no apologies have been received. We shall therefore commence with evidence from our first three witnesses. I welcome Ron Street, Graeme Sandie and George Baillie. I will clarify why we have invited the witnesses to the meeting. Their objections to the bill were objections to both the whole bill and to specified provisions. However, as the clerk said in his letter to them of 20 May 2004, the committee rejected the whole-bill element of their objection. Therefore, we will not hear evidence from them today as objectors with respect to that part of their objection. Rather, the committee wanted to hear from former whole-bill objectors who have expressed concern about issues relating to the proposed railway that might be pertinent to our consideration of the bill's general principles. I understand that Graeme Sandie wishes to make a short opening statement.

Graeme Sandie: Good morning. I prepared a short opening statement prior to hearing the convener's opening remarks.

On behalf of my fellow objectors, I thank the Waverley Railway (Scotland) Bill Committee for asking us to the meeting to discuss, from a layman's perspective, our concerns about what we believe is a flawed, ill-conceived and misleading bill. We hope to help the committee in its deliberations and to show that the bill's general principles do not in any way meet the needs of the people of the Scottish Borders and Midlothian in respect of a viable, sustainable and environmentally friendly integrated transport system.

We, too, highlight our anger and disappointment at the manner in which news of proposed funding for the project was leaked to the media last Thursday. Although we understand that the provision of funding is only one part of the project, albeit a major one, the timing of that statement gives the general public the perception that the project is a done deal and makes a mockery of the bill process. We therefore respectfully request that Nicol Stephen apologise for the pre-emptive funding statement and publicly clarify the matter today.

Although we are unsure what questions may be asked, we will endeavour to give as concise and pertinent answers as our knowledge permits.

The Convener: I hope that my opening statement has reassured you that the committee will be fair and objective. The decision on whether the project should go ahead is for the Parliament, once it has received our report, which will not be completed until we have heard all the evidence.

The promoter has highlighted what it considers to be the social, economic and tourism benefits of reopening the railway. Do you dispute any of those claims and, if so, why?

Graeme Sandie: I will pick up on the tourism issue. Tourists obviously need a car, not a train or a bus, to get the benefit of the Borders. In the previous couple of meetings, it was mentioned that Melrose is the tourism hot spot of the Borders. That may well be the case, but tourism has a major impact in many other parts of the Borders. For example, if a person wants to visit Floors Castle in Kelso or Bowhill near Selkirk and gets off the proposed railway at Tweedbank, how on earth will they get to where they want to go? The provision of extra buses is not really applicable. People who come to the Borders want to tour. They do not want to stay in one place; they want to participate in all the activities that the area has to offer. For that, people need a car, not a train or a bus.

The Convener: Perhaps your colleagues will comment on the social or economic benefits that the promoter says will accrue from the railway.

Ron Street: I will pick up on the economic aspect. The documentation contains little evidence on the creation of new jobs in the Borders, but it shows that the number of jobs that would be created for Borders people in the Borders would be in the tens, not the hundreds, which suggests that no new thriving industry would come to the Borders because of the railway. Previous experience has shown that companies that come here from abroad—I have dealt with American companies—look for access to motorways and that the train is a limited attraction for them.

The Convener: What would be the economic and social impact, locally and regionally, of not opening the railway?

Graeme Sandie: It would make no difference whatever if the railway was not opened. What the Borders needs now is what it needed nearly 40 years ago when the railway was disbanded: an improved road system. That suggestion is not perceived as environmentally correct, but the people of the Borders want an improved road between the central Borders—the Galashiels-Selkirk-Melrose area—and Edinburgh; they do not want a railway, no matter what the promoter might say.

As we well know, a lot can be done with figures and percentages. Given that the population of the

Borders is 110,000 and given the patronage figure for the railway of 200 to 300 people a day, I cannot work out how on earth the railway is a viable proposition for the people of the Borders. Those people want a fast, direct road link, not a railway, to Edinburgh and the central Lothians.

Margaret Smith (Edinburgh West) (LD): I want to pick up on that point before I go on to my next questions. You say that people in the Borders do not want the railway, but the promoter says—this figure is off the top of my head, so it might not be absolutely right—that more than 90 per cent of the people who took part in a consultation exercise want the railway. How do you square those two opinions?

Graeme Sandie: If the promoter is saying that 90 per cent of people in the Borders—around 90,000 people—want the railway, why are only 200 or 300 people going to use it? I think that the actual figure was that 84 per cent of people who were surveyed wanted the railway. I believe that the survey covered only 3,000 people. Now, 84 per cent of 3,000 people is around 2,500 people and only 10 per cent of those 2,500 people will use the railway.

Margaret Smith: Do you have alternative consultation data to show that, when people were asked, they said that they did not want the railway?

Graeme Sandie: No, I am just going by what has been said by the people to whom I have spoken—not only in the Galashiels or Melrose areas, but in the Jedburgh, Kelso and Hawick areas. People want roads, not a railway.

Margaret Smith: Will you expand on your concerns about the railway's impact on amenity for local residents?

George Baillie: That applies to the area between Galashiels and Gorebridge. The bulk of that area is rural and the people will not have any access to the proposed rail link. They rely totally on cars. A high percentage of people in that rural area have cars, purely for transport about the region.

I fail to see how the railway will help those people in any way. There will be railway stations at Galashiels and Tweedbank, but the next one will be at Gorebridge. The bulk of the route—some 47km—is through a rural area. People who live there will have no access to the railway whatsoever.

If the railway goes ahead, I wonder what the impact on the bus service will be. In a statement this week, the Scottish Executive said that it would be introducing £22.5 million of funding to the bus service. That would help to increase the service from Galashiels on the X95 and 95 route.

Nicol Stephen, the Minister for Transport, has said:

"Buses are still far and away the most popular form of public transport. Over the last four years, we have seen passenger numbers increase by almost 8 per cent after decades of slow decline. This new scheme aims to give a major boost to passenger growth by kick-starting new services."

I would like to know the impact that the new funding for buses will have on the business case that has been presented.

Margaret Smith: I am sure that we will put that very point to the minister in due course. Will you expand on your views on the effect of noise and vibration?

George Baillie: We are extremely concerned about the effects of noise and vibration. I live in the Fountainhall area, which has not been considered carefully because it is a new residential development. After we questioned the promoter, a further study was done on sound levels. That study has shown that our area will suffer severe noise levels. The original business plan does not take that into account.

Margaret Smith: Mr Street has referred to freight. If the railway goes ahead, it will be passenger only. Were you referring to increased freight on the roads?

Ron Street: The bill does not negate the possibility of freight being carried on the railway. However, studies on noise and vibration have not taken that possibility into account. I know that the promoter is saying that the railway is primarily for passengers but, without any amendment to the bill, freight might be introduced in the long term. If freight is not carried on the rail, it will be carried on the road. Therefore, there will be an impact on the environment. I believe that a new Asda is planned for Galashiels. Four or five truckloads of goods will be delivered every day, which will have to travel on the A7.

11:15

Margaret Smith: Would that freight not travel on that road anyway? What effect will giving the go-ahead to the Waverley project have on the level of freight on the roads?

Ron Street: If the number of houses in the Borders increases, there will inevitably be an increase in freight: there must be to service those people. If the size of the community increases, there must be an increase in freight. However, I am not an expert on traffic figures and nobody has paid for such a study to be conducted.

Margaret Smith: The general question, which members all want to pick up on, is why you consider that the impacts of reopening the railway outweigh any potential benefit.

George Baillie: We believe that the benefits will probably occur only in the Edinburgh and Midlothian area and in the Galashiels and Tweedbank area. The area between is not represented at all. We think that the introduction of the railway provides no benefit to the bulk of the rural area between those two stations.

Christine May (Central Fife) (Lab): I will come back to the point about buses and turn the comment that Mr Baillie made on its head. I understood that he was saying that the recent announcement would encourage more people to use the buses. I seem to recall that his evidence suggested that the reopening of the railway would have a detrimental impact on the buses. I ask him to comment on both those points.

George Baillie: There is a contradiction. The original business case suggested that the bus route would deteriorate because everyone would use the railway. It has now been announced that further investment will be made in the bus service. I would be delighted to see investment in the bus service to help the bulk of the people in the rural area between the two stations—they are the ones who use the bus service all the time. The service is not a busy one, but it is a key means of transport that enables people to travel around the area. However, I do not understand why investment is being made for increasing the bus route while it is also being said that people will be using the rail service. I cannot get to grips with that. There seems to be a contradiction. The aim is to get everybody on to the rail service, but the bus service is now going to be upgraded.

Christine May: Would Mr Street and Mr Sandie like to comment on buses and the possible detrimental impact on the bus services of the introduction of the railway?

Ron Street: As things stand, the number of passengers who use the bus service between Galashiels and Edinburgh during the bulk of the day—this comment does not apply to the early morning or evening—is very small. The introduction of the rail service will impact on the bus service; it will most probably influence the operators to reduce their service. The latest injection of money into the buses seems to fly in the face of that suggestion, but it is certain that either the railway or the buses will suffer. The business plan is very fragile in terms of revenue for the railway.

Christine May: I will go back to your opening remarks and ask whether changes to the route or the location of stops would address any of your concerns. If so, why?

Graeme Sandie: I do not think that such changes would help at all. In my opinion, the railway is ill conceived and is not value for money

for the taxpayer in the Borders or in Scotland as a whole.

Ron Street: I agree with those points. The issue is value for money. As I have said, from what I have seen of the business plan, it seems to be very fragile.

George Baillie: I understand that one of the key issues is getting housing into the area. For example, people are saying that approximately 10,000 houses will be built in the Borders and Midlothian. However, I would like to know where that figure and the five to four split in that housing between the two areas come from.

Christine May: You can rest assured that we will ask about that today.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): Will the railway have any impact on increasing housebuilding in the various areas that you represent?

George Baillie: I do not think that the railway will have any such impact. For example, I know that no more housing is scheduled to be built in my area of Fountainhall. Developers will come into an area of their own accord if they think that they can make a profit there. Because I work with a housebuilding company, I know that appraisals cover land values, the costs of building houses and how much the houses might sell for. An area either works or does not work and housebuilders will make their own decisions in that respect no matter whether the railway comes into play. For example, because the Stirling area is thriving at the moment, developers will build houses there instead of in the Borders.

Mr Brocklebank: Perhaps the other witnesses can answer my next question. If the railway resulted in more housing, would that necessarily be detrimental to the Borders?

Graeme Sandie: It certainly would be. Introducing more than 5,500 houses into the small area around St Boswells and Melrose—which is where the bulk of houses would be built—would affect all services. Scottish Borders Council cannot even get agreement or permission to build 900 houses in the new settlement in that area. It beggars belief that it hopes to get agreement for 5,500 houses. I should point out that building 5,500 houses is equivalent to building a settlement the size of Galashiels in that area. Indeed, I find it absolutely unbelievable that the promoter is contemplating the introduction of so much housing, as it would affect roads, schools, the hospital and all the other elements of the local community's infrastructure.

Ron Street: I stay north of here in Newtongrange and believe that housebuilding in Midlothian will go ahead no matter whether the

railway exists. The railway is simply a different way of carrying passengers.

Mr Brocklebank: Let me turn that comment around. A previous witness told us that the predicted rail journey time from Edinburgh of an hour and three minutes—or whatever it was supposed to be—would provide no particular incentive for housebuilders to build housing in the Galashiels and Tweedbank area. What is your reaction to that comment?

George Baillie: I agree that there would be no particular incentive to housebuilders. After all, the difference between travelling by car and by the proposed rail route is relatively small—about 15 minutes. The traffic on most of the route from Galashiels to the Sheriffhall roundabout is relatively free flowing and the A7 is not at capacity.

Mr Brocklebank: So it would not make any difference whether the railway was built, because any decisions on housebuilding would be based on other prerogatives.

George Baillie: Any decision would probably be made on a commercial basis.

The Convener: As there are no more questions, I thank the witnesses for giving evidence. I suspend the meeting to allow our next panel to get into place.

11:24

Meeting suspended.

11:26

On resuming—

The Convener: We turn to the specific issues of rail patronage forecasts, yield assumptions and revenue forecasts. I welcome our witnesses: Peter Fuller, Scottish planning manager for the Strategic Rail Authority; and Stephen Bennett, sponsor, national programmes, for the SRA. I understand that Peter Fuller wishes to make a short opening statement.

Peter Fuller (Strategic Rail Authority): We indicated that we would not need to make an opening statement. We have made a written submission, which the committee has presumably received. We are ready to take questions.

The Convener: In that case, we will move swiftly on.

Christine May: Richard Bowker, the former chairman of the SRA, is on the record as stating:

“As a transport project, the benefits of a full re-opening do not stack up. There is no obvious transport case for reconnecting that line.”

Do you share that view?

Peter Fuller: Richard Bowker is indeed on record as having said that; he was not reported entirely accurately, but I can amplify the point that he was trying to make. He said that, in narrow transport terms, that there is not a strong business case for the project in its entirety—the line from the Borders to Edinburgh. There is a relatively low benefit-cost ratio, which is the main measure that we use to assess the economic benefits of a scheme.

Richard Bowker suggested that every alternative must be properly explored before we commit ourselves to saying that the project is the best possible solution. He was talking about the railway in its entirety—to Galashiels and Tweedbank. He said that, in terms of traffic relief and transport-related economic benefits, there is a much stronger case for the Midlothian, Gorebridge and north section of the line. It is important that we make that distinction, because from the beginning the project has been aimed at providing economic benefits to the Borders that do not relate exclusively to the SRA's terms of reference, which concern transport. Our terms of reference do not necessarily embrace all the issues that the committee would want to consider.

Christine May: When the SRA assessed the business case, using criteria similar to those in the Scottish transport appraisal guidance appraisal, it concluded that there was a case for public funding as far as Gorebridge. Can you provide further detail on that study, with particular reference to patronage and revenue forecasts?

Peter Fuller: We did not carry out an independent assessment. We examined the techniques that the promoter used when drawing up its business case. I am talking about the first business case—there has been an update that we have not appraised.

We took the original business case and looked at the methods that the promoter used and the underlying assumptions. We looked at the way in which the promoter handled traffic forecasting for road, rail and the buses, and the way in which it handled the amount of growth that was expected to occur in the population base and how much traffic on the railway might arise from that. We satisfied ourselves that the promoter had used all the techniques and methods that are best practice in transport planning and that everything that had been done had been consistent, in every way that we could see, with the way in which we would have undertaken such a project. We did not commission any independent review to see whether we would have come up with the same answers; we simply satisfied ourselves that the best methods had been used.

11:30

Christine May: Mr Bennett, do you want to add anything to that?

Stephen Bennett (Strategic Rail Authority): No. I concur completely with what Peter Fuller says.

Christine May: Mr Fuller, you have very carefully told me that you agree with the general principles of the original business case. Do you want to comment on any of the specific results that it contains, from your knowledge of how such things are done and the results that usually come out of them?

Peter Fuller: There are two issues of particular concern to us in relation to the project. The first is the extent to which there is a relationship between the amount of development that is expected to take place and the provision of the railway. The railway's business case is strongly conditional on the extra traffic appearing and creating the extra patronage; however, the case for building the railway in the first place is that it is expected to be the catalyst for that development taking place. The two things are intrinsically linked, and we cannot separate—either in transport terms or in economic development terms—the proposed development of population and the expansion of the Borders from the provision of a railway to facilitate that and the traffic that will make the railway a viable proposition. The two things must stay inherently linked.

The second issue, which is not of concern to us but is an area in which there is uncertainty in terms of the way in which the project has been presented, is the extent to which the additional residents will make use of the railway to travel to Edinburgh. That relates strongly to a point that was made by some of the objectors who were sitting here previously: is it credible that there will be a market for rail an hour from Edinburgh, and how do we assess that? The promoter has considered the cases of other stations in communities that are similar distances away from Edinburgh, and has identified how big the rail market is for stations in those towns. On that basis, the promoter does not seem to be making overoptimistic claims. Although it is a grey area—we do not build new railways often and, therefore, do not have much experience of what happens when a new railway is built—the figures that the promoter is suggesting for the number of people who will use the railway seem credible. In fact, we would probably say that they are quite conservative. The promoter has not over-egged the pudding.

Christine May: Thank you. Mr Bennett, do you want to add anything to that?

Stephen Bennett: No, thank you.

Mr Brocklebank: From what you have said, Mr Fuller, your view still appears to be that there is no economic case for reopening the railway as far as Tweedbank.

Peter Fuller: The more recent forecasts, which we have not appraised, are more optimistic about the volume of traffic that can be attracted to the railway over its whole length, and they produce a benefit-cost ratio that is greater than 1. It is not the final nail in the coffin of any project to say that it does not achieve that magic figure, if there are many other benefits to take into account beyond transport benefits. The STAG appraisal considers a whole range of issues, not all of which are encompassed by that benefit-cost ratio figure. The SRA believes that, if a benefit-cost ratio of above 1 cannot be achieved, the case is not worth pursuing. That is a way of rationing projects and saying which ones are going to give us the best bangs for our buck, as it were. However, the aim of regenerating the Borders economy might override that.

The more recent traffic forecasts are much more optimistic and suggest that there will be more housebuilding and, as a result, more traffic on the railway. That will lift the figure into a positive business case. We have not reappraised that. We have seen the figures, but we have not spent any time on examining them.

Mr Brocklebank: The promoter predicts that, by 2013, there will be almost 7,000 trips a day on the railway. Do you believe that that forecast is reasonable? How does it compare with patronage of similar lines elsewhere in the United Kingdom?

Peter Fuller: The work that has been done has looked principally at railways around Edinburgh that already exist. The so-called Robin Hood line, which runs north of Nottingham, is an example of a new railway in the United Kingdom that one could consider, although the territory there is very different. That line runs through a much more built-up area; there is development over the whole length of the route. It is difficult to translate the experience from one place to another.

As I said, the figures on the projected volume of traffic from the principal stations—Galashiels and Tweedbank in the central Borders, and Gorebridge, Newtongrange and Eskbank—are not high in relation to those that relate to experiences elsewhere. There is every prospect that the railway will do better than the figures that have been put forward in the business case suggest.

Margaret Smith: The promoter indicates that the railway will be able to operate without revenue subsidy by, I think, about 2013 or 2015. Bearing in mind what you said about patronage figures, how realistic an assertion do you think that that is?

Peter Fuller: Our assessment of the original business case is that there are some elements of

what we call running costs that the promoter has called capital costs. In particular, I am talking about the trains and their depreciation as they are used. I do not have enough detail on how the running costs have been calculated. It would seem that the promoter has not projected full coverage of all the on-going revenue costs. That said, if all the running costs—which include renewal, replacement and depreciation costs and track access charges—are included in the figure, I do not know of a railway in Scotland that pays for itself entirely.

The answer probably depends on how one defines revenue costs. I am not sure that the promoter has defined them in the way in which the railway industry would define them. The railway's running costs do not present a frightening prospect in comparison with those of other railways in Scotland. It is very much up to the funders whether they want to take on board those costs.

Margaret Smith: You are saying that no railway in Scotland operates without a form of revenue subsidy.

Stephen Bennett: That is quite correct. I have spent more than 30 years in the industry and I would find it extremely surprising if the railway were able to operate without any subsidy. Very few parts of the British railway system operate without subsidy. Only operations such as the east coast intercity service, which has huge volumes of passengers, manage to break even. That does not mean that smaller railways are not worth while, because other benefits come into the equation. However, it would be unrealistic to expect that the proposed Waverley line would operate without any subsidy at all.

Margaret Smith: I want to find out whether you think that the capital costs are unrealistic as well. The promoter indicated that, at 2003 prices, the capital cost of reopening the railway was approximately £130 million. I think that that figure has been upgraded to £151 million at 2005 prices. Is that a robust assessment of the likely capital costs?

Stephen Bennett: In my experience of capital projects on the rest of the railway network, there has been quite a lot of cost escalation. As a result, the Treasury has laid down guidelines on how capital costs should be assessed and has introduced the concept of optimism bias. That is a requirement whereby all projects with public sector funding, whether in Scotland or England, should properly take account of the lessons that have been learned from other projects. In the promoter's original business case, the optimism bias figure was very low—it was around 4 per cent. For such a project, the figure should be 10 times greater. As the proposed costs have now

been increased, it might well be the case that adequate provision has been made for that factor.

Margaret Smith: I want to clarify that. Did you say that the optimism bias had originally been 4 per cent or £4 million?

Stephen Bennett: I said 4 per cent.

Margaret Smith: You think that the optimism bias should be 40 per cent.

Stephen Bennett: That is right.

Margaret Smith: From having read the papers, I do not think that it is 40 per cent. If it is not, would that have to be addressed?

Stephen Bennett: Yes, very much so—that is not a matter of opinion, given the Treasury guidance on how projects should be assessed accurately.

Margaret Smith: Mr Fuller mentioned the Robin Hood line, and we have heard references to the success of that line. Do you think that it is advisable to compare reopened railways, given that, as you alluded to, that can be like comparing apples and pears? Is there anything in the detail of the reopening of the Robin Hood line that it is valid for us as a committee to consider?

Peter Fuller: We do not have enough detail on how the Robin Hood line impacted on individual households and their decision whether to use rail. However, the geography of that area does not relate to the geography of the Borders, Midlothian and Edinburgh. The geography of the area in the Borders that is to be covered by the railway is much more like that of other local areas, such as North Berwick, Musselburgh and the east of Edinburgh. In that example, despite the fact that there is no hill range between the towns, there is an isolated but fairly large commuter population around North Berwick, then a gap and then an inner suburban area with Musselburgh, Longniddry, Prestonpans and so on, which are quite close to Edinburgh. That is remarkably similar to the geography of the Borders and the line to North Berwick is probably a better analogy—despite the fact that it is a long-established railway and not a new one—than the Robin Hood line. In the North Berwick analogy we can see the pattern of travel in Edinburgh's commuter market, the nature of housing opportunities around Edinburgh, the distances that people are prepared to travel to work and the number of people who choose rail when they are given that choice instead of using roads.

Margaret Smith: You state in your written submission that

"the promoters ... should not rely on any contribution from the SRA."

I think that the contribution that was asked for was in the order of £4 million. Obviously, there have

been changes in the railway industry since then. Will you clarify your position on the £4 million that was meant to come from the SRA?

Stephen Bennett: There are several dimensions to that. First, I was privileged to be a witness to the Local Government and Transport Committee, convened by Mr Muldoon, when it discussed the Railways Bill and the new financial arrangements for Scotland, which will take effect from 1 April 2006. The bill is being considered at Westminster and it is likely to receive royal assent fairly soon. Under the provisions of the bill, all the funding for railways in Scotland will be met by Scotland. There will be a financial settlement to make that happen.

Secondly, although the SRA had a rail passenger partnership fund, which might have been the vehicle for some funding, that fund has now closed. We wrote to the promoter to say that that was the case. The reason why that fund was closed was the financial state of the railways as a whole. The Secretary of State for Transport withdrew the funding from the scheme and it will not be reopened, particularly as it is now likely that the SRA will be closed. For those two reasons, our best advice to you is that funding from the SRA, which might have seemed an opportunity when the bill was introduced, is no longer possible.

Gordon Jackson (Glasgow Govan) (Lab): I seek clarification. Margaret Smith pointed out the promoter's assertion that the railway will not require a subsidy and she asked whether that is a realistic position. Your answer seemed to be that it is not entirely realistic, but your reason seemed to be, "Railways never make money. Why should this one be any different?" However, if the promoter's assertion is not realistic, it should be possible to be a little more specific about the reasons and to point out where the lack of realism comes from, other than saying that railways do not make money. Is it the revenue projections or those that relate to repairing trains that are not realistic? Where does the lack of realism in the promoter's proposal come from?

11:45

Stephen Bennett: That is a very good question. I have spent a lifetime trying to make railways profitable and we have managed to do that on rare occasions. In the late 1980s, the whole of the intercity railways operation was profitable and we nearly got a lot of the London and south east area into a breakeven position. That was a short, brief interlude, however.

We are now looking at subsidies that run into thousands of millions of pounds every year. It could be argued that that is perhaps a more realistic reflection of the true cost of operating the

railways. Railways are not cheap to run, but that does not mean to say that one should not seek to try and make them as profitable as possible.

If that is the cost side of the equation, the revenue side is evidenced by the reluctance on behalf of all parts of the industry and policy makers to reflect the true cost in the price of using the railways. Often that is done for the very good reason that the railway needs to compete with other modes of transport. The railway is often a price taker rather than a price setter—in other words, the railway has to compete in the market and if other modes of transport pitch their prices at a certain level, the railway has to recognise that in order to keep a share of the market.

Gordon Jackson: Although I do not want to put words in your mouth—indeed, I am sure that I could not—you seem to be saying that there is a lack of realism in the proposal. I am not suggesting for a moment that that should knock the project on the head, but you seem to be suggesting that there is a lack of realism about how much the whole thing will cost to run. In other words, the railway will never quite work if it is run in the way in which it is laid out on paper.

Stephen Bennett: No. Do not misunderstand us; we are not trying to be killjoys. Both Peter Fuller and I have spent a long time trying to do our best to make railways work. Two main risks are involved in any large project: the demand risk and the capital cost. The demand risk, which is by far and away the more important one, is whether enough people will use a railway. We should look at what has happened on other large projects. For example, what brought the channel tunnel into trouble was not so much the capital costs but the projections about the number of people who would use it. It is also very important to have a realistic assessment of the capital costs.

Peter Fuller: Again, one of the issues in this case is that we are talking about a brand-new railway project and we are not that accustomed to doing so. One starts with brand-new kit: a brand-new railway; brand-new track on refettled ground; and brand-new trains and everything else. In effect, because those costs are grant funded up front, they are written off. That is not the way in which a railway really works, however. Normally, a railway works on the basis of a sinking fund that is used to replace assets over its lifetime.

Clearly, some of the costs are written into the proposal, including those that are written in halfway down the life of the railway for the renewing of the signalling. However, the promoter is missing things such as the on-going and escalating cost of maintenance. Given wear and tear on the basic infrastructure, it will not be brand new in 15 years' time but will incur small but significant maintenance and running costs that are perhaps not assumed in the business case.

The promoter's projection that the railway will break even covers a range of costs, all of which are perfectly legitimate. Although it is true that the running costs and so forth are fully covered, on the whole that is not the way in which we do bookkeeping in the railway. Normally, we put in the renewal and replacement of assets as they wear, not as and when something happens—in other words, not as and when a bridge fails. We put in so much a year for those costs because we know that we will have to undertake renewal or replacement eventually. That affects the bookkeeping of a railway in terms of whether it looks as if it will make a profit year on year. We do not think that the railway will do that; we think that the overheads will have to be absorbed as part of the cost as it goes along, principally through the mechanism that is known as track access charging.

Gordon Jackson: I make it clear that my questions about realism apply to the whole line. Would your answer be different if I split the line into the section to Gorebridge and the section from Gorebridge to the end?

Stephen Bennett: No. Such splitting affects not so much cost as demand.

Gordon Jackson: Is whether breaking even is realistic different for the section to Gorebridge and the section from Gorebridge to the end?

Peter Fuller: No. We have considered the project as a whole. It is true that the northern end will earn much more demand. As Stephen Bennett says, the demand aspect is affected. However, your narrow question is whether the project will break even in operating terms and is about how costs have been allocated over the project's life. The question is not whether the project is worth doing, but whether it will lose money year after year and will make an operating loss. If the whole project is undertaken, we think that it will need topping up year after year with a revenue subsidy.

We have not broken down whether the northern end would break even but, as Stephen Bennett says, we have not found a viable railway anywhere in Britain, other than long-distance high-speed intercity routes. We do not expect suburban railways to be profitable. They are not profitable in London or Glasgow and we do not expect them to be profitable in Edinburgh.

Christine May: Mr Bennett said that railways were price takers. It is estimated that a single journey on the Waverley line will cost £6.50. Is that take realistic and comparable in the current market?

Stephen Bennett: I paid £4.50 to come here today on the bus from Edinburgh and the journey only took just over an hour. I do not know—if I were given a choice, I would think long and hard

about whether to pay extra to take the train and save only a few minutes. You have asked a good question.

Peter Fuller: I am more willing to use trains than Stephen Bennett is. I would be much more likely to take the train, on which I would work, which I would not do on a bus.

Christine May: You talked about examining projects case by case versus other projects and considering which would have the best bang for the buck. In transport terms, where does the bang for the buck that the Waverley line would provide lie? Is it high, medium or low priority or does it have no priority?

Peter Fuller: I return to an earlier answer. The line as far as Gorebridge has significant transport benefits in taking cars off the road network and giving people a substantially better way to reach central Edinburgh, because it is fast compared with the car in the bypass area. That is where the gain is and where the train is substantially better than any alternative.

From the southern end, the transport benefits are far fewer, so we must consider the benefits for the Borders economy and whether the assumption is credible that the line will make a big economic difference in the heart of the Borders. If it will do that, those economic benefits rather than transport benefits will be the reason for proceeding with the project.

The Convener: I thank the witnesses for giving evidence. We will take a short break of about 15 minutes.

11:53

Meeting suspended.

12:07

On resuming—

The Convener: Welcome back. We return to evidence on the general principles of the bill and we now hear from Nicol Stephen, the Minister for Transport, and Damian Sharp, from the Scottish Executive's public transport major infrastructure team. I understand that the minister wishes to make a statement.

The Minister for Transport (Nicol Stephen): First, I want to make two apologies. I had wanted to give committee members copies of my opening remarks but, for technical reasons, they have only just become available. I would have liked them to have been available to the committee at least half an hour ago. However, I hope that we will be able to give each member a copy of my remarks by the time that I have finished delivering them.

The second apology relates to events at the end of last week that, I believe, were not in any way associated with ministers or the Executive. Last Thursday, a story ran in the press indicating that a decision had been reached about the Waverley line. That story did not quote Executive or ministerial sources, but it was clearly being run on the basis that I was due to make a funding announcement this morning. As far as I am aware, there was no Executive source. My only concern is that, the following day, an article in *The Herald* suggested that someone might have issued an off-the-record statement. It was unclear who that person might have been, but the suggestion was that it was perhaps a civil servant. I am certainly not aware of any such briefing having been given, but if that did happen it should not have, and that is what I am apologising for. It was certainly never my intention to do anything other than extend the normal courtesy to the committee and ensure that the first outcome of our deliberations went direct to committee members. I would always afford members that courtesy. It was important to clear up both those points before moving to my main remarks.

I am here to confirm the Executive's support for the Borders railway. For the first time, I can make it clear that that support includes agreement in principle to provide the full funding, as set out in the funding statement for the Waverley Railway (Scotland) Bill. To date, the Executive has allocated more than £2 million to the development of the scheme, and it is delivering on its commitment to the rail link.

Most significantly, the partnership agreement restated the Executive's commitment to constructing the Borders rail line and we allocated resources in the most recent spending review to ensure that there is sufficient funding to build all our major transport infrastructure projects. The two Edinburgh tramline bills are currently before the Parliament and the rail links to Edinburgh and Glasgow airports and the reopening of the Airdrie to Bathgate line will shortly be the subjects of bills before the Parliament. All those major transport infrastructure projects, which are in the partnership agreement, will be delivered within our overall transport investment plan, and so too will the Borders railway.

In the business case that is now before the committee, the Borders railway demonstrates a positive net present value. Reopening the rail line will provide greater opportunities for people in the Borders and in Midlothian. It will help to stimulate a sustainable economy in the Borders and to attract investment and, crucially, to encourage more young people to remain in the area. At the same time, it will increase access to the buoyant Edinburgh labour market. Opportunities increase for communities served by the railway. It is good

not only for business in the Borders and in Midlothian, but for those businesses in Edinburgh that need better transport links to expand their labour pool. It is also good for Scotland as a whole, as growing our economy is our top priority.

Faster journey times, greater accessibility for passengers with disabilities, improved opportunities for education, employment and leisure, reduced emissions from road traffic and safer travel are among the tangible transport and economic benefits that the new railway will bring. Scottish Borders Council, Scottish Enterprise Borders and the Scottish Borders Tourist Board, along with their Midlothian counterparts and the private sector, have all been working hard to create new jobs and to help stimulate the economy. The railway is a sign that times are changing and that the Borders and Midlothian will play their full part in the strong, confident Scotland that we all want and which our transport investment will help to deliver. The project is about connecting the Borders and Midlothian, not only to Edinburgh and to the rest of Scotland but, through the Edinburgh airport rail link, onwards to global markets. Those are the compelling reasons that underpin the Executive's support in principle for the scheme before the committee.

As with all major infrastructure projects, I should make it clear that our support comes with conditions that must be satisfied before funding can be released to begin construction. First and foremost, funding is conditional on approval of the bill by the committee and, in due course, by the Scottish Parliament. Secondly, the assumptions underlying the business case must hold, including the achievement of patronage levels, containment of costs, active management of risks, and housing growth projections that are achievable and based on identified market demand. Thirdly, a clear and comprehensive risk management strategy must be developed and delivered. The Waverley railway partnership has undertaken work on risk management, but such work must be taken further and translated into a specific action plan before construction can begin. Fourthly, the railway must be integrated with local bus services, to ensure that it has the widest possible impact in the Borders and Midlothian. The decision to release funding will also, of course, be informed by the detailed scrutiny and thinking of the Waverley Railway (Scotland) Bill Committee.

The challenges that must be met are significant, but they are in line with what we expect of every other major transport scheme. It is important to emphasise that the approach to the project is no different from the approach to the other major rail and tram projects that we are considering. We are ensuring that public money is invested wisely in schemes that will make a real difference to Scotland's transport.

The Borders railway would transform travel opportunities from Midlothian and the Borders, make a real contribution to sustainable travel and provide a boost to the economy of the Borders, Midlothian and the whole of south-east Scotland. For those reasons, I am pleased to confirm the Executive's commitment in principle to provide £115 million at 2002 prices towards the project, as requested in the business case. *[Applause.]*

12:15

The Convener: I remind people that applause is not normally allowed at meetings of the Scottish Parliament. However, I will let you off this time.

Members have received copies of the minister's statement. I invite colleagues to start questioning.

Gordon Jackson: Why has it taken the Executive such a long time to make the decision that the minister has just announced? This is the third meeting at which the committee has taken evidence in the Borders and we have been engaged in the process for what seems like a very long time. Why were you only now able to give us that information?

Nicol Stephen: Clearly, a great deal of detailed work had to be done. I have had several meetings with the Waverley railway partnership to discuss the issues and the business case. One of the most significant reasons for the delay was the fact that we adopted a new method of assessing major transport infrastructure projects. The United Kingdom Treasury has issued new guidance and rules for assessing the benefits of investments of the scale and significance that we are talking about: the new approach moves from a model that considers the benefits of schemes over 30 years to one that considers the benefits over 60 years. We thought that it was particularly important that we should consider the benefits of the Borders railway project over the 60-year period. I think that everyone realises that the project's value-for-money case is not the strongest of those of the major transport projects that we are considering and we wanted to know whether considering the impact of the project over 60 years would benefit that case. Given that some of the assets that would be created by the project—the new line and the new stations—are expected to last much longer than 60 years, we thought that the new approach was fair and appropriate, although it required a considerable reworking of the business case, which is now complete. As soon as we had the new information and reached an agreement with the Waverley railway partnership that the new business case should be presented to the committee and the Executive on a basis with which we were comfortable, the process was able to reach its final stage, at which a ministerial decision could be taken. That was achieved only during the past few weeks.

Gordon Jackson: Your statement sets out conditions, the second of which is:

“the assumptions underlying the business case must hold, including the achievement of patronage levels”—

and so on. What analysis of the business case and associated documents has the Executive done?

Nicol Stephen: Damian Sharp might wish to comment in more detail, but a full sensitivity analysis was done in which we considered each of the key elements and tried to assess the risk fairly and objectively. At the end of the day, major projects such as this one go ahead because of a political decision—because the Scottish ministers agree that they wish to provide financial support. However, that decision is made on the basis of a great deal of advice and evidence, which comes partly from the business case and partly from the assessment of the case that civil servants carry out.

Damian Sharp has been in the lead in providing detailed advice to ministers. He has also worked closely with the team that is promoting the project. Therefore, it might be helpful if the committee got an insight from Mr Sharp.

Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department): Throughout the process of producing the business case, we stressed some fundamentals. The case had to comply with the Scottish Executive's Scottish transport appraisal guidance, which required the production of its various parts in the format that the committee has. We also undertook an analysis at our own hand—our in-house economists examined closely all the figures that are before the committee and we compared them to the figures for other schemes that we know of to see how they stack up. The biggest emphasis was on asking tough and searching questions of the Waverley railway partnership to ensure that it could substantiate its proposals and that it undertook several pieces of independent work in relation to the business case, such as the work on revenue and economic development impacts. Those pieces of work were commissioned to ensure that the business case stood up.

Gordon Jackson: This is not the time for a detailed discussion of the business case—we do not have the days at our disposal for that. However, the business case suggests that the railway would be able to operate without a revenue subsidy, although it might not be profitable. We have asked people about that. This morning, we spoke to representatives of the Strategic Rail Authority and I hope that it is not unfair to say that the best description of their evidence is that it was sceptical. The general view is that no railway since 19-oatcake has made any

money, so we must ask why this one would be any different. Is the Executive absolutely satisfied that the business case stands up and that the railway will not require substantial subsidy over the years?

Damian Sharp: We must consider carefully how subsidy is calculated. The railway will not provide sufficient profit to plough back into the scheme to pay for the capital cost. The basis on which it is said that no railway since 19-when-ever has made money is that all such schemes have had to try to recoup some of the capital cost of construction. The business case shows that, setting that cost aside, after around six or seven years, if the expected housing growth happens and the patronage figures are achieved, the marginal cost of operating the service will be less than the marginal revenue that will be gained from it. That is different from making a profit in the true sense. The business case says that, after six or seven years, an additional subsidy should not be required from the ScotRail franchise.

Gordon Jackson: Forgive me, but I want to ensure that I understand. Does the business case suggest that the capital cost is to be written off—because the scheme is a good thing—and that the railway will cover its costs thereafter?

Damian Sharp: Yes.

Gordon Jackson: I have a final question for the minister. If the business case does not stack up, even at that level, there are still lots of good reasons for having a railway to the Borders, such as the effect on the economy and tourism. Some people think that railways should be run even with a revenue subsidy, because they are a good thing. If it turned out that the business case did not stack up, would the Executive still back the railway on the basis that, for other reasons, it is a good thing for the Borders?

Nicol Stephen: You describe a hypothetical situation. We must all work hard to ensure that the business case is made, not only, and not even mainly the Executive, but the promoter of the project and those who will be involved in its development and construction—provided that the committee and the Parliament consent to it. We must contain costs, deliver the project on time and within budget and achieve passenger levels that will obviate the need for a ScotRail franchise-style subsidy. It would be wrong for me, sitting at the launch of what we hope will be a successful project, to start speculating on what decisions ministers might make several years down the line if there were difficulties. There could also be an upside: patronage levels could be higher than expected. In the past 12 months, the number of ScotRail passengers has grown by 11 per cent, so there is clear potential to generate new passengers on the Scottish rail network beyond expectations.

However, you rightly focus on what might happen if there were difficulties. As far as the Borders railway project is concerned, those are future decisions for, perhaps, a future minister, but in any major public investment project we have to be aware that there are pressures and that there is a danger of cost overrun and delay. MSPs have not been immune to those in recent years.

Mr Brocklebank: Before I ask a couple of direct questions about your announcement, I will take you back a little and probe you on your statement. We welcome your apology and your personal assurance that you were not in any way involved in leaking the announcement. However, I took part in the debate on the infrastructure investment plan on Thursday last week, and I recall that, in a fairly robust speech, your colleague Jeremy Purvis berated previous Administrations and claimed that the Executive would make major progress—I think those were his words—towards re-establishing a railway line from Waverley station to the Borders. I accept what you say, but it seems a strange coincidence that, as Mr Purvis was saying that in the Parliament, the BBC was starting to run a story that claimed that you would announce that progress today. I do not believe in coincidence; how do you explain it?

Nicol Stephen: I know for a fact that the two were not linked, because, as I recall, the BBC story had started to run by lunch time and the debate was in the afternoon. I have not seen the *Official Report* of what Mr Purvis said, but in a debate of that nature, it would be entirely consistent for him—and perhaps expected of him—to continue to show his support for the Borders railway. He has been one of a number of MSPs who, along with MPs and councillors, have strongly backed the proposed railway. I am not aware of any cross-party division on the issue. It is quite the reverse: there is a lot of cross-party support for the Borders rail proposal.

It should be clear that, as I said in my opening remarks, the Executive has supported the Borders railway for a considerable time. We have already invested £2 million. Although that is not significant in terms of the total capital cost, I suspect that, to most people in the Borders, £2 million of up-front investment represents a significant commitment to the project. We have supported all the detailed work on the business case and have held a large number of meetings on the issue. Much of Damian Sharp's time has been taken up with the matter and I have been involved in several meetings with the promoter. It should not come as news to any MSP—and it certainly would not have been news to Jeremy Purvis or any of the other local MSPs and politicians—that the Executive had been strongly supporting the project's development and that a funding announcement was expected through my evidence to the committee.

12:30

Mr Brocklebank: We have taken a lot of conflicting evidence at the meetings that we have had so far on the likely economic input of the scheme to the Borders. Questions were asked this morning about whether enough people would use the railway, and we have heard questions about the capital cost. Gordon Jackson has elicited from you and your colleague some thoughts on that. Would it be fair to say that the Executive's backing of the proposal would be based more on a social than on an economic case?

Nicol Stephen: It is important to emphasise that we accept the business case that has been presented by the promoter. It would be wrong for us to reinterpret that case or to try to put our own emphasis, or spin, on it. Therefore, all the economic benefits, the social inclusion benefits, the journey-time savings, the traffic emissions benefits and the safety benefits—the railway will reduce the number of road crashes on the A7 between here and Edinburgh—have been taken into consideration. Together, they lead to the value-for-money assessment—the positive net present value that is shown in the business case. The question is whether, having considered all those issues in a fair and appropriate way, we agree to back the business case. The answer is yes. As I said in my opening remarks, we believe that there will be significant economic benefits and that the railway will be good for the Borders and Midlothian. It will be good for the economy, good for the environment and good right across the board. That is why we back it.

Mr Brocklebank: Can I ask a direct question? The Executive is expected to take on many of the functions of the Strategic Rail Authority. Will you provide the £4 million of funding that the promoter expected the SRA to provide towards the reopening of the railway?

Nicol Stephen: Yes, we will. That is a very important point. There could have been uncertainty and a £4 million black hole in the funding. That is why I have, today, announced a total funding package of £115 million. That includes the funding that was requested originally from the Executive plus the contribution that was sought from the SRA. The total funding is £115 million at 2002 prices.

Mr Brocklebank: Plus the £4 million.

Nicol Stephen: That sum includes the £4 million. The sum that we were asked for in the original business case was £110.6 million or thereabouts. The additional £4 million takes the total funding that I have announced today up to £115 million.

Mr Brocklebank: Thank you.

Margaret Smith: The figure of £115 million is quoted at 2002 prices. I presume that the figure will be uprated in line with inflation to reflect the price at the point of tender.

Nicol Stephen: That is correct. We want to move forward with the project as quickly as possible, if parliamentary approval is gained. The next stage would be to go to tender, receive bids and get cracking on site as quickly as possible. At that stage, we will revise our contribution to bring it up to the funding required to reflect that £115 million at the prices in—what is the estimated time?

Damian Sharp: The estimated time for the project starting is late 2006 to early 2007, for completion in 2008. It may depend on exactly how the contractor quotes its price and there is a bit of detail to sort out, but the principle is that we would reassess what we expect £115 million to be worth at the point of evaluating the tenders.

Margaret Smith: We are talking about roughly 85 per cent of the cost of the project—that is what you were asked for—plus the £4 million. Is the Executive's funding still around 85 per cent of the project cost?

Nicol Stephen: That is correct.

Margaret Smith: You have listed some of the railway's main social and economic benefits. Will the railway deliver any benefits that cannot be delivered through, for example, enhancing the existing transport system, having more bus services and so on?

Nicol Stephen: People have suggested that investing this large sum of money—which everyone accepts is significant—in improved bus services, guided busways and so on could achieve the transformation of public transport that everyone in the area wants. However, I believe that such a transformation can be achieved only by reopening the direct rail link. After all, its significant journey-time benefits are even more marked than those associated with the proposed Edinburgh tram system.

The journey from some parts of the Borders to the centre of Edinburgh will remain difficult. However, if people can simply step on a train and get to Edinburgh Waverley quickly and efficiently, it will promote the use of public transport in the Borders and Midlothian. That said, although such investment has real potential to develop public transport links in Scotland, I remain committed to bus services, the extension of park-and-ride facilities, the introduction of bus lanes and other bus priority measures. For example, I would like more guided busways, such as those in Edinburgh, to be introduced in Scotland, but the main opportunities for such systems are in our urban centres. Instead of developing a long-

distance guided busway from an area such as the Borders to a city centre such as Edinburgh, we want busways initially to run over shorter distances in an urban environment.

Margaret Smith: You have touched on shorter journey times and on journey-time benefits. I might have got the name of the group wrong, but last week people from the rail users committee told us that the journey will take less time than it did when the route was served by steam trains.

Members: More time.

Margaret Smith: Sorry. It will take more time. Thank you, colleagues.

It will take close to an hour to cover the full route. Housebuilders have said that that journey-to-work time is not particularly attractive as far as developing houses is concerned. The Waverley Route Trust has suggested alternative proposals that it claims will lead to shorter journey times, and it has also proposed having slow and fast trains on the route to ensure that every train does not have to stop at every station. Given that you are promoting the railway as a faster journey-to-work option, what is your view of the Waverley Route Trust's suggestions for alternatives and the concerns that have been expressed by housebuilders and rail users?

Nicol Stephen: You are pulling me back into hypothetical situations. People have suggested all sorts of improvements, including taking the line through to Carlisle, twin-tracking the line, having both express trains and slower commuter trains that stop at all the stations and so on. I emphasise that we must consider the case based on the current proposal. I believe that the case is good; that the journey time as set out in the business plan will be attractive to passengers; and that passengers will far rather take the train than the car to the heart of Edinburgh. The car journey can take significantly more than an hour; indeed, as we all know, it can take an hour to get from the outskirts of Edinburgh to the centre of the city. As a result, we feel that the core case will deliver enough benefits.

That said, we will consider improvements that might be made over time. Indeed, we are willing to consider any changes to improve the ScotRail franchise right across Scotland if they make sense, if they are properly appraised and if a good business case can be made for them. Such an approach provides a solid foundation. However, without that foundation, without that £115 million investment, and without that new track and those new railway stations on the journey to Edinburgh, nothing else is possible.

Margaret Smith: I want to ask about your support for buses. We have all supported the idea of the concessionary travel scheme, to which you

have recently announced extensions. How will those extensions affect older people, disabled people and younger people? What impact, if any, will a concessionary travel scheme for buses have on the patronage level of rail schemes such as the Waverley line?

Nicol Stephen: I was asked that question in December when we announced the new scheme for older people and disabled people. The proposal is to allow older people and disabled people unlimited Scotland-wide travel. The original commitment in the partnership agreement was to off-peak Scotland-wide travel, but we have reached agreement with the bus industry that we should allow free travel at all times of day. That will be a significant boost to bus travel for older people and people with disabilities.

We are committed to introducing, in the spring, proposals for younger people—initially, for those who are in full-time education and training. We have not yet announced the details of those proposals.

Back in December, I said in Parliament that our purpose was not to steal passengers from rail or from any other form of public transport, but to grow and stimulate the market and to encourage more people to use public transport. I do not believe that it would be appropriate to anticipate a modal shift of the kind that we do not want to see—from one form of public transport to another. We want to encourage people to leave their cars at home and make greater use of buses and trains. It would be wrong at this stage to anticipate an impact, but we will need to monitor the situation. We will look at not only the impact on the ScotRail network and the proposed Borders railway, but the potential impact on the trams in Edinburgh and the impact on the other franchises that operate in Scotland—Great North Eastern Railway and Virgin.

Margaret Smith: I appreciate that you might not like to think that people would switch from one form of public transport to another, but there will be free travel for a large number of people in socially excluded groups—people to whom we want to give more public transport choices. Those people could have free transport on buses or they could spend £12 or £13 on a return journey on the train. Will that not have an impact on the business case, and will it not affect the optimism bias in the promoter's approach to risk management?

Nicol Stephen: The same issues apply to all our major transport infrastructure projects and we will have to assess them once we launch the new scheme in April 2006. However, we have not specifically asked the promoters of any of the projects in which we are involved—the tram projects, the airport rail links and this railway project—to adjust their business cases because of our announcement on concessionary travel. That is a fair approach.

Your question is reasonable. However, we are investing £22 million to try to kick-start bus service improvements. A significant amount of that money went to the Borders, but we did not do that with a view to undermining the case for the Borders rail link. We did it to try to generate new, better and higher-frequency bus services in the Borders and across Scotland. Similarly, when we introduced the scheme for older people and people with disabilities, we did that to show our commitment to public transport and to the bus in particular, and not to undermine the case for major public transport infrastructure investment. That investment is significant. As you know, it is worth hundreds of millions of pounds—£3 billion over a 10-year-period. Everyone would agree that it would be ironic indeed if that investment were to be undermined by the free bus travel scheme for the elderly and the disabled.

12:45

Margaret Smith: Are you giving the promoter everything that it has asked for? Was any approach made to you seeking more than the £115 million that you have indicated your willingness to give? Will that money be given in any particular way? For example, will there be staging?

Nicol Stephen: I have not been asked for any more than £115 million. The impression that I got in my meetings with the promoter was that it would be delighted to receive the £115 million. I think that the promoter recognises the hard work that was done to arrive at the final business case and, ultimately, today's announcement. All of us have been focused on that for a number of months and have been ensuring that we can justify the £115 million of funding that has been approved in principle today.

Margaret Smith: Have you been asked to make the money available in a staged way that would allow certain things, such as voluntary purchase of properties, to take place?

Nicol Stephen: The funding would not be released in one tranche. Perhaps Damian Sharp could give you some details.

Damian Sharp: I have had discussions around issues such as voluntary purchase and advance purchase. The approach that we have taken is one that we have followed in relation to other projects: we do not spend before we need to, but we spend sensible amounts at the right time to ensure that the project is developed well, that the impact on individuals who are disadvantaged by the scheme is kept to the minimum possible and that we make sound decisions. In all that, we are conscious of the need not to commit money ahead of the Parliament's approval of the scheme as it cannot be recouped. That is an important balance.

The Convener: You mentioned people who might be disadvantaged by the rail route. I presume that the Executive has given consideration to having a station at Stow. A number of people have told us that, unless there is a station at Stow, the residents of Stow will have all the disadvantages of the railway and none of the advantages. Did your business case consider that issue and has it been ruled out?

Nicol Stephen: It is important that we give the committee a fair opportunity to consider all the representations that have been made and to come to a view on them. For example, in relation to the Edinburgh tramline projects, many MSPs indicated during the preliminary stage that they supported the proposal to shift the route of one of the lines. However, that will now be considered by the relevant committee during the consideration stage. Issues that that committee will examine include the impact that the proposal would have on the business case and on the objectors to the proposal. Those are the sort of issues that I am sure this committee will want to consider in relation to the Waverley line.

We have considered options and alternatives as the business case has developed, but it is right and proper that our decision today is based on the business case that is before the committee. If you were to make suggestions at some point that would involve additional costs or some adjustment to the business case, we would want to discuss those suggestions carefully, through the promoter. However, today's decision is based on the current proposals rather than on proposals involving extra stations and so on.

The Convener: You said that the £115 million that you announced is conditional on three or four points. The second of those points is that the assumptions that underlie the business case must hold. Those assumptions include the achievement of patronage levels, containment of costs, active management of risks, and housing growth projections that are achievable and based on identified market demand.

In response to my colleagues, you seemed to say that, at the moment, you are satisfied with the robustness of the business case. What timescale are we looking at to ensure that the business case's underlying assumptions are holding? At what point would the plug be pulled if those assumptions do not hold?

Nicol Stephen: We certainly do not want to get into such situations, so we will continue to work with the promoter throughout the committee's consideration of the project on the assumption that it will proceed. Assuming that there is committee and parliamentary approval, we will continue to work beyond that stage on the development of the tender and the receipt of tenders and on analysing

the best way in which to phase the project and in which to release funds to maintain it.

I do not pretend that we have huge experience of such matters in Scotland. Members will know that I complain repeatedly that Scotland has failed for far too long to invest in public transport projects of the kind that we are discussing. Furthermore, I do not pretend that we yet have the best system for handling such projects. I think that members from all parties agree that there are difficulties with the current parliamentary bills process, and I do not doubt that the Parliament will want to consider amending that process in the future.

However, we will work with the current system, which must deliver billions of pounds of investment over the next 10 years, in the best way that we can to ensure that we get projects on the ground as quickly and as effectively as possible. We must ensure that we release the right amount of funding at the right stage to keep projects on track and to ensure that things are built. All my efforts go into considering such matters rather than into considering when we will pull the plug on, or back away from, projects. We have not yet had to do so, and I do not intend that we should back off from any of the partnership agreement commitments. I want to do the opposite of that—I want to get on, get delivering and make things happen as soon as we can.

The Convener: I understand what you are saying. Nobody would want to back off from a project once it had been given the go-ahead. However, like you, we have been asked to consider the business case. Let us suppose that, at some point, it is decided that patronage levels will not be what was claimed, the projected housing growth will not happen and costs are rising. There must be a point at which you would say, "Enough's enough." What procedures do you have in place to measure whether all the targets—if they are targets—are being met?

Nicol Stephen: At the point that you describe, the business case's underlying assumptions would clearly have changed. If those assumptions change, we must consider how they have changed and their impact on the project, and we must sit down with the promoter to decide the best way forward. The starting point is that we must always try to ensure that the project remains on track and that we can deliver it. However, you are right—a project can reach a point at which it becomes clear that it is impossible to carry out. All that I am saying is that, at the launch of a project, it is not too helpful to go into the details of disaster scenarios that we are determined to avoid.

The Convener: The promoter has indicated a Scotland-wide net economic benefit from the railway of between £83 million and £248 million over a period of 30 years. How do you justify that

as a good return on a Scottish Executive investment of nearly £115 million?

Nicol Stephen: Any case that has a positive net present value is worthy of support. It is worth ministers thinking carefully about supporting projects with a positive net present value, and the project that we are considering has such a value. Even if a project has a negative net present value, there can still be an economic, environmental or social justification for it. However, it is worth my putting on the record that in the STAG investment appraisals that we do we still get consistently better returns on roads investment than on public transport investment in rail and tram schemes. Either the factors that we are considering—impact on the environment and the economy—need to be reassessed or we politicians must simply live with the fact that roads projects perform better. We must take the political decision to back some public transport schemes.

In my view, it would be wholly wrong for us to invest solely in roads projects. We want a balance of investment. If we are to get that, we must take a political decision to invest in new rail and tram projects—public transport projects. I am convinced that that is the right approach and that it can achieve a sustainable, long-term, high-quality transport network in Scotland. If we continue to invest only in roads, we will continue to invest in more traffic growth and congestion. That is not to say that roads investment is not also important. However, we are moving towards having 70 per cent of investment in public transport and 30 per cent in roads. That is dramatically different from the balance of investment in the 1990s.

The decision is a political one, and I believe that it is the right one. Taking it allows us to invest in projects such as the Edinburgh and Glasgow airport rail links, the Airdrie to Bathgate line, the Stirling-Alloa-Kinross line, the Larkhall to Milngavie line and the Borders railway proposal.

Gordon Jackson: I appreciate what you are saying, but I return to the detail of the proposal. Obviously, certain assumptions, one of which is patronage, are built into the business case. That is related to the increase in housing. Many figures have been bandied about—it has been suggested that as many as 10,000 houses will be built. As has been pointed out, some of the witnesses from whom we have taken evidence have been sceptical about whether that is possible. I will not bore you with the evidence that we received from the housebuilders, which you have no doubt read. The housebuilders are sceptical about both their ability to build so many houses and the demand for those houses. It is a kind of “can’t build, won’t build” answer, on the basis that people would not find it attractive to live an hour away from Edinburgh. How confident are you in the housing

projection that is part of the business case? How much does it matter? Do you see the amount of future housing that will be built as a key issue or a peripheral issue?

Nicol Stephen: The issue is very important—that is why I referred to it in my opening statement. The first responsibility is on the two councils involved, Midlothian Council and Scottish Borders Council, to address the matter through their local planning process. I understand that they are doing exactly that. As you will know from experience of planning matters, when someone develops a local plan they must gather evidence on the level of market demand. In relation to the Borders railway proposal, that is such an important issue that we will keep it under review.

We will continue to work with the councils, to see how their local plans have progressed and how much support there is for the proposals in the community and among housing developers. We need to continue to consider those issues, but it would be wrong for me to suggest that there should ever be a huge gap between the figures that appear in a local plan and the views of the housing professionals. The planning process is intended to ensure that the amount of land released is consistent with the needs and expectations of those who are interested in proceeding with housing development.

13:00

Gordon Jackson: That makes sense, but our problem is the discrepancy between the business case’s figure of 10,000 houses—or whatever the number is—and the comments of the single representative of housebuilders who has given evidence to us, who was sceptical about the figure. Have you spoken to people in the housebuilding sector as well as to the promoter? I am not asking whether you have spoken in person to the housebuilding sector, but have your officials had those discussions to ascertain whether that demand exists?

Damian Sharp: I have not spoken directly to the housebuilding sector, but I have been in close contact with colleagues in planning. We have also considered the growth in housebuilding elsewhere. I do not agree with the builders who suggest that living an hour away from Edinburgh is not attractive. I live in Dunblane and my journey time to Edinburgh is 64 minutes—that is how I started my journey to Galashiels this morning—which is a highly attractive prospect. Dunblane is full of commuters—a large number of us get the train every morning—and house prices and demand for houses in the area are rising rapidly. A journey time of 60 minutes from Edinburgh presents no obstacle to commuting; I see that all around me. It is important that local plans allow for housing and

that local authorities know how they would deliver that housing, but it would be perfectly possible for them to do that.

Gordon Jackson: The other matter that occurs to members of the committee is the problem with Scottish Water in relation to housebuilding. Our concerns are based not on evidence that this committee has received, but on experience in our constituencies throughout the country. Have you spoken to Scottish Water about the matter? We repeatedly encounter situations elsewhere in the country in which developments are being held up because Scottish Water simply cannot or will not put in the infrastructure.

Nicol Stephen: All the issues to do with the achievability and deliverability of the local plan proposals that emerge over a period of time for Midlothian Council and Scottish Borders Council will be considered. However, it is important to say that to some extent a cautious approach has been taken. The promoter has not anticipated high levels of housing growth in the future, but has tended to consider only the housing growth that will be achieved in the relatively near future, to 2011. In our analysis of the project over a 60-year period, we have not anticipated continued major housing growth in the area. As I said, we will continue to work closely with the promoter on that important matter, which I mentioned with good reason in my opening remarks.

Christine May: As far as is possible, the committee is trying to test the validity of the hypotheses in the business case. So that we can be perfectly clear about the matter, I will follow up Gordon Jackson's question. The rate of growth of housebuilding that is proposed in the housing plan up to 2011 is around five times the current rate. We heard evidence this morning that Scottish Borders Council is having difficulty delivering 900 properties. Will you take special steps to make the planning process different in this case, to ensure that, as far as possible, the 10,000 houses can be delivered?

Nicol Stephen: We are talking about a major scheme. Midlothian Council and Scottish Borders Council have made a clear and direct commitment to me in meetings that they believe that the proposed level of housing growth is achievable and acceptable to the communities that would be involved. Clearly, on the basis of that reassurance, the Executive can give support and advice. However, in those circumstances it would be wrong, and indeed controversial, for a minister to challenge those assumptions by going directly to the communities involved to check that they were prepared for such a level of housing growth.

On the point about the investment that is required to deliver growth and the overcoming of problems in relation to Scottish Water, that is not

directly an issue for me as Minister for Transport but it is clearly an issue on which we have to deliver throughout Scotland. It is vital for us to tackle the issue in relation to economic growth and future housing availability. We must come forward with new approaches and new investment, but it is not for me as Minister for Transport to make extra investment, in addition to the Scottish Executive's £115 million investment, to deliver the housing projections that the two councils believe to be deliverable.

Christine May: Okay. However, Homes for Scotland says:

"In simple arithmetical terms, the total completions anticipated 2001 – 2011 average 532 per annum against a recent average of 265 per annum, in other words a doubling of current completions. However, that doubling is not taking place now, nor is it projected to immediately, so that the actual scale of increase of construction towards 2011 would have to be much higher.

The further away that increase in the scale of construction, the more difficult it is to test the validity of the hypothesis.

I am trying to get a feel for what discussions you have had with your ministerial colleagues, or what discussions your officials have had with those from other departments, to reassure yourselves that what is being said is indeed as robust as it can possibly be.

Nicol Stephen: We believe that those figures are ambitious but deliverable. We have examined the figures and they represent significant growth in the number of completions, but I come from the north-east of Scotland and I know what happened when the oil and gas industry hit town. There was dramatic growth in Aberdeen and areas near Aberdeen; at that time, those parts of Scotland were the fastest-growing areas in the UK. If an area decides to make those allocations and decides that the investment that goes along with them is important, then with political will and determination they can be achieved.

If the project proceeds—if today's funding announcement leads to support by the committee, support by the Parliament and a clear decision by everyone that the project will happen—that will have a significant effect on the potential of the area and the demand for housing. I am sure that that will lead to increases in land values and the step change that will generate the housing growth that will be important in achieving the passenger figures. One has a positive impact on the other: commitment to the railway will have a positive impact on the demand for housing, and the housing that is generated will have a positive impact on passenger numbers. I hope that we are at the beginning of something that will have all-round benefits for the area. The project will bring a new railway, it will bring new people to the area, it will encourage young people to stay in the area,

and it will lead to a far more vibrant economy, not only in the Borders but in Midlothian.

The Convener: The problem is that if there is a shortfall in the number of houses that are built, that will impact not only on the patronage figures but on the scheme that is in place whereby development moneys of £1,500 per new house will help to meet the cost of the project. If there is a downturn in the market and those new houses are not built, that will impact on Scottish Borders Council's ability to put in place its share of the funding. That is why we are pressing you so hard, and that is why we are testing the business case so thoroughly on the matter of housing, which is critical not only in patronage terms but in terms of how the project is funded.

Nicol Stephen: I understand the point that the convener is making. Before I bring in Damian Sharp, I will make one important comment. It is vital that Scotland gets better at leveraging in private sector commitment to major rail projects, public transport projects and transport projects of this kind. Over the years, we have not been good at achieving that. Some transport projects have a significant impact on land values and on the viability of a particular housing or industrial development and we should be able to capture some of that value for the public good. We should be able to ensure that some investment is returned to the project that helps to deliver the uplift in value.

We hear all the time about the impact of public transport projects on property values. I am thinking of the Jubilee line extension in London, for example. Academics have different views on how we best capture the gain, but within the existing rules in Scotland, we can do more and we should do more. For example, we must work hard to ensure that the project gets the significant level of private sector contribution, and we should do so by doing exactly what the convener described.

Risk will always be associated with such projects, but it should be minimised. We should go into the project with our eyes wide open and try to achieve things in the most professional way possible. We have to take the risk. We must be determined to ensure that an appropriate private sector contribution is made to major transport projects of this kind. The alternative is simply to say, "Because of the risks and the concerns, an extra £10 million from the Scottish Executive or the local councils is perhaps the only sure way of achieving the project." I do not believe that we are anywhere near that stage. It is vital that we try to maximise the private sector contribution. I ask Damian Sharp to give the committee some further detail on the subject.

Damian Sharp: As the convener said, there are two aspects to the issue. The first concerns

patronage and revenue, which impact directly on the business case and the net present value. The other concerns the affordability of the scheme. First, I will consider patronage and revenue. The same evidence was presented to the committee as was presented to the Executive on the possible delay to the additional housing. If construction of the 10,000 houses were to be delayed and, instead of being spread over the period to 2011, were spread over the period to 2016, the impact on the business case would be relatively marginal, taking the net present value from £75 million to £70 million. What is crucial is achieving the number of houses, not necessarily achieving it by 2011, although we strongly support that, because it is clear that having the patronage by 2011 produces the best case and the best investment. However, achieving the patronage by 2016 still produces a good case.

The key is to achieve the figure of 10,000 houses across the Borders and Midlothian. The latter has seen significant housebuilding in recent times and there is potential in the Borders for more housing. We look to Scottish Borders Council to be sure that it will be able to deliver its share of the houses and to be sure about how it will do so. The contribution of £1,500 per house will make a significant difference to the affordability of the scheme.

Christine May: I return to my earlier question about the discussions that the minister has been having. Have you had discussions with ministerial colleagues to test whether the houses will be built, or have your officials had discussions with officials from other departments on the subject?

Nicol Stephen: Yes. I have had discussions with ministerial colleagues about the project and discussions have also taken place at officer level. As Damian Sharp indicated, we have had discussions with those who are involved in planning. I am not sure whether discussions have taken place involving Scottish Water, but wide discussions about the project have taken place across the Executive.

Christine May: Specifically on the housebuilding programme.

Nicol Stephen: Yes; specifically on that programme.

13:15

Christine May: Convener, perhaps we could ask the minister to get back to the committee in writing to say whether discussions with Scottish Water have taken place.

I have several more questions for the minister, but I will be as brief as I can. I want to be clear about the basis on which the project funding has

been announced. Are you saying that you will provide additional funding if costs increase beyond the rate of inflation?

Nicol Stephen: I am announcing the level of funding that we are willing to give today—£115 million subject to inflation from 2002. I am not making any commitment to additional funding. The challenge will be to keep the project costs on track and to ensure that the project is delivered on time and within budget.

I am asked the same question regularly in relation to private bills. It would be the wrong approach to suggest that there might be extra funding, whether a small amount of extra funding or a lot of extra funding—you can imagine all the hypothetical scenarios about which I might be asked. Today is the day for the announcement of funding of £115 million. We want the promoter to stay within its budget and to meet the conditions that are attached to the funding. I referred to those conditions in my statement and I hope that they are clear; I believe that they are deliverable.

Christine May: Thank you. That is perfectly clear. I am not saying that the project is going to fall down around everyone's ears but we know that costs increase in public sector projects so I am trying to get a feel for the level of tolerance. When will you stop saying, "We can accommodate that" and start saying, "That is just not on"? You must have had some thoughts about that.

Nicol Stephen: The level of tolerance will relate to the overall investment plan and the total capital investment that is available to the Enterprise, Transport and Lifelong Learning Department. We have committed £3 billion of investment for the 10-year period up to 2012 and we are delivering on that commitment. If project costs overrun, we will have to consider the implications for our capital plan and decide whether there might be a case for going back to ministers to ask for additional funding either through a special review or as a special case. However, none of our transport projects is at that stage. There have been some escalations in cost, but we have managed to programme those into the £3 billion capital. If that changes, I will report that to ministers and to Parliament.

Christine May: So you are not making an open-ended commitment, although you will be prepared to consider some increases.

Nicol Stephen: It is not an open-ended commitment and I do not wish to consider any increases whatever today. I want to ensure that the promoter hears the message loud and clear that it is expected to deliver the project on time and within the current budget.

Christine May: Okay. Do you agree that a positive value-for-money outcome does not in itself guarantee a risk-free project?

Nicol Stephen: I absolutely agree with that.

Christine May: In that case, given that there is a level of risk, will you give me a feel for where the project comes in your scale of priorities? If you have to accommodate increased risks in this project, what might fall off the bottom of the list of transport projects?

Nicol Stephen: I do not want to depress everyone by giving a great, big, long list of the potential risks in a project such as this. However, perhaps I may refer to the third point in my statement, which was that a clear and comprehensive risk management strategy must be developed and delivered. I guess that the reverse side of that coin is that we do not believe that a clear and comprehensive risk management strategy is in place at this stage. That is not a criticism—

Christine May: When do you expect that risk strategy to be produced?

Nicol Stephen: This year. We must have it before construction gets under way, but it is important that we put it in place as we get committee approval and move into the tendering phase.

Christine May: Have you considered breaking the project into geographic sections? If so, do you have costings for each section, such as Waverley to Gorebridge, Gorebridge to Stow and Stow to Galashiels?

Nicol Stephen: We have certainly been given information about that.

Christine May: Have you shared that with us? If not, will you share it?

Nicol Stephen: I do not think that we have shared that information, because, as I said, we are considering the case as presented by the promoter, rather than a different case that we might suggest or of which local communities might think. We have not presented our views on improvements, a longer or shorter rail line or extra stations because those do not represent the route that we have chosen to support at this stage. The investment that we are committing to the route that we have chosen to support is £115 million, subject to the conditions to which I referred in my statement.

Christine May: I understand that, but we have heard evidence from others, including the SRA this morning, that the value-for-money forecast and justification on the basis of patronage and transportation for the section to Gorebridge would be extremely positive. If you have some of that information, can it be shared with us? We have asked other witnesses to produce the same information.

Nicol Stephen: That is possible. I am not sure whether the information is ours or the promoter's—perhaps Mr Sharp can comment in a minute. However, I have a forceful point to make on that matter. I understand that if the line went only to Gorebridge, the net present value would be more positive, but I am equally sure that the line would not then be a Borders rail line and that nobody in this area would consider it to be a Borders rail line. The decision is to support the Borders railway, to provide a service to people in Midlothian and the Borders.

Mr Sharp will comment on the information and whether we can release it.

Damian Sharp: I have been involved in the railway project for an extremely long time, as I was a member of the Borders working party in 1998 and 1999, which was the start of reinvigorating the case for the line. As part of that, the initial feasibility study considered taking the railway to all sorts of different places, including Kelso, Jedburgh, Hawick and Carlisle. Many options were considered and ruled out at that early stage, which left a small number of options. The studies that were undertaken are in the public domain. Recently, information about Gorebridge was presented to us by the Waverley railway partnership. It would not be normal for us to release such information without the promoter's agreement, but the committee could request the information from the promoter or we could seek its agreement to release the information.

Christine May: The committee would be grateful if whoever asks for it can obtain the information for us.

Has the minister discussed the project with Network Rail? What is Network Rail's view on the project and what priority does it give it?

Nicol Stephen: I have not discussed the project with Network Rail directly. I know that Damian Sharp has recently discussed with Network Rail a range of projects. It is fair to say that—encouragingly—its view on such projects is starting to change. As all MSPs realise, Network Rail has had its hands full simply delivering the current core network and has been reluctant to take on the additional responsibility of steering and project managing new projects. I sense that that is perhaps beginning to change and that Network Rail is becoming more confident about the future and is willing to engage with the Executive on our ambitious plans to develop the rail network in Scotland.

As the new rail settlement means that new powers are being devolved to Scottish ministers, it is a good time to discuss the issues with Network Rail. I give a commitment that at my next meeting with Network Rail—we have regular meetings—we

will discuss our major projects and how Network Rail sees its role in those projects developing. I am sure that its role will develop in future.

You asked a direct question. I have not specifically asked Network Rail to become directly involved in this project. The promoter for the project was already identified and it was important that we responded to the project based on the business case presented to us. I do not know whether Damian Sharp has discussed the project in his recent discussions with Network Rail.

Christine May: Will you also confirm whether Network Rail has allocated any money to the project?

Damian Sharp: I have had discussions with Network Rail about the scheme over several years—that includes very recent discussions. I can confirm that Network Rail has allocated no money to the project. Network Rail does not see the funding of enhancements as part of its role, and the Borders railway is no different from any other enhancement scheme. Network Rail sees its role as being to operate, maintain and renew the existing network; it will facilitate enhancements, but it will not pay for them.

Christine May: Okay.

Damian Sharp: You asked about what priority Network Rail attaches to the project. Network Rail takes a fairly narrow view of what is good for the railway, which takes account of patronage and reliability. It does not take a wider view that includes social and environmental factors, as Scottish ministers do. Network Rail is set up to run the railway and that is its primary concern, so it naturally favours schemes that produce the largest number of passengers. However, Network Rail is clear that it will work with the Executive to deliver this scheme and the other schemes to which we are committed. It knows the extent of our commitment and it knows that we expect it to facilitate those enhancements.

Christine May: Would the answer be the same if the same questions were asked in relation to ScotRail? Have you spoken to ScotRail? What is its view?

Nicol Stephen: ScotRail is in a different situation in that it is the franchise holder. The franchise will move to become the responsibility solely of the Executive, but currently we specify and fund the franchise. The expectation is that if we were to amend the terms of the franchise to bring in new lines—we will have to do that shortly for the Larkhall to Milngavie and Stirling-Alloa-Kincardine lines—the franchise holder would be willing to take them on, provided that the right commercial arrangements can be negotiated.

We speak in general terms about the development of the rail network in Scotland. All the

evidence that I have had from ScotRail on all the projects that have been mentioned is that it would like to see the projects proceed and that it would be very interested in running services on all the new lines.

Christine May: Thanks. You will be glad to know that I have only two more broad areas of questioning.

I believe that the model used for assessing capital projects is a displacement model. In other words, if a project is good for the Borders, it comes at the expense of a project somewhere else. At whose expense is this judged to be a good model for the Borders?

Damian Sharp: Sorry, but I am not clear whether we are talking about the economic modelling of the scheme—

Christine May: We are talking about the economic modelling.

Damian Sharp: Perhaps you mean the economic development impact of the Borders scheme. The work on economic development that the promoter presented to the committee, which was commissioned from Tribal HCH, identifies that some impacts are local and additional and that some impacts are displaced. It is not for me to comment on the detail of the Tribal HCH work. I have read it, but I would not want to try to answer questions on its detail. Some of the work shows that there is additional net benefit at the Scotland level and some shows that the benefit is displaced. Some economic activity is displaced from Edinburgh and some is displaced from other areas from which one might commute to Edinburgh.

13:30

Christine May: Okay. If that is the case, why is the Borders economy considered to be more important than the Edinburgh West economy or the economies of the coalfield areas, where one might want economic activity to take place if it were not taking place in the Borders?

Nicol Stephen: You ask an important question. We have to use economic models, but we do not necessarily have to agree with them. As the Minister for Transport, it is frustrating to be told that any transport scheme in which I invest will have no net benefit to Scotland. The reason why there will be no such benefit is that the economists tell us that that will be the case. The model assumes that if there will be a benefit to the Borders, that will lead to another part of Scotland experiencing a counterbalancing disbenefit. I just do not accept that.

We need to invest more in transport because that will be good for Scotland's economy and its

environment, will help local businesses and will provide local jobs. If we have a good-quality transport network, that will persuade people to come to work—and will attract them to invest—in Scotland. Although I am sure that the model is well established and that its academic credibility is well grounded, I cannot agree with it. One must make a decision on whether one wants major new transport infrastructure projects in Scotland. I think that that is what most people in Scotland—certainly those who are in business—want. They want our transport networks to be improved. If there are economic models that suggest that all that that will do is to move economic benefit from one part of Scotland to another, we must find a way of responding to that point and to the academic views on such models in such a way that we avoid having to reduce, or to back off from providing, the level of investment that is clearly needed.

Christine May: We would need hard evidence to show the economists that the model is wrong, as I think that you would agree that it is the model that is used to assess and measure all such projects against one another.

Nicol Stephen: One of the problems is that we would need to instruct other economists to provide a rebuttal before it was accepted. We must live within the rules and constraints as we find them, but as I said in relation to the private bills procedure, I do not believe that at this stage of the 21st century we have yet achieved perfection—I am sure that the economic analysis of the impact of such projects could be improved in time.

Christine May: Just for the record, will you confirm that the model that we are talking about is the model that is used to assess and compare such projects?

Nicol Stephen: Damian Sharp is suggesting that the model that has been used for the Borders railway shows that Scotland can obtain net benefit—for the economy and jobs—from the scheme. I know exactly what the member is asking about, because I am familiar with other projects for which the model that has been used appears to involve the kind of displacement that she is describing and in relation to which, almost necessarily, there cannot be a net gain because of the underlying assumptions in the model. I know precisely what the member is referring to. I am not sure that that model has been used here. We would need to check on that.

Christine May: I would be grateful if you did.

My final question relates to Lord Fraser's recommendations on the assessment of risk in major capital projects. He advised us to learn lessons from the Holyrood project in relation to procurement, tendering, value for money and best

practice in contracting. Have all those lessons been applied to the decision-making process on the Waverley railway?

Nicol Stephen: I believe so, but as many of Lord Fraser's recommendations were directed at the civil service, I ask Mr Sharp to respond on that point.

Damian Sharp: I confirm that, for this stage of the project, all those lessons have been applied and will continue to be applied as we move forward with the risk management strategy, procurement strategy, actual procurement methodology and construction supervision—if the committee and the Parliament approves the project and we go ahead with it to construction.

Margaret Smith: At the risk of going backwards, let us return to bus services, which are important to local people. What will be the general impact of the railway on local bus services? In the wider Borders and Midlothian area, will it be a positive or a negative development? Specifically, what will be the impact on patronage levels for the X95 bus service, which runs along the A7 corridor, which is the competing route?

Nicol Stephen: As I said, we are trying to improve bus services in the Borders by encouraging new routes and improving route frequencies. We are seeing real interest from bus companies in committing to kick-starting bus service improvements jointly with the local council and the Executive. If the line proceeds, there will be opportunities for new routes to take passengers to the rail stations. I expect there to be a continuing growth in passenger numbers on the buses throughout Scotland, and I see no reason why investment in public transport projects should undermine that. I am confident that we can continue to improve bus services throughout Scotland—including in the Borders and in Midlothian—alongside this project. Over the next few years, my challenge is to oversee a shift in the number of passengers on public transport.

We must encourage people to leave their car at home and the big impact of the proposal should be on car users in Midlothian and the Borders. I think that people will find attractive the proposition of being able to leave their car at home and use the local rail station to travel either to another part of Midlothian or the Borders or all the way to Edinburgh, which will take one hour. I agree with the remarks that were made earlier. The potential impact of that has been underestimated, although it is significant and is one of the reasons why it is so important that we support the project.

Margaret Smith: I have a final question about those who live on the A7 corridor. Will you give a commitment that they will not be left without a bus service as a result of what you and many others

see as an enhancement of public transport choice in the wider area? They would say that there is the potential for them to lose bus services because of the railway.

Nicol Stephen: I see no reason why that should happen. Just last week, I announced improved bus services in the Borders. There is no shortage of projects coming forward from Scottish Borders Council and there is no shortage of projects that are also supported by the local bus operators. There is clearly confidence in the future of bus services.

The quality of bus services in the Borders has been raised in the Parliament several times and there are concerns throughout Scotland about the level of provision in rural areas. Nonetheless, there are measures that we can take to stimulate the bus market. When you cross-examined me in the other direction, you suggested that the improvement of bus services could have a negative impact on the rail line; now you are asking whether bus services could be lost as a result of the rail line. I would rather see the situation as one in which there is a growing public transport market in which there can be growth in both the quality and the frequency of bus services and a whole new rail line with a whole new rail market, and in which any inroads into market share that are made are inroads into the number of people who use their car to commute.

Margaret Smith: The point that I was making was not that there are arguments on both sides of the issue but that the argument could be put to us that, although there might be public transport benefits from the project—indeed, benefits for bus services in terms of new feeder services, and so on—in general, people who live on the A7 corridor might not feel the benefit of the new stations and rail halts and might see a diminution in their bus services. That is why I was asking you the same question in two different directions. There are potential winners and losers.

Nicol Stephen: I understand.

The Convener: I thank the minister and Mr Sharp for giving evidence to us today. We might want you back sometime after the Easter recess, once we have finished taking evidence from other witnesses. I hope that you will be able to make yourselves available.

I suspend the meeting until 2.20 to give us time for lunch.

13:40

Meeting suspended.

14:28

On resuming—

The Convener: I welcome everyone back. This afternoon, we will hear from three panels of witnesses for the promoter. The topics under consideration are patronage forecasts, yield assumptions and revenue forecasts, and project cost overrun.

Our first panel this afternoon consists of Dr Mark Brown, who is executive director of consulting for Halcrow; David Williamson, who is head of the planning unit in the strategic services division of Midlothian Council; Lesley Martin, who is assistant head of the planning and implementation service of Scottish Borders Council; and Keith Wallace, who is director of projects at Scott Wilson Railways Ltd. I understand that Dr Brown will make a short opening statement.

Dr Mark B Brown (Halcrow): The demand modelling for the Waverley project has followed a set of clear principles that are intended to ensure a robust, reliable and, above all, realistic forecast of future patronage.

The first principle of the project's demand modelling is that it uses industry-standard, Scottish Executive-compliant modelling and forecasting methods. For example, it uses the central Scotland forecasting model as a basis for understanding current travel patterns and it uses a mode-choice model that has been developed from an extensive stated-preference interview survey. Secondly, the modelling errs on the side of conservatism in making assumptions. For example, it assumes that the level of traffic that the project will generate or induce will be towards the bottom of the rates that have been observed in other projects. Thirdly, wherever possible, the modelling uses bespoke market research and survey data to minimise reliance on data and coefficients from past surveys. For example, we derive our own demand elasticities and coefficients from which to identify diversion from bus and car as well as optimal fares. Fourthly, the modelling bases demand growth on clear and robust drivers, which are annual growth in gross domestic product and population growth that is derived from housing expansion. Recent examples of the integrity of such demand drivers include the traffic generator effect of the growth of Croy—where the annual increase has been between 5 per cent and 10 per cent—and the housing-driven demand growth that has been seen on a variety of lines in the south of England.

14:30

Our resulting demand forecasts compare well with those for other rail schemes. Year-on-year growth matches the observed rates for a variety of

other railways around the United Kingdom, including in Scotland. Diversion rates from car and bus are similar to those recorded in other market research studies. The impact of new housing in driving demand is observed at or above projected levels in other UK housing growth areas. I should add that we have assumed a conservative ramping-up period for the impact of the 10,000 new houses.

Finally, it is worth remembering how the demand forecasts underpin the main social and economic purposes of the railway. First, they demonstrate how more people will live further from Edinburgh but still be able to travel to work there within a reasonable journey time. Secondly, they illustrate how new journey opportunities will emerge and thus increase the attractiveness of the Borders and Midlothian as places in which people will want to live, work and play. Thirdly, they represent the removal of over 770,000 car trips from the highway network, with significant implications for congestion and the number of road traffic accidents. Finally, they demonstrate that integrated transport that involves land use, other transport modes and the wider national rail network is deliverable, attractive to travellers and beneficial to a large number of residents and visitors within the region.

Thank you for your attention.

Mr Brocklebank: Good afternoon, lady and gentlemen. Other members will drill down deeper into many of the aspects that Dr Brown covered in his opening statement, but I want to kick off our questions by putting to him the fact that our analysis has identified that, based on the local area's population statistics, the number of forecast trips from Gorebridge station is about three times higher than what it should be according to the guidance in the "Passenger Demand Forecasting Handbook". Can we be given a more detailed description of the Gorebridge catchment area to explain the factors contributing to the significantly higher trip generation from that station?

Dr Brown: Gorebridge will be the first station in Midlothian after Galashiels, so its catchment will extend south as far as Stow. A significant number of new developments have been proposed in and around Gorebridge. Of the nearly 1,000 proposed new dwellings, about half will be in Gorebridge itself and in the area just to the north of Gorebridge, halfway between Gorebridge and Newtongrange. Therefore, the station's catchment will be quite large because it will extend in a linear manner along the corridor to Stow. As we discussed last week, within the time that most Stow residents would have been able to walk to what would have been their local railway station, they could drive halfway to Gorebridge. That will be the most attractive means to them of accessing

the railway. Gorebridge is a major housing development site in its own right, given the significant expansion of the town that is planned. The 960 proposed new houses will accommodate more than 2,000 people, who will look principally northwards to Edinburgh for employment opportunities. The journey time between Edinburgh and Gorebridge will be very attractive for them.

Therefore, the station at Gorebridge will have three sources of demand: the town itself, the town's immediate catchment area, including the 960 planned new homes, and the 15-mile linear catchment down the corridor towards Galashiels.

Mr Brocklebank: That is slightly at odds with the evidence that you gave us last week, when you suggested that there is no economic case at all for a station at Stow. You now seem to be saying that the Stow catchment area would be part of the overall Gorebridge catchment area. This morning, we took the opportunity of driving down from Edinburgh via Stow. If I were a resident of Stow, I am not sure that the option of driving north to Gorebridge would be as attractive to me as the option of making a journey to a station situated in Stow.

Dr Brown: The proposed site for the station at Stow is not particularly well located. It is a 10-minute walk from the centre of the village and a five-minute walk from the post office, which is on the main road. There are relatively few houses between the post office and the railway. One of the problems with Stow is the distance of the railway alignment from the main centre of population. That is what makes the journey north by car more attractive. I was using the example of Stow to indicate the southern limit of the catchment area. There are several other communities along the A7, and to the east and west of the A7, which would fall into the catchment area for Gorebridge.

Perhaps, in a moment, my colleague, David Williamson, might like to comment further on the development proposals for Gorebridge and its hinterland as a way of reinforcing the importance of the station and its population catchment area for the railway.

Mr Brocklebank: He might like to do that, but he might also like to address the issues that we heard about from the residents of Stow. They seem to be getting all the disadvantages of the project without any of the advantages. Now they are being used as part of the catchment area for Gorebridge to boost those figures although, yet again, Stow itself is not getting anything out of the deal. Perhaps you would like to address that point.

Dr Brown: I will be honest and say that there are losers as well as winners with this scheme, as

there are with any infrastructure project. We do not claim that this is a win-win situation. When one seeks to develop a major piece of infrastructure, which is what we are doing, there are losers as well as winners. In this case, the number of losers is relatively small. It is unfortunate that the population of Stow will not benefit from a station and will see trains going past to the west of their village without stopping there, but it is just a fact of life in such projects that there will be losers as well as winners.

David Williamson (Midlothian Council): I anticipate that the committee will return to housebuilding questions later. I reinforce what Mark Brown says. Currently, sites have been allocated for 960 houses in the community of Gorebridge, and that does not take cognisance of the new settlement that has been proposed since Halcrow did its patronage modelling. The new settlement will bring a further 700 houses to the west of Gorebridge so, in the course of time, a sizable community will be built up there.

Christine May: Dr Brown, you have talked about how you expect the patronage to grow and the reasons for that. When will the railway become profitable and what discounted annual revenue and operating cost evidence do you have to support that conclusion?

Dr Brown: The railway will achieve an operating profit in 2013. In that year, the annual revenue that is generated will exceed the annual operating costs. By 2017, the cumulative revenue to date will exceed the cumulative operating costs to date. The date will be 2013 or 2017, depending on one's definition of operating profit.

Christine May: Can you confirm that that is calculated differently from the way in which the Strategic Rail Authority normally calculates profitability, which is what we heard in evidence this morning?

Dr Brown: Keith Wallace will say a word or two on that in a moment, but I cannot disagree with any of the points that the SRA witnesses made. Our analysis is from the point of view of a business case. We compare the line's marginal costs with its marginal benefits, which are largely the revenue and the decongestion on the highway network. The marginal costs are the scheme's capital costs and the operating costs that pertain directly to the scheme. My point about the break-even year being 2013 or 2017 pertains to the marginal costs of the scheme. We compared the operating costs that relate directly to the scheme with the revenue that will result from it.

One issue that is not considered is that of Network Rail and ScotRail overheads. It was mentioned this morning that no railway makes a profit. The railway in the UK consumes about £4

billion of public money each year, so there are a lot of overheads to spread over it. When one opens a new railway such as the one that we are considering, it is not unlikely that some of the Network Rail or ScotRail overheads—some of that £4 billion—might be allocated to it. If that happened, the break-even year might be after 2013 or 2017, but that would be because overheads from the network at large were allocated to the scheme. However, if one simply compares the costs with the revenue, according to our analysis, the scheme will achieve an operating profit in 2013 or 2017.

Keith Wallace (Scott Wilson Railways Ltd): I support Mark Brown's comments. This morning, Mr Fuller said that the matter depends on what is included. Halcrow's work is consistent with similar studies and with the approach that is taken in all Government multimodal studies. We have used exactly the sort of rules and guidelines that should be used, but calculating the costs of the scheme is slightly different from doing so for an existing railway.

Mr Fuller touched on another difference between the project and existing railways. Because the new investment will come at the start, there will be a wonderful renewal spike—on day 1, everything will be new. I assure members that no railway in the UK, other than the channel tunnel railway, has everything new at the same time. That changes the way in which the break-even points come. We will start with a wonderful, brand-new railway, albeit one that is funded differently from the channel tunnel railway, which means that the maintenance and operating costs will consistently be deferred for much longer and for all parts of the infrastructure.

Christine May: I want to be absolutely clear about the basis on which the costings and projections were done. When I considered business cases in a past life, I was always required to take into account depreciation and replacement costs, but the present business case is different, because those are not taken into account and somebody else will have to pick up that bill.

Dr Brown: Depreciation and replacement costs are included. To clarify, the annual cost of rolling-stock leases is included in our estimate of operating costs. We include depreciation in our track renewal figure—there is an annual renewal charge. We have allocated about £34 million-worth of additional renewals later in the project, in three lump sums, to replace life-expired kit after the initial 30 years. All those issues are included in the costs.

Christine May: Thank you. I must have misunderstood something that the SRA witnesses said this morning.

The Convener: Dr Brown, what contribution will shoppers and students make to interpeak patronage levels?

Dr Brown: I do not have the precise data to hand on shoppers and students but, broadly speaking, about 40 per cent of traffic will be non-business or non-commuting traffic, which includes shoppers, students and people who are visiting friends and relatives. I can provide the precise data.

The Convener: Does that figure include tourists?

Dr Brown: Yes.

The Convener: Perhaps you could let us have the figures that you referred to.

Dr Brown: Yes.

14:45

Margaret Smith: At the risk of boring everybody, I want to pursue the issue of the concessionary travel scheme and its potential impact on your patronage figures. Has the scheme been included in any of the modelling that you have done so far?

Dr Brown: Do you mean the bus concessionary travel scheme?

Margaret Smith: Yes.

Dr Brown: Our view is that that scheme will have a fairly small impact on the railway and we are not sure whether the impact will be positive or negative. On the positive side, the scheme will grow the travel market in the corridor, which it is designed to do. It is designed to make it affordable for people on low incomes to travel or to travel further for a whole variety of reasons. It is clear that it will have impacts on social exclusion and on the area's long-term regeneration and economic development. In the long term, the concessionary travel scheme is designed to grow the economy and the travel market. It is clear that the objective is to allow people who normally cannot afford to travel to be able to travel by bus, and it will make bus travel more attractive at the very price-sensitive end of the market.

It is highly unlikely that many of those passengers will have been allocated to rail by our model, as travel by rail is more expensive than travel by bus. Price-sensitive passengers will be among the 50 per cent of bus passengers who are allocated to stay with buses in our model. I should add that our model promotes integrated transport and that there is certainly no attempt to force a price war between bus and rail. The model assumes and respects the fact that there are different market segments with different sensitivities to prices and journey times and for

which travel either by bus or by rail will be more appropriate. The concessionary travel market is a more appropriate market for buses, and it is highly unlikely that a significant number of the passengers in question will be attracted from rail, as the model will have initially allocated them to buses.

Margaret Smith: I understand your argument if you are talking about reduced bus fares such that taking a bus to Edinburgh costs around £5 or £6 while rail tickets cost £7, £8 or £9. However, if you are talking about concessionary travel that makes bus travel free while a return rail ticket costs £12 or £13, I would think from anecdotal evidence that the number of people who will take that on board in deciding whether to use the railway will expand and will include not only those whom one would see historically at the price-sensitive end of the market, but those with an extra little bit of time to take the bus. In an average year, they could save thousands of pounds.

Dr Brown: That is correct, but you must remember that only around a half of bus users switch from bus to rail in our model. Some 50 per cent of the bus market sticks with bus in the model because that part of the bus market represents its price-sensitive end, even for a £4 bus fare compared with a £6 rail fare. Making bus fares cheaper still is unlikely to affect those people's travel behaviour, as they will already have decided to stick with the buses. If those people are price sensitive, they will not be attracted by a £6 rail fare. I think that the switch between rail and bus will be minimal, as those people are already allocated to buses in the model. However, the scheme will make buses more attractive to people who cannot currently afford bus fares.

Margaret Smith: Will you confirm whether the concessionary travel scheme has been taken into account in your modelling?

Dr Brown: The scheme has not been taken into account because, knowing the way that the model works, we are confident that it is not an issue, as those passengers would not have been allocated to rail in the first place.

Keith Wallace: Dr Brown opened by saying that the model is robust and conservative. We heard a lot this morning about downsides, but taking a robust and conservative approach ensures that there are a number of upsides. The minister referred to growth and stimulation; last week, we referred to choice. If we grow and stimulate the number of people who use public transport and give them more choice, there will be an upside. People might decide to save money on their ticket by travelling by bus in one direction and travelling by train in another because they have that choice, but the model does not take that into consideration either. The concessionary fares scheme is at the

margin of demand—it affects a small number of people—but there will always be upsides as well as downsides and we have decided to take the concessionary fares scheme as a fairly neutral event.

Margaret Smith: You obviously undertook consultations in which you examined not only whether local people were in favour of the project, but who, out of those who said that they were in favour of it, would be interested in using the railway and prepared to use it. Will you give me a little bit of information about that? Was that information taken into account in any way in your demand modelling?

Dr Brown: Yes. We have conducted a large number of surveys for a variety of reasons, such as the econometric stated-preference survey that I mentioned, journey-time surveys and traffic counts. We also conducted a survey of 100 businesses in the area and a major qualitative public opinion survey of travellers in the area. The qualitative survey reinforced the assumptions that we made in the quantitative model. For example, the model assumed that about 50 per cent of bus passengers between the station origin-destination pairs in the corridor and about 3 per cent of motorists would transfer to rail. The qualitative survey found that the motorists and the bus passengers valued being able to use the time on the train constructively as one of the principal attractions of the train. They cannot do that if they are in the car and it is difficult to read or do any work on the bus. The qualitative survey showed strongly that, unprompted, people were placing a high value on being able to use their time on the train constructively, which reinforced the diversion from other modes to the railways. We found a correlation between the qualitative and quantitative aspects of the market research that we conducted.

Margaret Smith: Did the cost of tickets come into the questions that you asked people about whether they were prepared to use rail transport?

Dr Brown: Yes. The answer to the question whether people were prepared to switch from other modes to rail is yes and no. Some were prepared to switch at some fares and some were not prepared to switch at those fares. That is one reason why half the bus users decided to stick with the bus. People have different sensitivities to travel time and fare depending on their personal circumstances and the nature of their trip, which is one of the factors that we have taken into account in making our fares assumptions. We do not want to provoke a price war with other modes, because we consider the railway to be part of an integrated transport system. There is a place for bus and a place for rail, and we do not want to offer cheap rail tickets to price bus users out of the buses,

because that would have a huge detrimental impact, not least on the public purse. Ours is a balanced approach to sustaining bus revenue while generating sufficient revenue and sufficient economic benefits to sustain the railway.

The Convener: I thank the witnesses.

We turn to our second topic this afternoon, on yield assumptions and revenue forecasts. Dr Mark Brown and Keith Wallace are staying with us. I understand that Dr Brown wishes to make another short opening statement.

Dr Brown: Sorry about that, convener. Please bear with me; I shall be brief.

Our analysis of fares and yield has been in line with industry appraisal and forecasting guidelines. Fares were obtained from our extensive stated preference interview survey of 600 existing travellers, in which people were asked to trade off fares and other costs against journey times for different modes. That allowed us to develop a set of realistic fares assumptions for use in our model financial analysis and economic appraisal. The results were corroborated by ScotRail.

It is important to note that fares have a direct input to three distinct parts of the analysis. First, they indicate yield per person. That contributes to the total revenue that is available to offset costs. Put simply, the fares figure represents money in and helps us to assess the scope for cost recovery. That is a purely financial analysis. Secondly, fares are a key component of the mode choice model. They are one of the most significant elements of generalised journey cost, which passengers weigh up when choosing rail over car or bus. Clearly, the lower the fares, the greater the number of passengers who will choose to travel by rail. That is an economic analysis. Thirdly, fares indicate the economic benefit that each customer or passenger derives from each trip. Thus, if we are willing to pay £6 for a journey between Tweedbank and Edinburgh, that indicates that we derive an economic benefit of at least £6 from that trip. That provides a direct means of estimating total passenger economic benefits from the rail service for input to the cost-benefit analysis. That is also an economic analysis.

All that is important because the fares derived and used by the promoter have been applied in each of those three distinct ways. They define revenue per passenger, and thus the total financial income from the project. They help to define total demand, in that, were we to model a lower level of fare, more passengers would choose to travel by rail. They are central to the economic net present value, as the total passenger benefit is the net sum of fares received. We can appreciate, therefore, that the fares are a compromise between the need to maximise financial income

and the need to maximise economic returns. The maximisation of each does not necessarily rest on the same level of fares, which is why conflicts often develop in city authorities between those wishing to raise fares for financial gain and those wishing to reduce them for economic benefit. Ken Livingstone's fares policy of 20 years ago is a good example of that.

We have selected fares that reflect people's responses to our questionnaire and which provide a reasonable financial return while also generating sufficient demand for an adequate economic return. Were fares to be raised significantly, the economic return would rapidly decline. Were fares to be cut, the operating loss would be sustained over a longer period. The final level of fares should be a policy decision for the Scottish Executive and the operator. We have demonstrated the level at which economic and financial aims can be achieved. We believe our fares to be comparable to those of other medium-distance rail commuter services, as does the operator. Perhaps they are slightly above the mean, but they are well within the observed range.

I hope that that preamble has been of value in explaining how fares have been derived and how they are used in several stages of the economic, as well as the financial, analysis. We are happy to answer questions.

Gordon Jackson: I would like to take you back to your evidence of 28 February, when you cited Thameslink and the great eastern railway as examples to justify the projected 5 to 6 per cent per annum growth rate for the Waverley project. I wonder why those operators and their operations are reasonable comparisons. I ask because both provide intensive commuter services to London and, on the surface, would not appear to offer a reasonable comparison with the Waverley project, which would operate only, say, two trains per hour. On the surface, they do not really seem to offer a like-for-like comparison.

15:00

Dr Brown: The point that I was making about the other lines was principally about demand growth. I was trying to make a point that the annual rate of growth of this railway—just under 6 per cent a year, compound—is comparable with that of a variety of railways across the country. No two railways are comparable, so I tried to select a variety of railways, such as the Edinburgh to Bathgate line, the great eastern line, Thameslink, the Robin Hood line and so on, all of which are experiencing year-on-year growth of about the amount that I suggested.

The adult single fare, which we use as the principal benchmark and which is the headline fare

for all our station-to-station routes, is comparable with a variety of fares over similar distances in Scotland. We are looking at £6.50 for a journey from Tweedbank to Edinburgh and £6 for a journey from Galashiels to Edinburgh. That compares with the £5.70 fare from Stirling to Edinburgh, the £6 fare from Dunblane to Edinburgh, the £8 fare from Ladybank to Edinburgh, the £6.60 fare from Dunblane to Glasgow and so on. One can reel off a range of medium-distance commuter fares that are of the same order of magnitude as those that are quoted in the document before you. It should be borne in mind, of course, that the fares that are quoted are not discounted fares. At this stage, we are using a fairly simple revenue analysis, which costs the journeys as adult single fares.

Keith Wallace: I think that your question goes back to some of the points that were made this morning and to the point about our taking a robust and conservative approach to demand modelling, which links to Mr Fuller's point about the difficulty of comparing different rail services. On our taking a robust and conservative approach, we are talking about an area in which rail differs from road. My colleagues who work on roads often hail the success of a new road that remains empty for 10 years. However, if a new rail service remains unused for 10 years, there is the serious problem—which you were talking about this morning—of the cost of running the trains. That is why most of the projects that have been undertaken have taken pretty conservative approaches. For example, the Edinburgh to Bathgate line, the Welsh valleys line and the Robin Hood line all went forward on robust and conservative patronage estimates that have been exceeded by quite considerable amounts and have brought many more benefits than were originally forecast. We are taking the same approach. That relates to the point that was made about upsides.

I think that it was Mr Fuller who said that the Robin Hood line was not a good comparator for the Waverley line. Mr Fuller and I agree on many things, but I disagree with him on that point. The Robin Hood line was about accessibility and regeneration, especially in relation to the Nottingham coalfields, which were in desperate need of attention. The pattern was a half-hourly stopping service using diesel multiple units. Those factors are similar to the Waverley line. The Robin Hood line has been a great success in terms of passenger demand but also in terms of regeneration and housing, which were discussed this morning.

Fifteen years ago, when I started work on the Robin Hood project, I got out of my car at Newstead station and saw children running about with no shoes on—not through choice. Ten years

later, I went back to Newstead and saw that it had been transformed. This morning, the minister talked about the step change that railways can make to an area. I have seen an example of that in Newstead in Nottingham.

The Robin Hood line is a good one to compare with the Waverley line in terms of the factors that I have outlined. We have taken a conservative approach and can see some upsides. We have also taken the right sort of approach to fares.

Christine May: This morning, Mr Fuller said that the difference between the Robin Hood line and the Waverley line was that the Robin Hood line served areas that already had significant populations, whereas the Waverley line is supposed to increase population. Do you agree with that?

Keith Wallace: Not strictly. There were populations in the places in which stations were placed on the Robin Hood line, but what happened was that the sort of regeneration that we are anticipating in Midlothian and the Borders took place around those stations. None of those stations was designed to stimulate absolutely new demand—they were in existing settlements—but new housing grew around them. Newstead is a much bigger settlement than it used to be.

Dr Brown: If I may, I will add a point of clarity. We are not arguing that the houses will not happen if the railway does not happen; our argument is that the houses will happen in any case—indeed, they are happening already. The building of the houses underpins the demand for the railway.

For further clarity, I should say that some of the socioeconomic benefits—up to £250 million—assume that additional housing will occur on top of the 10,000 units about which we are talking. As I said, the 10,000 units are not dependent on the railway; they are programmed to happen in any case.

Christine May: The promoter has stated that the fares are in line with those on other medium-distance flows to Edinburgh—indeed, you restated that today. However, the promoter's statement appears to contradict the Executive's written evidence that Waverley will outperform the other urban lines that serve Edinburgh. What is your response?

Dr Brown: A number of factors are involved—Keith Wallace may want to come in on the question, too. The first factor is that we are not considering discounted fares just now. The average fare that is paid on an existing railway line is the average of the full basket of discounted fares—standard fares, season tickets, savers and supersavers, blue, white and green day returns and so forth.

At this stage in the analysis, partly because of the approach that we have taken to the economics of the case, we have used a simple fare structure. Indeed, that is common practice in an outline business case for such a project. We based our fares on the output of the market research, which indicated what passengers are prepared to pay and, by implication, what the individual economic benefit would be to those passengers for travelling. We have shown that there is a business case that works.

When the scheme approaches its opening date, the Scottish Executive, as a political authority, and the train operator will need to take a view on the question of discounted fares. Two factors will be reflected in those discussions, the first of which is the commercial opportunities that will accrue from the marketing of additional journey opportunities at discounted fares. The objective of discounted fares is to attract passengers over and above the forecast number without allowing revenue to leach out of the system—without cutting fares for the people who are prepared to pay the £4, £5 and £6 fares that are in our model. I would expect a good operator to be able to identify a range of discounts that would grow revenue at the margins, through the use of savers and loyalty discounts for season ticket holders.

The second factor that will be reflected in the discussions is the Scottish Executive's objective of providing journey opportunities for groups who would not normally be attracted to rail. The Executive may consider that there are social grounds for providing some form of concessionary fare. Although it may not take that view, a decision will have to be taken nonetheless. As I said, a basket of fares would emerge from those discussions that would include full fares, season tickets and discounted fares. The average fare for the railway would be reduced in the process, perhaps making it easier to compare with the average fare for railways that are already operating.

At the moment, we are not comparing our fares with the average fare; we are pricing all trips based on a standard single fare. If the scheme works for those fares, it will work even better when discounted fares are introduced, as that will increase demand. If that happens, the economic benefits will increase. The fares in the model should be looked at almost as a worst-case scenario. If the scheme works at those fare levels, discounted fares will serve only to increase the economic benefits at the margin. That said, if you were to compare the fare that can be compared—the adult single standard fare—you would see that it is comparable with those on a variety of other routes in Scotland.

Keith Wallace: Last week, one of the questions that was put to me concerned the merits of the

Waverley Route Trust proposals. The trust has put forward a number of ideas that have a lot of merit. Let me return to the upsides. A good operator with a well-priced fare structure and offers could capture some of the ideas that the trust has put forward. I am referring to the additional tourism market and the particular deals that could be offered. On the day after a very unspecial rugby performance—dare I say it—I am talking about rugby specials. The idea is one that is dear to my heart. If Borders rugby survives, I am sure that there is a lot of merit in the idea that people will travel by rail to rugby games. The idea of train charters was also put forward. There are a number of similar ideas, all of which are upsides, but it is not possible to build them into a business case at this point in time. For all the downsides that we heard about this morning, there are upsides that in themselves are robust and conservative proposals.

Christine May: I have to say that, as a native Dubliner, I am doubly depressed after the weekend.

Keith Wallace: You cannot be as depressed as we are.

Christine May: I want to return to the benchmarking exercise that you used as the demonstrator for the rail fares. I believe that you have already said that those fares are consistent with fares on existing routes but, for the avoidance of doubt, will you confirm that?

Dr Brown: Yes. I can read them all out again, if you like. The fares are similar for Stirling, Dunblane, Ladybank, Glenrothes, Troon, Livingston south and a variety of other stations that are more difficult to pronounce, so I will not try.

Christine May: I am sure that the convener will be able to tell us about the Fife stations.

The Convener: Yes, indeed. At the moment, ScotRail charges £13.10 for a return ticket for the 50-minute journey from Markinch to Edinburgh. Some have suggested that the journey from the Borders will be about an hour. Is that the kind of price range that you are considering?

Dr Brown: Yes.

Margaret Smith: Given that the SRA's guidance suggests that highway decongestion benefits should be valued at 35.2p per vehicle mile for congested roads and 7.8p per vehicle mile for uncongested roads, why have you used a significantly lower value of 4p per vehicle mile? Given the current congestion levels in greater Edinburgh, surely your assumptions appear to underestimate the position.

Dr Brown: Although those journeys will continue into the more congested parts of Edinburgh, a

large proportion of the actual vehicle mileage will take place on rural roads with very low congestion. Again, we do not want to be accused of overegging the pudding as far as the benefits are concerned. Instead, we want to take a robust conservative view.

Margaret Smith: But your 4p figure is still 50 per cent of the 7.8p per vehicle mile that you could have claimed under the SRA guidance.

Dr Brown: I think that that part of the analysis was completed a couple of years ago, before the SRA's latest guidelines were confirmed.

The Convener: I thank both witnesses for their evidence. I suspend the meeting for a minute to allow the panels to change over. Dr Brown will stay on, but he will not be making another opening statement.

15:12

Meeting suspended.

15:13

On resuming—

The Convener: We will now hear from our final panel on project cost overrun. I welcome to the meeting David Fox, who is director of Turner and Townsend; Andrew McCracken, who is an associate at Scott Wilson Railways; Douglas Muir, who is specialist services manager in Midlothian Council's strategic services division; Bruce Rutherford, who is head of asset management at Scottish Borders Council; and Dr Mark B Brown, who is executive director of consulting at Halcrow.

I understand that David Fox wishes to make a short opening statement.

David Fox (Turner and Townsend): In developing the funding package for the scheme, the promoter has developed a robust cost estimate in a manner that minimises the risk of later cost overrun, and has carried out a comprehensive risk analysis to evaluate and quantify the potential risks to the scheme and ensure that sufficient value is reflected in project estimates. The promoter has also developed a funding package that gives the maximum certainty appropriate for a scheme at this level of development, developed alternative forms of funding that will minimise the call on the public purse and developed additional funding mechanisms that are to be utilised if costs escalate.

The capital cost of the scheme has been developed in a manner that includes a substantial risk allowance at various points. Base costs have been developed that reflect the possibility of unforeseen costs, and have then been enhanced

to include additional risk allowances using methodology that reflects best industry practice. Moreover, there has been the addition of further contingency and risk allowances through the optimism bias methodology that is recommended by the Treasury. At 2002 prices, that has resulted in a total risk allowance of £17 million against a total cost of £134 million. That is the equivalent of £19 million at fourth quarter 2005 prices.

15:15

It should be noted that, as the railway will be constructed almost entirely over existing formation, the level of optimism bias risk that is attached to the scheme is less than for other new railways. In addition, to minimise the risk of cost overrun, it is intended that the appointed procurement managers—who will be suitably experienced—will manage delivery of the project so that it provides best value and maximum cost certainty.

The funding package for the railway contains the following key elements: the Scottish Executive integrated transport fund; local enterprise company contributions; developer contributions; and section 75 contributions. Additional funding routes have been identified for adoption if necessary. Those include additional section 75 contributions, European environmental contributions, landfill tax contributions and additional council contributions if required.

Finally, to provide additional assurance on funding's being able to meet the cost of the scheme, the promoter, together with the Executive, will adopt the Office of Government Commerce gateway process. Within that process, the scheme will be evaluated by the Executive, with independent evaluation if necessary, at the following key stages: during the outline business case, which has just been assessed by the Executive; during funding and procurement, which is to be evaluated by the Executive before any tender is issued; before selection of the preferred bidder; and before any contracts are awarded and signed. The process is designed to ensure that, before public funds are committed, it can be demonstrated that the contract price is certain and that the funding is in place, thereby minimising any residual risks to the public purse.

We would welcome questions.

Mr Brocklebank: We all know that the bill has taken an unconscionable time to get to where it is now, but what impact has the delay had on the promoter's estimated costings?

David Fox: It is fair to say that the delay from the completion of the original feasibility study in 1999-2000 until now has had an effect on cost estimates. The more recent delays—in the past 12

to 18 months—have been less pronounced because, with some programme management, we have developed project programmes that increase the level of parallel activity. We have done that in conjunction with the Executive and we have tried to maintain the tender dates that we originally wanted. We have also maintained the opening dates to try to minimise inflationary effects.

Mr Brocklebank: This morning, the minister gave us the figures for the Executive's proposed contribution. Are those figures in line with the identifiable extra costs to which you seem to be referring?

David Fox: Yes. We have estimated that the 2002 estimate of £134 million—the basis of the original business case—will increase to about £151 million. We have assembled a funding package that would more than meet the figure of £151 million.

Mr Brocklebank: What contingency arrangements has the promoter made to deal with any project cost overrun?

David Fox: We have to consider two aspects. The first is the contingencies that we have included within the base cost estimates. To a certain extent, I described them in my opening statement. They are the contingencies that are included within the £129 million—the optimism bias contingencies.

The second aspect is consideration of the available additional funding sources should there be a cost overrun—I covered those at headline level in my opening statement. One was extension of section 75 contributions and another was a commitment by councils to increase their contributions should there be a cost overrun. I think that I mentioned one or two other funding sources, such as European funding, landfill tax contributions and so on.

The third aspect—whenever we say that we have two points, a third point always arises—is a more rigorous and comprehensive analysis in order to optimise costs, such as that of the landfill tax to which we referred in the business case and in evidence. In the cost estimate, a high proportion of cost is assigned to the landfill tax. One of our objectives in the coming months is to have a better landfill balance between cut and fill in order to minimise the amount of material for disposal, which attracts the landfill tax.

Mr Brocklebank: Despite his indication that the Executive might be minded to move in the proposed direction if the committee recommended it and Parliament so decided, the minister said that a clear and comprehensive risk management strategy must be developed and delivered. He felt that that should be translated into a specific action plan, which I think he said had to be produced this year. Are you perfectly happy with that?

David Fox: I suggest that such a strategy will be in place much sooner than that. We are programmed to prepare documentation for tendering towards the end of this year. As I said in my opening statement—and as appendix 10 to the outline business case says—we will adopt the OGC's gateway process. A key gateway in that process is our convincing the Executive, before we issue a tender document, that the funding is in place, that the right procurement route has been chosen and that a full qualitative and quantitative risk assessment is in place that identifies the risks and shows how they will be managed and who will be responsible for managing them. We intend to be ready to go through that next gateway by the end of the summer at the latest.

Christine May: What is your response to the concern that, should the railway project costs go over budget, local authorities might increase council tax or cut core local authority services such as education, social work or housing to pay for the overrun?

David Fox: My previous answers have probably set out the steps that we have in place for minimising any such risk by building it into cost estimates and identifying additional funding routes that are available without having recourse to additional council contributions. Additional council and Executive contributions are the last resort. The Executive has made it clear in relation to the proportionality of its award and any future overspend that the councils and the project team have a real incentive to ensure that cost overruns do not happen.

We have talked much at this meeting and previous meetings about section 75 contributions. The section 75 contributions that are intended to contribute to the scheme cover housing—certainly in respect of Midlothian Council—only up to 2015 and cover only a proportion of the funding that has been earmarked in the Borders for the housing that is available there. Additional avenues are available in both councils to increase that funding should it be required. Rather than talk all afternoon, I ask Douglas Muir and Bruce Rutherford to confirm those aspects.

Douglas Muir (Midlothian Council): What David Fox said is correct. We have identified 700 houses in Gorebridge in the 2015 structure plan. The area of land that we are considering for them is probably capable of taking about double that number. In the development of the next structure plan, which we have been asked to start in 2006 and to report on to ministers in 2008, we will include more housing. Nothing is in the business case at the moment, but we have the opportunity to bring that in later. As David Fox said, the incentive for councils to ensure that costs do not go over budget is pretty strong. We do not expect

to dip into social work or education budgets to pay for the project.

We will be funding a number of enhancements through our transportation budget. They will be additional to the scheme and will make it more accessible by providing better walking and cycling links. We have already budgeted for that work in our programme for the coming years; we are certainly not robbing any other budgets to pay for it.

Bruce Rutherford (Scottish Borders Council):

The collection of developer contributions in relation to housing in the Scottish Borders will run until 2038 and will cover about 7,500 houses during that period. If we took £1,000 per house, that would give us the £7.5 million that is required; taking £1,500 per house gives us a higher ceiling in case problems arise.

I echo what Douglas Muir said. The councils obviously do not want to pay any more than they have to. I was disappointed to hear the minister say that he was asked for only a certain contribution of funding. We started off by asking for 100 per cent funding, but quickly realised that that was not on as far as the Scottish Executive was concerned. The project is a major one not only for the Scottish Executive but for the councils—we would not be sitting here if it were not. SBC has earmarked £1 million during the next four years for any back-up that is needed to stabilise matters or to pay for additional costs.

Christine May: Are you therefore guaranteeing that the council tax will not be increased to take account of cost overruns?

David Fox: I do not know that we at the table are in a position to give guarantees about council tax; better people than us have been elected to make such decisions. However, it is important to make it clear that the section 75 contributions that have been identified as being available are not at the cost of the other essential services that will be required by the new housing, such as roads, infrastructure, water, schools and so on. The planning departments of both councils examined the whole matter before identifying what proportion could be made available to the railway. In relation to the housing that has been identified, the funds are available for the necessary infrastructure.

I do not know whether Douglas Muir or Bruce Rutherford will want to put their head in the noose on the council tax.

Christine May: I turn to developer contributions. Dr Brown said that the houses will come anyway. Why would a landowner take £1,500 less per house plot for his land to pay for the railway if the houses will come without it?

David Fox: The answer to that question is partly about how quickly, or otherwise, the houses will

come. If housing development continued organically, there would be a much longer time before the houses were built. We would have to wait for overheating of the housing market in Edinburgh and closing down of development opportunities in neighbouring council areas before the Borders became attractive enough for that housing to be developed. It is inevitable, as long as the Scottish economy expands, that that development will happen, but we suggest that the railway will be a major component in ensuring that development in every other council area, including Edinburgh, is kept at reasonable levels. Because of the Waverley railway line, development will happen more quickly in the Borders and elsewhere in south-east Scotland and will help to sustain the standard of living in those areas.

Bruce Rutherford: At one time, Homes for Scotland was encouraging us to try to introduce more houses. I am sure that that was for the benefit of the developers that it represents. In our discussions with local developers to date, the £1,500 contribution has not been an issue. They think that the charge is set at a reasonable level and that it is one that they can manage, and they say that it will not be passed on to the people who buy the houses, but is more likely to be levied on the landowner from whom the land is purchased.

15:30

Douglas Muir: There are very few examples of new railways, but where they have been built—for either light or heavy rail—housing has generally experienced an uplift in value. The minister referred to that this morning. We are capturing some of that uplift in value, which the developer is receiving anyway from the railway.

Christine May: I have a final question. I think that it was Dr Brown who suggested that EU funding could be used. Which EU funds could be used and how long will they be available to you?

David Fox: I think that I mentioned European environmental contributions in my opening statement. We have—or, rather, Bruce Rutherford has—had discussions with the funding body concerned. The funding is not necessarily for rail infrastructure; it is for environmental improvements, especially service and accessibility development opportunities close to the railway.

Bruce Rutherford: That is correct. Unfortunately, the funding is in place only until 2006, but early indications suggest that additional European funding that we can tap into may come on stream later. The Midlothian Council funding application is live just now. We have two joint funding applications with Midlothian Council and we are waiting to see whether we have gained that funding.

Christine May: That would be funding under the existing objective 2 criteria. Anything other than that will depend on the outcome of the state aid and structural funds discussions.

Bruce Rutherford: It is objective 2 funding in the Borders, but it runs out in 2006. If we are to tap into that, there has to be money left in the pot and we have to hit the criteria that have been set. We have to get work started on the ground very quickly. The funding in the Borders has perhaps been less positive than we would have liked, whereas in Midlothian the period for funding is longer.

Christine May: What is the cut-off date for applications under the current round?

Bruce Rutherford: Applications can be made at any time until just before the end of 2006. There is about a year's grace after that for projects to be finished.

Gordon Jackson: Let us be clear about additional funding. The written evidence that was submitted in September stated that additional sources of funding were being investigated. You have covered additional sources in your opening remarks. Are those investigations finished or are you still looking for funding? Where are we with that?

David Fox: We are still looking for additional sources of funding and will continue to do so until the last sod has been turned and the trains are running. We can report good progress with each of the organisations that were identified in the response to the committee in September. One potential source that was cited in that submission has, unfortunately, closed after the recent referendum, but progress is being made on all the other fronts.

Gordon Jackson: That is an on-going process.

David Fox: Yes—absolutely.

Douglas Muir: We were recently in touch with the Railway Heritage Trust, which makes funding available for restoration of railway structures or former railway structures. We have just opened negotiations with it to discuss the structures that exist along the line. We may get some funding from that trust. Discussions are at an early stage, but that is an example of a funding source that we are pursuing.

Gordon Jackson: I am not asking you to put a figure on it, but are the sources of funding that are still being investigated comparatively minor in the context of the whole cake? I am mixing my metaphors terribly.

David Fox: We are not looking for a major proportion of the railway to be paid for from additional funding sources. We believe that we

have a funding package that meets the £151 million cost, which is our current estimate at the intended tender time. We are considering the additional sources in case there is an escalation of the cost and we need to plug a funding gap with additional funds. Through the Executive's gateway process, the risk analysis and so on, we are minimising the possibility of a funding gap's arising, but we must consider all the additional sources. We have made progress with each of the funding bodies and we believe that if a gap materialises, we can plug it.

Gordon Jackson: In the same context, the promoter identified several funding sources but things have obviously moved on. A revised business case, data and an updated benefit-cost ratio have been issued. Have those affected the project or are all the identified funding sources still on stream? Have the promoter's value for money requirements changed because of your changes? Have your changes caused any changes to possible further sources of funding?

David Fox: All the funding sources that we have identified as being required to meet the anticipated cost of the project are still in place and we expect those sources to deliver the anticipated funds, even with the revised tender time of 2005 for the £151 million. Discussions about the anticipated funding streams continue, but we are sufficiently confident after the discussions that we have had already that the funds will be available if necessary.

Margaret Smith: I return to risk and optimism bias. I am not an expert on the subject, but this morning the SRA suggested that the proportion of optimism bias that a project such as this should consider is in the region of 40 per cent. On page 81 of the business case you say:

"We have developed a model (Appendix 11) to calculate what proportion of the 44% upper bound optimism bias should be applied to the schemes cost."

You then do various things to the percentage and it comes down to 4.1 per cent, which the SRA said is quite unrealistic. What is the difference between those figures?

David Fox: I will be delighted to explain that. Like yourself, I am not an expert on optimism bias, but I hope that I have a good enough understanding of it.

The percentage that is applied to the base capital cost of the scheme reflects the degree of development of the scheme and the degree of investigations that have been carried out for the scheme. For example, a relatively early feasibility study, such as that which was done for this project in 1999-2000, would be subjected to the higher band—approaching 44 per cent—before the costs would be declared. Thinking back, that would be

£73 million multiplied by 1.44, which would not come close to the £150 million that we are talking about just now. The lower band of 3 per cent is intended to reflect a relatively advanced scheme that will be tendering in three to six months' time and in which a great deal of development and investigation of the ground and existing structures have been done.

The exercise that has been done reflects the state of development of our scheme. We have conducted a great many technical surveys and assessed many of the existing structures, such as viaducts and tunnels. We have a fairly advanced design that has been put through the process of being assessed by contractors, the rail industry and so on.

It is intended that the 44 per cent upper bound optimism bias should be reduced towards 3 per cent on the basis of the risks that are recommended in the optimism bias methodology, and on the basis that it can be demonstrated that the risks have been successfully mitigated, thereby reducing the outline business case risk in line with guidance. That exercise was carried out during the past year. The methodology was agreed with the Department for Transport and the Executive; it has been applied successfully to other schemes.

I have set out some of the reasons for why the optimism bias figure is so low, such as the amount of investigation and design that have already taken place, but I also identify the fact that, in general, the concept of optimism bias is intended to be applied to completely new schemes—in other words, schemes on greenfield sites that have no existing infrastructure. The Waverley scheme is largely about laying track on existing formations, foundations and structures. It involves no significant new structures and the signalling is relatively simple in comparison with that for other schemes. No electrification is required and there will be no utilities diversions of note.

The other big difference between the Waverley scheme and other rail schemes is that we will not be constructing within a live railway environment. There should be a significant reduction in the optimism bias from 44 per cent towards the level of 3 per cent, which is for an advanced scheme.

I will give the committee an example of one of my team's other infrastructure projects—the Leeds supertram scheme. The optimism bias for that scheme has gone down from 40 per cent to 17 per cent, even though it involves a city centre location and has no existing infrastructure. In effect, the existing streets will have to be taken out and all the services in those streets diverted. That is why the figure for that scheme is substantially higher than the figure for the Waverley project. We are happy that our figure reflects a scheme that,

subject to the committee's agreement, is three to six months away from going out to tender.

Margaret Smith: Thank you; that was a useful answer.

My final question relates to property compensation costs. Although they represent a small amount of the cost overall, they are potentially quite important for objectors and people who will be adversely affected by the project. Have you taken into account the fact that, in the past year, the housing market in the Borders has gone up by about 30 per cent? Is the level of inflation proofing for property compensation costs much higher than that for other costs that are subject to normal levels of inflation?

David Fox: There are a few points to make on that. First, in identifying what we call accommodation works within the capital cost estimates, we have taken a pessimistic view based on all the land and all the properties within the limits of deviation that are before the committee in the various documents. Costs are included for all those components. When we complete construction of the railway, we will not need much of that land, so it will be given back or sold on; we need only a proportion of it. If anything, the accommodation works costs are already conservative.

We have taken account of inflation as it will affect the project as a whole. The figure is not as high as 30 per cent, but within the overall risk allowances we have included an additional allowance to cover the higher prices that are associated with development land and accommodation. Neither Bruce Rutherford nor Douglas Muir has anything to add to that.

The Convener: I thank the witnesses for giving us evidence today.

On Friday morning, the promoter had a meeting with Arup, the committee's adviser, to discuss issues relating to the business case. I understand that Arup requested some detailed information from Halcrow. The committee would like to receive that material from the promoter by noon on Wednesday 16 March.

That concludes our evidence taking for today. I thank everyone for attending. As we have no more meetings scheduled for Galashiels, I thank the staff of the Langlee complex—John Davidson and Carol Inglis in particular—for their assistance with the arrangements that have allowed us to meet here today and two weeks ago. The committee will meet again next Monday at about 10.30 at the Scottish Mining Museum in Newtongrange.

Meeting closed at 15:44.

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