

# **WAVERLEY RAILWAY (SCOTLAND) BILL COMMITTEE**

Wednesday 22 June 2005

Session 2

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## WAVERLEY RAILWAY (SCOTLAND) BILL COMMITTEE 8<sup>th</sup> 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:

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

Nicol Stephen (Minister for Transport)

### CLERK TO THE COMMITTEE

Fergus Cochrane

### LOCATION

Committee Room 6



## Scottish Parliament

### Waverley Railway (Scotland) Bill Committee

*Wednesday 22 June 2005*

[THE CONVENER *opened the meeting at 10:32*]

#### Items in Private

**The Convener (Tricia Marwick):** Good morning. I welcome everybody to the eighth meeting in 2005—and the 16<sup>th</sup> meeting overall—of the Waverley Railway (Scotland) Bill Committee. The committee's intention is to commence the meeting in public before moving into private session to consider a draft preliminary stage report. The intention is then to move back into public session to hear evidence from the Minister for Transport, who will appear as a witness around 11.30 am. After the committee has heard from the minister, we will return to private session to consider the impact of his evidence on the draft report.

Do members agree to take agenda items 4 and 6—our consideration of a draft preliminary stage report—in private and to consider drafts of the committee's preliminary stage report in private at future meetings?

**Members indicated agreement.**

## Late Objections (Consideration)

10:33

**The Convener:** Agenda item 2 is consideration of two late objections to the bill. The committee is required to consider the objections and to decide whether the objectors have shown good reason for not lodging their objections within the specified objection period. If it is agreed that the objectors have shown good reason, the objections will be allowed to proceed to the preliminary consideration stage. Committee members may comment on the two objections that are annexed to paper WAV/S2/05/8/1, but, as that paper states, for data protection purposes

“the Committee should avoid ... referring to any personal or sensitive data (e.g. the individuals contact details) about each objector that could lead to that objector being identified.”

Do members agree that the objection in annex A should be allowed to proceed to the preliminary consideration stage?

**Members indicated agreement.**

**The Convener:** Do members also agree that the objection in annex B should be allowed to proceed to the preliminary consideration stage?

**Members indicated agreement.**

**The Convener:** The committee agrees that good reasons have been shown for the late lodging of the objections. Therefore, the objections will now proceed to the preliminary consideration stage.

## Objections (Preliminary Consideration)

10:34

**The Convener:** Agenda item 3 is preliminary consideration of objections. I refer to paper WAV/S2/05/8/2. The committee is required to give preliminary consideration to the objections in annexes A and B to paper WAV/S2/05/8/1 and to consider its approach to how those objections might be dealt with at the preliminary stage. Do members agree that the objection in annex A should be allowed to proceed to substantive scrutiny at the consideration stage?

**Mr Ted Brocklebank (Mid Scotland and Fife) (Con):** Agreeing to that would be in line with what we have previously decided with similar objections. We must accept that.

**The Convener:** Do members agree?

**Members** *indicated agreement.*

**The Convener:** Do members also agree that the objection in annex B should be allowed to proceed to substantive scrutiny at the consideration stage?

**Members** *indicated agreement.*

**The Convener:** As the committee agreed under agenda item 1, we will now move into private session. Members of the public and the broadcasting team and official reporters should therefore leave the room. We will come back into public session at 11.30 am to hear evidence from the Minister for Transport.

10:35

*Meeting continued in private.*

11:38

*Meeting continued in public.*

## Waverley Railway (Scotland) Bill: Preliminary Stage

**The Convener:** I welcome everyone back to the meeting. We will now consider the general principles of the Waverley Railway (Scotland) Bill. Our witnesses are Nicol Stephen, the Minister for Transport, and Damian Sharp, who is from the Scottish Executive's public transport major infrastructure team. I welcome them both.

**Margaret Smith (Edinburgh West) (LD):** The committee has considered the housebuilding issue on several occasions. Given the close link between housebuilding and the financial viability of the project, including patronage and developer contributions, is the Executive fully satisfied and assured that the necessary planning processes can be gone through and that everything is or will be in place to allow the construction, ideally by 2011, of the 10,000-plus houses that are needed?

**The Minister for Transport (Nicol Stephen):** The Executive is greatly encouraged by the recent discussions between the Waverley railway partnership, Homes for Scotland and Scottish Water. I am also greatly encouraged by the commitments that were given to the committee by the leaders of Scottish Borders Council and Midlothian Council about strengthening planning departments and teams, if necessary; prioritising the allocation of houses; and progressing their local plans. All of that gives me greater confidence than I had last time I was in front of the committee about the capacity to handle planning development and to deliver the 10,000 new houses in Midlothian and the Borders. However, it is important that we maintain a watching brief and do all that we can to support—through, for example, Scottish Water—the delivery of those additional houses within the timetable. They are a key element of the business case for the scheme.

**Margaret Smith:** Given the evidence that the committee took from Homes for Scotland and Scottish Water, we have some concerns about the matter. As the problems that Scottish Water is having form one of the big constraints on development throughout the country, is the Executive fully satisfied and assured that the required water, drainage and sewerage infrastructure will be in place to allow the construction of the 10,000 houses?

**Nicol Stephen:** Yes, we are, but clearly Scottish Water is subject to a separate process with which I, as Minister for Transport, cannot become directly involved. Scottish Water is subject to a

regulator; the process has been explained to the committee.

I have read a considerable volume of the committee's discussions on the matter and it is clear that the committee has done a lot of detailed and important scrutiny. I congratulate members on securing the additional information that is now available on these important issues. That additional information and the briefing that was provided to me by Damian Sharp and other officials give me confidence that Scottish Water is moving on from the stage of investment, which was required to meet environmental and water quality targets, to the next stage. Its commitment during the next investment period to 2014 will relate to support for development, including housebuilding projects such as the one that we are discussing. There is also a new regime that will require more significant developer contributions for housebuilding projects. All of that gives me confidence that the necessary investment will be part of the detailed strategy document when it is approved and that the funding sources will be in place.

**Margaret Smith:** I hear what you say about Scottish Water being subject to a separate process and about your role as Minister for Transport, so I will broaden out the question and ask about the Scottish Executive's role. Does the Executive have any plans to make specific allocations to fund upgrades to the water, drainage and sewerage systems in Midlothian and the Borders? Equally, does it have any plans to give directions to Scottish Water on the prioritisation of upgrades and developments in those two areas?

There is, understandably, greater confidence from you, council leaders and Homes for Scotland and there is reasonable confidence from Scottish Water. However, partly because of the timetabling of the committee's work and Scottish Water's continuing work on the development of priorities and plans, all that we have at present are warm words—there are no guarantees. The additional houses are needed if the patronage figures are to stack up and the water and sewerage infrastructure is needed before the houses can be built. We are being required to move forward on the basis of warm words but no guarantees. We are looking to you to give us as much of a guarantee as possible that the matter is a priority that the Scottish Executive will push with Scottish Water.

11:45

**Nicol Stephen:** It is important to remember that the issue is a priority for us as well. If the houses are not delivered, the business case, which the Executive has approved and on which we based our funding, will be wrong. The justification for

investing Scottish Executive funding in the project—we are talking about public funding that comes from the taxpayer—would start to be undermined.

The Executive viewpoint is that it is important that the housing plans are delivered. It is therefore important that the planning issues and the water and sewerage issues are resolved. The Executive will do whatever we can do appropriately to assist and support the process. Because of evidence that the committee took from a senior level of Scottish Water as part of the scrutiny of the bill, we can see that Scottish Water is powerfully aware of the issues and is very much focused on them.

At this stage, I think that we are better placed than we were a few months ago. We are on track to deliver on the houses that are required. If that potential were to be derailed or if the matter were to cause concern at some point over the next few months or years, the Executive would look at ways in which to intervene. The honest answer is that I do not know what the powers of ministers are to intervene in, for example, Scottish Water. I could find out about that, as it might give the committee some comfort further down the line.

For the moment, we are well placed in terms of the commitments that Scottish Water has given and in terms of its planning processes. Indeed, that is also the case in relation to the change in approach whereby a greater developer contribution will be made. All of that gives greater certainty that the capital investment that is required will be delivered.

**Margaret Smith:** There is some reassurance in what you have said about doing whatever can appropriately be done, including considering ways to intervene. It would be helpful if the committee could have something in writing that gives an indication of whether things can be done. Perhaps you will investigate that for us.

**Nicol Stephen:** I will do that. I will speak to my ministerial colleagues who have responsibility for Scottish Water and find out what the issues are. Obviously, we have to be mindful of the role of the regulator and of the status of Scottish Water, which, although it is a public authority, is separate from the Executive.

**Margaret Smith:** Okay. Thank you.

**Mr Brocklebank:** My question is on the projected journey time for the service. In your oral evidence to the committee on 14 March, minister, I think that you stated that you would consider the improvements that might be made to railway journey times. Can you update the committee in that regard?

**Nicol Stephen:** I turn to Damian Sharp at this point.

**Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** At this stage, the Waverley railway partnership's focus is on the parliamentary process. It is not yet looking at the next level of technical development. It does not want to spend money abortively if the committee is not prepared to endorse the bill. The journey time improvements would be looked at after the preliminary stage is over, subject to the will of the Parliament.

**Mr Brocklebank:** Is that realistic? Surely at least part of the business case depends on how long it takes people to get from Tweedbank to Edinburgh and back. Surely the business case will be seriously undermined if we are looking at a rail journey time that may be in excess of a car journey time.

**Damian Sharp:** No, the business case will not be undermined. The business case is predicated on the times that the committee has in front of it. If we can beat the journey time, the business case gets better.

**Mr Brocklebank:** As you are aware, the Waverley Route Trust claims that it is possible to get the journey time down to 39 minutes. Do you simply not accept that?

**Damian Sharp:** A number of the trust's assumptions are seriously untested. For example, it makes some bold assumptions about the perfect working of signalling operations. There is undoubtedly scope to beat 65 minutes, but the options that are proposed by the trust have been subject to a relatively low level of technical scrutiny compared with the proposals put forward by the Waverley railway partnership. Something in the order of 100 times more money has been spent on the technical development of the Waverley railway partnership's proposals than on those of the Waverley Route Trust.

**Nicol Stephen:** The simple message is that, just as recent evidence to the committee on Scottish Water and housing plan issues has given us greater confidence, journey time improvements—we are expecting the promoter to consider those—would further strengthen the case. The current business case is based on the journey times that I can sense members regard as too slow. Nevertheless, they are part of the current business case, which stacks up in overall net present value and value-for-money terms.

**Christine May (Central Fife) (Lab):** Good morning, minister. I would like to clarify something that you said in response to Margaret Smith. Are you saying that you will go back to your ministerial colleagues to ask them about the potential for giving specific allocations to Scottish Water to support the project or are you talking about giving directions to Scottish Water to prioritise it?

**Nicol Stephen:** I will ask about the general powers of ministers in relation to Scottish Water. Clearly, there may be ministerial or political dimensions to the answer that I get. It may be possible to issue directions, but I would be interested to find out the reaction of my colleagues to the question whether it would be Executive policy to intervene in a particular case because of a particular transport project.

**Christine May:** The committee would also be interested to hear the answer. I accept the importance of providing the housing within a reasonable timescale, but I want to address other costs. The estimated cost of the project is currently £151 million. Is that still the most recent estimate?

**Nicol Stephen:** The short answer is yes. The estimate is based on the Waverley railway partnership's update of the estimated cost, taking it to 2005 prices. As you know, when I appeared before the committee in the Borders, I gave the Scottish Executive's commitment in 2002 prices. There was some confusion about possible funding gaps, but I can clarify that there is no funding gap.

If the Executive's commitment—which I gave as £115 million in 2002 prices—is uprated to 2005 prices, one gets a spuriously accurate figure of £128.9 million. We did not make that calculation; the Waverley railway partnership did and it was appropriate for it to do so. The Executive will uprate to the level required as and when the development proceeds. We anticipate that our contribution in cash terms will be more than that, because we are likely to provide funding based on 2008 prices, which will mean a greater contribution than £129 million.

**Christine May:** The committee appreciates that the £151 million is today's estimated cost based on 2008 prices.

**Nicol Stephen:** I hope that that is now clear and that everyone understands the balance of investment. Beyond the £128.9 million, there is investment from Scottish Enterprise Borders and a contribution from Shawfair Developments Ltd, which is offset against landfill tax. A number of other detailed funding sources have been properly set out by the Waverley railway partnership.

**Christine May:** Indeed, those funding sources are to meet the cost as currently estimated. Could you comment on recent media reports that the project will go over £200 million? Do you know where that story came from?

**Nicol Stephen:** I do not know where the story came from. Those reports are inaccurate and we have no information, from the Waverley railway partnership, the councils or our own sources, about that figure.



**Christine May:** If project costs escalate, will the Executive continue to support the project?

**Nicol Stephen:** I answered that question for sure when it was asked in the Borders. All our efforts will go into making certain that we keep the project on track and on budget. Our contribution is based on the business case that was presented and nothing has shifted since it was presented that would suggest that there will be an increase in prices or a delay in the timetable. In my view, when ministers start to speculate on how we might change our position, increase our funding or refuse to fund a project if it were to go over budget, that simply encourages a lack of focus on delivering the project on time and on budget. All of us round the table want to ensure that major capital projects in Scotland come in on time and on budget.

**Christine May:** I have one final question. What is it about the project that makes you so confident that, unlike most other major capital projects of which I, or you, have experience, the costs of this one will not escalate? What gives you that confidence?

**Nicol Stephen:** Not every project's costs escalate. A number of roads projects and the current Larkhall to Milngavie rail project—the first significant rail project that we have delivered with the new public transport investment in Scotland—are coming in on time and on budget, but I am certain that there will be projects where that is not the case. We must look at the circumstances in each case and decide the appropriate course of action. Rail projects have had a reputation for running over budget, as have tram projects. That is why we are trying to learn the lessons of previous costings and approaches and of the delivery of such projects in recent years. We are trying to make absolutely sure that, in so far as is possible, we are tight on our budgeting and in our project management with the big level of public transport investment that we are now delivering in Scotland; we are trying to ensure that we deliver on time.

**Christine May:** Thank you for that answer. I share that hope.

**Margaret Smith:** I have a couple of questions on funding. We are being told by the promoter that additional funding is being sought from Europe and from other sources such as the cities growth fund. Is the Executive involved in any of that and can it assist in identifying other potential sources of funding?

**Nicol Stephen:** We are not yet involved in any detailed way, but we would be happy to give support and to work with the bill promoter in relation to any and all external sources of funding, including European support. The major projects

team has financial advisers available and the Executive has significant expertise in relation to European Union funding—we would be happy to put that expertise at the disposal of the Waverly railway partnership and to have the sort of detailed discussions that I think you are suggesting should take place.

**Margaret Smith:** That is excellent. Thank you.

**Gordon Jackson (Glasgow Govan) (Lab):** One of the variables of the estimating process is how many people will use the railway. We find the whole question of patronage quite difficult. Where do you see the bulk of the passengers coming from? There are obviously options. People could stop using buses or stop driving, or there could be more people living along the route. Do you have a picture of where the patronage will come from?

12:00

**Nicol Stephen:** I know that estimates have been made—the detail of those estimates will be reflected in the business case. An element of the patronage will clearly come from the delivery of the new housing developments at Tweedbank and Shawfair and in other parts of Midlothian.

I hope that modal shift will begin to take place, with people leaving their cars at home and using the train. Our predictions are based on the journey times that Ted Brocklebank highlighted, but initially we hope that the shift will take place because of environmental benefits—the fact that taking the train is a more relaxing and appropriate way of getting to work and that, instead of simply sitting behind the wheel of a car, people can do some work on the way to the office. However, I hope that, if we can get journey times down further, more people will choose the faster option of the train. I also hope that, because of the reliability and quality of the service, the journey time will be attractive to people. After all, people can often hit serious congestion on the way into Edinburgh or on the way out of Edinburgh into the Borders.

The short answer to your question is that passengers will be attracted to the railway for a variety of reasons. Indeed, there should be some predictability in that respect because of the experience of similar rail lines in similar situations and of new rail projects in other parts of the United Kingdom.

The acid test will be what happens when the line opens and we see the patronage figures that it achieves. That is an area of uncertainty and we have had to carry out a sensitivity analysis on the different levels of passenger numbers. If we get those figures wrong and they prove to be too optimistic, the Executive will be under pressure. After all, it is likely that the line will require subsidy. Although we estimate that that subsidy will be

needed for the line's first five years, we must also acknowledge that the subsidy might have to be continued if passenger levels are not achieved. That would have a negative impact on the business case.

**Gordon Jackson:** The promoter has told us that it has taken not an overoptimistic but cautious approach to patronage forecasting. If that is right, it offers some comfort. The Executive has obviously carried out its own examination and evaluation of the business plan. Do you agree that the promoter has taken a cautious approach to the figures?

**Nicol Stephen:** It is no secret that this area has caused the greatest discussion between the promoter and the Executive's experts. There was much to-ing and fro-ing on the question of what were reasonable and correct patronage figures to put in the business case. As a result, I would describe those figures as appropriate and agreed, not cautious.

**Gordon Jackson:** We have wondered whether, if the figures are cautious, they should be higher in some areas. Do you feel that they are not cautious but are as accurate as you can get them?

**Nicol Stephen:** That is fair to say.

**Gordon Jackson:** That is helpful.

**The Convener:** Do you consider the proposals, the business case and the assumptions about housebuilding and revenue yield to be as robust and as accurate as possible?

**Nicol Stephen:** Yes, we do.

**The Convener:** And, having examined the business case with all your experts, do you on behalf of the Executive feel satisfied that it stacks up?

**Nicol Stephen:** Yes, we do.

**The Convener:** Okay. Do you feel satisfied that the project represents a justified and sound investment of £150 million and that it will achieve the promoter's objectives?

**Nicol Stephen:** This is starting to feel a bit like a wedding ceremony. Yes, we do.

**The Convener:** I am not even going to ask who the bride is. Margaret Smith has another question to ask before we let the best man go.

**Margaret Smith:** I want to ask about having the necessary risk strategy and evaluation, which many people who are thinking about getting married should probably have done. We have been told that the promoter and the Scottish Executive will develop such a strategy over the coming year. Can you give us an update on that work?

**Nicol Stephen:** I would like to see some of the risk strategies that might be produced for people who are thinking of getting married.

**Margaret Smith:** The conclusion would probably be "Don't do it!"

**Mr Brocklebank:** Or "It's still not too late!"

**Nicol Stephen:** Executive officials and advisers, including risk management experts, have been reviewing the existing risk management strategy with the Waverley railway partnership. That work has identified good coverage of many of the risks that are associated with the scheme as well as some areas where the strategy could be expanded. It will take several months of hard work for the Executive and the Waverley railway partnership to develop the strategy's final form. However, the work has begun, is on track and, if the committee and the Parliament approve the bill, will be completed before procurement and project construction begin.

Given the stage of development that the scheme has reached, the technical risks have been well covered and realistic, sensible strategies are now in place. The position will continue to be monitored and refined and more substantive work will now go ahead on commercial and procurement strategies. We are not yet at the stage at which such work should be done, but we are aware that, at a certain point, it needs to be done—and needs to be done well. In short, we believe that, at this point in the scheme's development, we have carried out the appropriate risk strategy and addressed the appropriate risk management issues.

**The Convener:** Minister, I thank you for giving evidence today. I know that you have been extremely busy and have had other commitments.

That concludes the committee's oral evidence taking on the bill's general principles. As previously agreed, the committee will move back into private session to consider the impact of the minister's comments on our draft report. I ask members of the public, the official report and broadcasting to leave the room.

12:06

*Meeting continued in private until 12:10.*

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